

28 June 2011


Company Announcements Office  
Australian Securities Exchange

### **General Meeting of Shareholders**

A General Meeting of the Company's shareholders will be held on Wednesday, 27 July 2011. Please find attached the following documents which have been sent to the Company's shareholders:

1. Notice of General Meeting; and
2. Proxy Form.

Yours Faithfully  
**PACIFIC ENVIRONMENT LIMITED**



John Lemon  
Company Secretary

## NOTICE OF GENERAL MEETING

Date of Meeting: Wednesday, 27 July 2011  
Time of Meeting: 2.00 pm (Queensland Time)  
Place of Meeting: The offices of JWA Business & Wealth,  
Suite 1101, Level 11  
'The Rocket' Building  
203 Robina Town Centre Drive  
Robina, Qld.

This Notice of General Meeting should be read in its entirety. If you are in doubt as to how to vote at the meeting you should seek advice from your accountant, solicitor or other professional adviser before voting.

**PACIFIC ENVIRONMENT LIMITED****ABN 42 122 919 948****NOTICE OF GENERAL MEETING**

A General Meeting of Pacific Environment Limited ("the Company") will be held at the offices of JWA Business & Wealth, Suite 1101, Level 11, "The Rocket" Building, 203 Robina Town Centre Drive, Robina, Queensland on Wednesday, 27 July 2011 at 2.00 pm (Queensland time).

The Company's Chairman of Directors, Dr. Merv Jones, will not be able to attend the Meeting. In Dr. Jones' absence Non-Executive Director, Mr. Darren Herft will chair the Meeting.

**AGENDA****1. RESOLUTION 1 – SELECTIVE CAPITAL REDUCTION**

To consider and, if in favour, pass the following resolution as a **special resolution**:

*"That for the purposes of section 256B Corporations Act 2001 (Cth) and for all other purposes, and subject to approval by the Company, the share capital of the Company be reduced by the cancellation of 2,138,628 fully paid ordinary shares held by the Company on the terms and conditions contained in this Notice of Meeting."*

**2. RESOLUTION 2 – APPROVAL TO GRANT CHARGE TO RELATED PARTY/SUBSTANTIAL HOLDER**

To consider and, if thought appropriate, pass the following resolution as an **ordinary resolution**:

*"That for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the deemed disposal of a substantial asset as a result of the Company's wholly owned subsidiary New Environmental Quality Pty Ltd granting a charge over its assets in favour of Director and substantial holder Robin John Ormerod in relation to a loan made available by Robin John Ormerod to the Company."*

**3. RESOLUTION 3 – RATIFICATION OF ISSUE OF SHARES AND OPTIONS**

To consider and, if thought appropriate, pass the following resolution as an **ordinary resolution**:

*"That the issue of 1,266,072 fully paid ordinary shares in the capital of the Company and 226,786 options to subscribe for ordinary shares in the capital of the Company to various investors on the terms and conditions contained in this Notice of Meeting during the period 9 December 2010 – 21 December 2010 inclusive is hereby approved for the purposes of ASX Listing Rule 7.4 and for all other purposes."*

**BY ORDER OF THE BOARD  
PACIFIC ENVIRONMENT LIMITED**



John Lemon  
Company Secretary

24 June 2011

**PACIFIC ENVIRONMENT LIMITED****ABN 42 122 919 948****NOTICE OF GENERAL MEETING  
EXPLANATORY STATEMENT****INTRODUCTION**

This Explanatory Statement forms part of the notice convening the Company's General Meeting to be held on Wednesday, 27 July, 2011. This Explanatory Statement is to assist Shareholders in understanding the background to and implications of the resolutions proposed, and procedural matters concerning the Meeting. Terms used in this Explanatory Statement are defined in Section 8.

**1 RESOLUTION 1 – SELECTIVE CAPITAL REDUCTION**

- 1.1 The Company acquired Commercial Energy Services Pty Ltd ("CES") on 23 December 2008 pursuant to a Share Purchase Agreement ("the Share Purchase Agreement"). The Company paid to the vendors of CES ("the CES Vendors") a total of \$200,000 and issued to them a total of 3,562,364 shares in the Company as partial consideration for the acquisition of CES. Subsequently however, it became clear to the Company that the performance of CES and other aspects of CES's operations were not as had previously been represented to the Company by the CES Vendors.
- 1.2 In late 2009 the Company commenced legal action in the New South Wales Supreme Court against the vendors of CES (thirteen in total) seeking certain orders, including the following orders:
- (i) the CES Vendors repay to the Company the \$200,000 previously paid by the Company to them;
  - (ii) the shares issued by the Company to the CES Vendors be cancelled;
  - (iii) the Company has no further liability to the CES Vendors under the Share Purchase Agreement; and
  - (iv) the CES Vendors pay damages and the Company's costs of the legal action to the Company.
- 1.3 In early 2010 the Company settled its claims against 8 of the 13 CES Vendors. Pursuant to the terms of that settlement shares previously issued by the Company to those 8 CES Vendors were returned to the Company and subsequently cancelled following Shareholder approval of the cancellation at the Company's 2010 annual general meeting.
- 1.4 More recently the Company settled its action against the remaining CES Vendors. The terms of settlement between the Company and those CES Vendors are confidential, however the Company can advise that as part of the settlement with the remaining CES Vendors in question those CES vendors transferred all the shares previously issued to them by the Company back to the Company, preliminary to those shares being cancelled. Resolution 1 seeks Shareholder approval of a reduction of the Company's share capital through the cancellation of 2,138,628 shares, the balance of the shares previously issued by the Company to the CES Vendors which have not yet been cancelled. The 2,138,628 shares are currently held by the Company.
- 1.5 If the 2,138,628 shares are cancelled as proposed the number of the Company's shares on issue will decrease from 99,603,226 to 97,464,598. (The Company has only one class of shares, namely ordinary shares).
- 1.6 The *Corporations Act 2001* (Cwth) provides that a company may only reduce its share capital in the way proposed if the reduction:
- (i) is fair and reasonable to the company's shareholders as a whole – the Board believes this requirement is satisfied;
  - (ii) does not materially prejudice the company's ability to pay its creditors – this requirement is satisfied because no consideration will be provided by the Company for the cancellation of the shares; and

- (iii) is approved by shareholders under section 256C *Corporations Act* – if shareholders approve Resolution 1 this requirement will be satisfied.

1.7 Resolution 1 may only be passed by a special resolution, i.e. by a resolution that has been passed by at least 75% of the votes cast by members entitled to vote on the resolution. As the proposed capital reduction also involves the cancellation of shares the *Corporations Act* requires that the reduction also be approved by a special resolution passed at a meeting of the shareholder (the Company in this case) whose shares are to be cancelled. The Company intends to pass the requisite special resolution.

1.8 The Company's Directors recommend that Shareholders vote in favour of Resolution 1.

## **2 RESOLUTION 2 – APPROVAL TO GRANT CHARGE TO RELATED PARTY/SUBSTANTIAL HOLDER**

2.1 On 1 December 2010 the Company, the Company's wholly owned subsidiary company New Environmental Quality Pty Ltd ("NewEQ") and Robin John Ormerod ("RJO") entered into a loan agreement ("the Loan Agreement") pursuant to which RJO agreed to provide debt funding to the Company by way of a loan of \$1.8 million ("the Loan"). The material terms of the Loan Agreement are as follows:

- (i) The loan is for \$1.8 million and will mature in three years, although the Company may at its option repay the loan in full or part before the maturity date.
- (ii) At any time prior to the maturity date RJO may convert some or all of the outstanding loan to fully paid ordinary shares in the Company with the value of the shares to be determined as follows:
  - (a) If the share price at the close of trade on the date of conversion is less than or equal to the Base Share Price plus 40 cents then the conversion will be at the Base Share Price.
  - (b) If the share price at the close of trade on the date of conversion is greater than the Base Share Price plus 40 cents then conversion will be at the Base Share Price plus 40% of the difference between the share price at the close of trade on the date of conversion and the Base Share Price.

The Base Share Price was determined from a formula in the Loan Agreement, which was based upon the median share price at the close of business over the last five trading days. The Base Share Price is 14.0 cents.

- (iii) Interest under the Loan Agreement is charged at 8.67% pa with interest calculated daily and payable monthly. However if the Company makes all interest payments on time it will receive a 2% discount on the interest payable so that the effective interest rate will be 6.67%.
- (iv) RJO may at any time during the currency of the Loan Agreement require the Company to provide to him a fixed and floating charge as security for the loan, including interest, costs and charges.
- (v) If the Company defaults in the performance of any non-material term or condition under the Loan Agreement, and has failed to remedy the breach within 28 days, RJO's remedies include:
  - (a) the right to immediately demand all monies outstanding under the Loan Agreement; and
  - (b) the right to be allotted 100,000 shares in the Company in respect of each breach by the Company of the Loan Agreement.
- (vi) The obligation to issue any shares to RJO or to provide a fixed and floating charge to RJO if required by RJO under the Loan Agreement will be subject to approval by the Company's shareholders if required by law or mandated by the ASX.

2.2 The Company entered into the Loan Agreement for the purposes of:

- (i) cleaning up liabilities on the Company's balance sheet through the repayment of longstanding creditors;
- (ii) improving the overall risk profile of the Company's balance sheet so that the Company will be better positioned for negotiating financial facilities to support the growth planned for the Company's business over the next few years;

- (iii) increasing the Company's net tangible and intangible asset value per share; and
- (iv) presenting the best foundation for the Company's growth since its listing on ASX.

- 2.3 As permitted by the Loan Agreement RJO has required that NewEQ provide to him a fixed and floating charge ("the Charge") as security for the Loan, including interest, costs and charges.
- 2.4 Resolution 2 seeks Shareholder approval for the deemed disposal of a substantial asset for the purposes of ASX Listing Rule 10.1 as a result of NewEQ granting the Charge to RJO as proposed.
- 2.5 ASX Listing Rule 10.1 provides that an entity must ensure that neither it nor any of its subsidiaries (e.g. NewEQ) disposes of a substantial asset to, inter alia, a related party or a substantial holder without Shareholder approval. A person is a "substantial holder" of the Company if that person and the person's associates have a relevant interest at any time in the 6 months before the granting of the Charge in at least 10% of the total votes attaching to the voting shares in the Company. "Related party" includes a director of the Company. RJO is a director of the Company and therefore a "related party". He is also a "substantial holder" as defined above.
- 2.6 An asset is substantial if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the Company as set out in the latest accounts given by the Company to ASX under the Listing Rules. The granting of the charge by NewEQ in favour of RJO as proposed is deemed under ASX Listing Rule 10.1 to be a disposal of the underlying assets and the value of the debt secured is greater than 5% of the equity interests of the Company as set out in its latest accounts given to ASX. Accordingly Shareholder approval is required for the purposes of ASX Listing Rule 10.1 for the granting of the Charge.
- 2.7 ASX Listing Rule 10.10 provides that this notice of meeting, in seeking Shareholder approval under Listing Rule 10.1, must include a report on the transaction (the granting of the Charge) from an independent expert. Attached to this notice of meeting as Annexure A is an independent expert's report prepared by Alpha Securities Pty Ltd dated 31 May 2011 which concludes that the proposed transaction is fair and reasonable to the Shareholders who are entitled to vote on Resolution 2. Shareholders are urged to carefully read the Independent Expert's Report before deciding how to vote on Resolution 2.

## 2.8 Voting Exclusion Statement

As required by the ASX Listing Rules, the Company will disregard any votes cast on this resolution by:

- Robin John Ormerod ; and
- an associate (as defined in the ASX Listing Rules) of Robin John Ormerod.

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.

## 2.9 Chapter 2E Corporations Act 2001 (Cwth)

Under Chapter 2E Corporations Act a public company (such as Pacific Environment Limited) or an entity that the public company controls (such as NewEQ) must not give a "financial benefit" to a "related party" without shareholder approval unless a permitted exception applies. Arguably the granting of the Charge will constitute a financial benefit for the purposes of Chapter 2E. One of the permitted exceptions is where the financial benefit would be reasonable in the circumstances if the public company or entity that it controls and the related party were dealing at arm's length.

- 2.10 A "related party" for the purposes of the Corporations Act is widely defined and includes a director of the public company. RJO is a director of the Company and is therefore a related party of the Company.

- 2.11 It is the view of the Company's directors (with Mr. Robin Ormerod abstaining from expressing an opinion) that the arm's length exception in Chapter 2E Corporations Act applies to the proposed grant of the Charge to RJO for the following reasons:
- (i) the terms of the proposed transaction are not unlike those of comparable transactions between parties dealing on an arm's length basis in similar circumstances. As previously advised by the Company to ASX the Board sought and obtained independent professional advice that the Loan Agreement terms are on arm's length or better from the Company's viewpoint;
  - (ii) RJO was independently legally represented in negotiating the terms of the Loan Agreement and Charge and absented himself where appropriate from Board deliberations concerning the Loan Agreement and Charge;
  - (iii) the likely impact of the Loan Agreement on the Company is viewed as favourable by the Company's directors for the reasons set out above and the grant of the Charge is viewed by the Company's directors as being reasonably incidental to the Loan Agreement;
  - (iv) in the view of the Company's directors the entry into of the Loan Agreement and incidental granting of the Charge was the only viable way to obtain funds for the Company on acceptable terms for the purposes outlined in section 2.2 (above); and
  - (v) the Board has satisfied itself by reference to expert advice that the proposed transaction is fair and reasonable to Shareholders.
- 2.12 Accordingly, Shareholder approval is not being sought under Chapter 2E Corporations Act for the grant of the Charge to RJO, but rather for the purposes of ASX Listing rule 10.1 as referred to above.
- 2.13 Accordingly, Shareholder approval is not being sought under Chapter 2E Corporations Act for the grant of the Charge to RJO, but rather for the purposes of ASX Listing rule 10.1 as referred to above.
- 2.14 The Company's directors, with Mr Ormerod abstaining, recommend that Shareholders vote in favour of Resolution 2.

### **3 AGENDA ITEM 3 - RATIFICATION OF ISSUE OF SHARES AND OPTIONS – PRIVATE PLACEMENTS**

- 3.1 Subject to a number of exceptions, ASX Listing Rule 7.1 provides that a company must not issue equity securities (shares, options, etc) without shareholder approval if the number of securities issued would, of itself or when added to the number of other equity securities issued by the company in the previous 12 months, exceed 15% of the number of ordinary shares of the Company on issue at the commencement of the 12 month period. ASX Listing Rule 7.4.2 provides that shareholders may approve an issue of securities after the fact (provided the issue did not breach the 15% limit) so that the securities which were issued are regarded as having been issued with shareholder approval for the purpose of Listing Rule 7.1.
- 3.2 From 9 December 2010 to 21 December 2010 inclusive the Company issued a total of 1,266,072 shares and 226,786 options for various purposes to sophisticated investors and other investors to whom under the *Corporations Act 2001* (Cwth) a prospectus or other disclosure document is not required to be given for an investment in the Company to be made. The shares and options were issued without Shareholder approval or other exemption under the ASX Listing Rules. The issue of those shares and options was within the 15% limit permitted by ASX Listing Rule 7.1. Nevertheless, the Company is requesting that Shareholders ratify the issue of the shares and options for the purpose of ASX Listing Rule 7.4.2 so that the Company will have the flexibility to issue further securities under ASX Listing Rule 7.1 if the need or opportunity arises.
- 3.3 As required by ASX Listing Rule 7.5, the following information is provided:

Date	No. & Type of Securities Allotted	Price at which Securities Issued	Terms of the Securities	Names of Allottees/ Basis on which Allottees determined	Use of Funds Raised
09/12/10	1,000,000 shares	0.00	a (see below)	Issued to Dalrida Investment Pty Ltd in lieu of cash for provision of CEO services	No funds raised
21/12/10	228,572 shares	\$0.175	a	Private placements to two investors	Working capital
	114,286 options	\$0.00 (free attaching options)	b		
“	37,500 shares	\$0.00 (commission for fundraising services)	a (see below)	Strawb Enterprises Pty Ltd	No funds raised
	112,500 options	\$0.00 (commission for fundraising services)	b		

a = fully paid ordinary shares, subject to the same rights and obligations and ranking equally with all other shares in the capital of the Company;

b = options exercisable @ \$0.40; expiring 31/12/11; otherwise subject to the terms referred to in Section 5.4 (below).

3.4 The terms of issue of all options referred to in the table in Section 3.3 (above), other than the terms set out in that table, are set out in Annexure B.

**3.5 Voting Exclusion Statement**

As required by the ASX Listing Rules, the Company will disregard any votes cast on this resolution by:

- any of the issuees of the shares and options; and
- an associate (as defined in the ASX Listing Rules) of any of the issuees of the shares and options

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.

3.6 The Company’s directors recommend that Shareholders vote in favour of Resolution 3.

#### 4 VOTING RIGHTS

4.1 The Board has determined that all of the shares of the Company will be taken, for the purposes of determining the right of shareholders to attend and vote at the Meeting, to be held by the persons who are registered in the Company's register of shareholders at 7.00pm (AEST) on 25 July 2011 as the owners of those shares. Therefore transfers registered after that time will be disregarded in determining shareholders entitled to attend and vote at the Meeting.

#### 5 PROXIES

5.1 A Shareholder entitled to attend and vote at the Meeting may appoint:

5.1.1 one proxy if the Shareholder is only entitled to one vote at the meeting; or

5.1.2 one or two proxies if the Shareholder is entitled to more than one vote at the meeting, to attend and vote at the meeting for the Shareholder.

5.2 A Shareholder may appoint an individual person or a body corporate as the Shareholder's proxy.

5.3 A body corporate appointed as a Shareholder's proxy may appoint a representative to exercise any of the powers the body corporate may exercise as a proxy at the Meeting. The representative should bring to the Meeting evidence of his or her appointment, including any authority under which the appointment is signed, unless it has previously been provided to the Company.

5.4 A Shareholder who appoints two proxies may state on the Proxy Form what proportion or number of the Shareholder's votes the proxy may exercise. If a Shareholder appoints two proxies and does not specify the number or proportion of votes each proxy may exercise, each of the proxies may exercise half of the Shareholder's votes.

5.5 A proxy need not be a shareholder of the Company.

5.6 A Proxy Form is enclosed. If you wish to appoint a proxy or proxies you must complete the Proxy Form and deliver it to the Company, together with the power of attorney or other authority (if any) under which it is signed (or a certified copy), **by no later than 2.00 pm (AEST) on Monday, 25 July 2011:**

5.6.1 **by post:**

Pacific Environment Limited  
Level 9  
221 Miller Street  
Sydney, NSW 2060; or

5.6.2 **by delivery:**

Pacific Environment Limited  
Level 9  
221 Miller Street  
Sydney, NSW 2060; or

5.6.3 **by facsimilie:**

(02) 8456 6042

#### 6 CORPORATE REPRESENTATIVE

A Shareholder which is a body corporate may appoint an individual as the Shareholder's representative to attend and vote at the Meeting. The representative must bring the formal notice of appointment to the meeting, unless it has previously been provided to the Company.

## **7 OTHER INFORMATION**

Queries in relation to the lodgement of proxies or other matters concerning the Meeting may be directed to the Company Secretary (Telephone: (07) 3832 1329).

## **8 INTERPRETATION**

In this notice of meeting the following expressions have the following meanings:

"ASX" means ASX Limited ACN 008 624 691.

"Board" means the Directors of the Company from time to time acting as a board.

"Company" means Pacific Environment Limited ABN 42 122 919 948.

"Directors" means the directors of the Company.

"Meeting" means the general meeting of Shareholders convened for 27 July 2011 and any adjournment thereof.

"Notice of Meeting" means this notice of meeting.

"Section" means a section of this Explanatory Statement.

"Shares" means fully paid ordinary shares in the capital of the Company.

"Shareholder" means a shareholder of the Company.

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5 April, 2011

The Directors  
Pacific Environment Limited  
Level 9, 221 Miller Street  
North Sydney NSW 2060

Dear Board Members,

**Re: Resolution 2 – Approval to grant charge to related party/substantial holder**

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**1. Executive Summary**

**1.1 Purpose of the Report**

The Directors of Pacific Environment Limited (“PEL”) have requested us to provide an Independent Expert’s Report to consider the fairness and reasonableness to non-associated shareholders of the grant of a charge over the assets of a wholly owned subsidiary New Environmental Quality Pty Ltd in favour of a director and substantial shareholder in PEL Robin John Ormerod in relation to a loan made available by him to PEL.

Such a Report is required to be submitted to non-associated shareholders of PEL (or “the Company”), so that they can determine if approval should be given in connection with the following proposed ordinary resolution to be put to shareholders:

Resolution 2 – “That for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the deemed disposal of a substantial asset as a result of the Company’s wholly owned subsidiary New Environmental Quality Pty Ltd granting a charge over its assets in favour of Director and substantial holder Robin John Ormerod in relation to a loan made available by Robin John Ormerod to the Company”.

**1.2 Conclusion**

In our opinion, and for the reasons set out in this Report, the proposed charge is fair, and reasonable.

- a. The principal reason that the grant of the charge is fair is because the value of the assets charged is less than the value of the charge to be granted.

- b. The reasons why the grant of the charge is reasonable are that:-
  - i. Funds will be received by PEL which can be used to consolidate creditors and so reduce the risk profile of PEL.
  - ii. By consolidating creditors, PEL can better negotiate financial facilities to fund future growth, and hence potentially raise the value of the shares held by shareholders.

## 2. Background Information

### A Background to Resolution 2

#### 2.1

In December 2010 PEL, PEL's wholly owned subsidiary company New Environmental Quality Pty Ltd ("NewEQ") and Robin John Ormerod ("RJO") entered into a loan agreement ("the Loan Agreement") pursuant to which RJO agreed to provide debt funding to PEL by the way of a loan of \$1.8 million ("the loan"). The material terms of the Loan Agreement are as follows:

- i) The loan is for \$1.8 million and will mature in three years, although PEL may at its option repay the loan in full or part before the maturity date.
- ii) At any time prior to the maturity date RJO may convert some or all of the outstanding loan to ordinary shares in PEL with the value of the shares to be determined as follows:-
  - a) If the share price at the close of trade on the date of the conversion is less than or equal to the Base Share Price plus 40 cents then the conversion will be at the Base Share Price.
  - b) If the share price at the close of trade on the date of the conversion is greater than the Base Share Price plus 40 cents then conversion will be at Base Share Price plus 40% of the difference between the share price at the close of trade on the date of conversion and the Base Share Price.

The Base Share Price was determined from a formula in the Loan Agreement, which was based upon the median share price at the close of business over the last five trading days. The Base Share Price is 14.0 cents

- iii) Interest under the Loan Agreement is charged at 8.67% pa with interest calculated daily and payable monthly. However, if PEL makes all interest payments on time it will receive a 2% discount on the interest payable so that the effective interest rate will be 6.67%.
- iv) RJO may at any time during the currency of the Loan Agreement require PEL to provide to him a fixed and floating charge as security for the loan, including interest, costs and charges.
- v) If PEL defaults in the performance of any non-material term or condition under the Loan Agreement, and has failed to remedy the breach within 28 days, RJO's remedies include:
  - a) The right to immediately demand all monies outstanding under the Loan Agreement and

- b) The right to be allotted 100,000 shares in PEL in respect of each breach by PEL of the Loan Agreement.
  - vi) The obligation to issue any shares to RJO or to provide a fixed and floating charge to RJO if required by RJO under the Loan Agreement will be subject to approval by PEL's shareholders if required by law or mandated by the ASX.
- 2.2 PEL entered into the Loan Agreement for the purposes of:
- i) cleaning up liabilities on PEL's statement of financial position through the repayment of longstanding creditors;
  - ii) improving the overall risk profile of PEL's statement of financial position so that PEL will be better positioned for negotiating financial facilities to support the growth planned for PEL business over the next few years;
  - iii) increasing PEL net tangible and intangible asset value per share; and
  - iv) presenting the best foundation for PEL's growth since its listing on the Australian Securities Exchange ("ASX")
- 2.3 As permitted by the Loan Agreement RJO has required that NewEQ provide to him a fixed and floating charge ("the Charge") as security for the Loan, including interest, costs and charges.
- 2.4 Resolution 2 seeks Shareholder approval for the deemed disposal of a substantial asset for the purposes of ASX Listing Rule 10.1 as a result of NewEQ granting the Charge to RJO as proposed.
- 2.5 ASX Listing Rule 10.1 provides that an entity must ensure that neither it nor any of its subsidiaries disposes of a substantial asset to, inter alia, a related party or a substantial holder without Shareholder approval. A person is a "substantial holder" of the Company if that person and the person's associates have a relevant interest any time in the 6 months before the granting of the Charge in at least 10% of the total votes attaching to the voting shares in the Company. "Related party" includes a director of the Company. RJO is a director of the Company and therefore a "related party". He is also a "substantial holder" as defined above.
- 2.6 An asset is substantial if its value, or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the Company as set out in the latest accounts given by the Company to ASX under the Listing Rules. The granting of the charge by NewEQ in favour of RJO as proposed is deemed under ASX Listing Rule 10.1 to be a disposal of the underlying assets and the value of the debt secured is greater than 5% of the equity interests of PEL as set out in its latest accounts given to ASX. Accordingly Shareholder approval is required for the purposes of ASX Listing Rule 10.1 for the granting of the Charge.
- 2.7 ASX Listing Rule 10.10 provides that the Notice of meeting, in seeking Shareholder approval under Listing Rule 10.1 must include a report on the transaction (the granting of the Charge) from an independent expert.

## 2.8 Financial Information on PEL

Comparative Consolidated Statements of Comprehensive Income for the years then ended and Consolidated Statements of Financial Position as at 30 June 2010 and 2009 and 31 December 2010, are summarised below.

The financial reports state that the financial information has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, International Financial Reporting Standards and the Corporations Act.

Below are extracts from the audited Consolidated Statements of Comprehensive Income of PEL for the years ended 30 June 2010 and 2009.

	Year ended 30/06/10 \$,000	Year ended 30/06/09 \$,000
Revenue from continuing operations	7,222	6,578
Other Income	219	98
	<u>7,441</u>	<u>6,276</u>
Expenses	<u>(9,135)</u>	<u>(11,484)</u>
(Loss) before income tax	<u>(1,694)</u>	<u>(4,808)</u>

Below are extracts from the Statements of Financial Position of PEL as at 31 December 2010 (audit reviewed), 30 June 2010 and 30 June 2009 (audited).

	Unaudited* 31/12/10 \$,000	Audited 30/06/10 \$,000	Audited 30/06/09 \$,000
<b>Assets</b>			
<u>Current Assets</u>			
Cash and cash equivalents	1,256	531	560
Receivables	1,953	1,492	1,425
Other	283	305	453
Total Current Assets	<u>3,492</u>	<u>2,328</u>	<u>2,438</u>
<u>Non-Current Assets</u>			
Property, Plant & Equipment	428	433	481
Capitalised Software	767	714	1,097
Goodwill	8,317	8,317	8,317
Other	2	23	56
Total Non-Current Assets	<u>9,514</u>	<u>9,487</u>	<u>9,951</u>
Total Assets	<u>13,006</u>	<u>11,815</u>	<u>12,839</u>
<b>Liabilities</b>			
<u>Current Liabilities</u>			
Payables	2,417	3,141	4,227
Borrowings	781	4,715	568
Provisions	138	125	309
Total Current Liabilities	<u>3,336</u>	<u>7,981</u>	<u>5,104</u>
<u>Non-Current Liabilities</u>			
Borrowings	1,903	225	4,351
Provisions	13	10	11
Total Non-Current Liabilities	<u>1,916</u>	<u>235</u>	<u>4,362</u>
Total Liabilities	<u>5,252</u>	<u>8,216</u>	<u>9,466</u>
Net Assets	<u>7,754</u>	<u>3,599</u>	<u>2,923</u>
<u>Equity</u>			
Issued Shares	18,167	14,771	13,059
Reserves	283	270	247
Accumulated Losses	(10,696)	(11,442)	(10,383)
Total Equity	<u>7,754</u>	<u>3,599</u>	<u>2,923</u>

\* Audit reviewed

We have reviewed the above financial information, and we consider there are no material adjustments which should be made to the figures. There are no one-off or other items that need to be adjusted for.

## 2.9 Financial information on NewEQ

A Statement of Comprehensive Income for the year ended and Statements of Financial Position as at 30 June 2010; and 31 December 2010 are summarised below.

PEL has a Class Order regarding its subsidiary NewEQ, so a separate audit report was not issued in relation to NewEQ specifically, but on the consolidated group. The review report in relation to the 6 months ended 31 December 2010 was in relation to the consolidated group.

	Year ended 30/6/10 \$,000
Revenue from continuing operations	1,337
Expenses	(1,196)
(loss) before income tax	<u>141</u>

Below are extracts from the Statements of Financial Position of NewEQ as at 31 December 2010 (unaudited) and 30 June 2010 (audited).

	Unaudited 31/12/10 \$,000	Audited 30/6/10 \$,000
<b>Assets</b>		
<u>Current Assets</u>		
Cash and cash equivalents	104	69
Receivables	468	246
Other	138	188
Total Current Assets	<u>710</u>	<u>503</u>
<u>Non Current Assets</u>		
Loans to related parties	434	363
Property, Plant and Equipment	181	168
Other	6	12
Total Non Current Assets	<u>621</u>	<u>543</u>
Total Assets	<u>1,331</u>	<u>1,046</u>
<b>Liabilities</b>		
<u>Current liabilities</u>		
Payables	197	219
Total Current Liabilities	<u>197</u>	<u>219</u>
<u>Non Current Liabilities</u>		
Loans by related parties	21	12
Borrowings	83	50
Provisions	6	3
Total Non Current Liabilities	<u>110</u>	<u>65</u>
Total Liabilities	<u>307</u>	<u>284</u>
Net Assets	<u>1,024</u>	<u>762</u>
<u>Equity</u>		
Issued Shares	1	1
Retained Earnings	1,023	761
Total Equity	<u>1,024</u>	<u>762</u>

We have reviewed the above financial information and we consider there no material adjustments which should be made to the figures except for the collectibility of the Loan to related parties given the consolidated losses of the PEL Group. We would provide up to 100% of the \$434,000 outstanding at present. Net assets of NewEQ as at 31 December 2010 would reduce to \$897,000.

There are no one-off or other items that need to be adjusted for.

## **B. Requirement for an Independent Expert's Report**

ASX Listing Rule 10.10 provides that the notice of meeting seeking shareholder approval must include a report on the granting of the charge by an independent expert. This report considers the fairness and the reasonableness of the proposed transaction.

The Directors have appointed Alpha Securities Pty Ltd ("Alpha Securities") as the independent expert.

We are required to:

- (a) Determine whether the proposal is fair and reasonable to non-associated shareholders of PEL;
- (b) Fully explain the benefits of the proposed transaction; and
- (c) Address in our report any other information which is material to shareholder decisions on the proposal.

What is fair and reasonable must be judged by the independent expert in all the circumstances of the proposal. An offer is "fair" if the value of the consideration is equal to or greater than the value of the grant of the charge. The proposal is "reasonable" if it is fair. It might also be reasonable if the expert believes there are sufficient reasons for shareholders to accept the proposal. This means taking into account the likely advantages and disadvantages for non-associated shareholders if the Resolution is approved and comparing them with the advantages and disadvantages for those shareholders if it is not approved.

## **3. Valuation of assets over which the deed of charge would be given**

### **3.1 Valuation Methodologies**

To determine if the proposal is fair, we must derive an appropriate value of the assets over which the deed of charge would be given.

The primary valuation methods commonly used for valuing a company are:

- (a) Market Based Methods
- (b) Income Based Methods; and
- (c) Asset Based Methods.

Each of these methodologies has application in different circumstances.

(a) Market Based Methods

Market-Based Methods estimate a company's fair market value by considering the market price of transactions involving guideline companies.

(b) Income Methods: Discounted Cash Flow ("DCF") Method

Under the DCF methodology, the value of a company is calculated as the net present value of the estimated future cash flows including a terminal value, if appropriate. In order to arrive at the net present value, cash flows are discounted using a discount rate, which reflects the risks associated with the cash flow stream.

This approach is commonly used to value companies or where an asset has a finite life and the future cash flows can be forecast with a reasonable degree of confidence.

(c) Asset Based Methods

An Asset-Based methodology is applicable in circumstances where neither a Market-Based nor a DCF methodology is appropriate. It is commonly used in circumstances where the earnings of a company do not support the net asset base, for example, property holding companies, or companies incurring losses or not having substantial or reliable maintainable earnings, or where the value of a company's assets are most important to the valuation sought.

Using this methodology, the value of the company would be adjusted for the time, cost and taxation consequences of realising the company.

### 3.2 Selection of Methodology

We have compared the three valuation methods to determine which is applicable:

- (i) NewEQ is not a listed company. As a result, there is no ready market available to realise the company. Its realisation is dependent on finding a buyer.

As a consequence, the use of Market-Based Methods is not appropriate.

- (ii) NewEQ had a profit for the year ended 30 June 2010 of \$141,000. For the half year ended 31 December 2010, it had a profit of \$260,000 before income tax.

While there are profits, a charge over assets is not so concerned with profits, so long as there are profits. As a consequence, the use of Income Based Methods is not appropriate.

As a consequence, we have applied Asset Based Methods.

### 3.3 Valuation of assets over which the deed of charge would be given.

#### 3.3.1 Orderly Realisation of Assets Method

This Asset Based Method involves determining the amount available on an orderly realisation of assets. This Method is appropriate where a company's assets are the basis for a charge, because if the charge were exercised, the value of the assets behind the charge would be what creditors would be interested in.

Section 2.9 has disclosed the comparative Statements of Financial Position of NewEQ as at 31 December 2010 and 30 June 2010. As also stated in Section 2.9, these Statements of Financial Position have been prepared in accordance with Australian Accounting Standards. As also stated, there are no one-off or other items that need to be adjusted for as regards assets and liabilities except as stated.

Based on the Statement of Financial Position as at 31 December 2010, the value of assets of NEq would be in the range of \$897,000 to \$1,331,000.

#### 4. Conclusion as to Fairness

##### 4.1 Conclusion

The value under the Asset Based Method is in the range of \$897,000 to \$1,331,000. The loan by the director and substantial holder Robin John Ormerod is \$1.8 million.

As the value of assets under the Asset Based Method results in a value below the loan, the proposed granting of a charge is fair to the non-associated shareholders of PEL.

#### 5. Position if Proposal is Accepted

The independent expert needs to consider whether the proposal is fair and reasonable to the members of PEL as a whole. Therefore, we have considered the position if the Resolution is accepted and have taken into account the following advantages and disadvantages in this assessment.

We have weighed these advantages and disadvantages and have found the proposal is reasonable.

##### i. Advantages of Accepting the Proposal

- (a) Funds received by PEL can be used to consolidate creditors and so reduce the risk of profile of PEL.
- (b). By consolidating creditors, PEL can better negotiate financial facilities to fund future growth, and hence potentially raise the value of the shares held by shareholders.

##### ii. Disadvantages of Accepting the Proposal

- (a) By granting the charge, PEL will limit an available avenue of future debt finance through providing a charge over NEq.

- (b) By concentrating debt, PEL may give to one party more leverage to be repaid to the prejudice of other creditors, and perhaps to the prejudice of PEL.

**6. Sources of Information**

We have relied on the following information for the purposes of preparing this Report:

- Unaudited (but audit reviewed) consolidated accounts of PEL for the half year ended 31 December 2010 and the audited consolidated accounts of PEL for the years ended 30 June 2010 and 2009.
- Discussions with Management of PEL.
- Australian Financial Review.
- ASX website.

**7. Independence**

We are entitled to receive a fee of \$10,000 (excluding GST) for this Report. Except for the fee, we have not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this Report.

Prior to accepting this engagement, we considered our independence with respect to PEL. In our opinion, we are independent of PEL.

We do not have at the date of the Report, and have not had within the previous 2 years, any relationship with PEL beyond that of professional advisors.

We have been indemnified by PEL in respect of any claim arising from our reliance on information provided by PEL, including the non-provision of material information, in relation to the preparation of this Report.

**8. Qualifications**

Alpha Securities has experience in the provision of corporate financial advice.

The person specifically involved in preparation and reviewing this Report was Stuart Cameron. He has significant experience in the preparation of Independent Expert's Reports and valuations within Australia.

**9. Disclaimers and Consents**

This Report has been prepared at the request of PEL for attachment with the notice of meeting which will be sent to all members of PEL. PEL engaged us to prepare an Independent Expert's Report to consider the Resolution.

We hereby consent to this Report accompanying the Notice. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without prior written consent.

We take no responsibility for the contents of the Notice other than this Report.

We have not independently verified the information and explanation supplied to us, nor have we conducted anything in the nature of an audit of PEL, but we have critically evaluated all relevant information obtained. However, we have no reason to believe that any of the information or explanation so supplied is false or that material information has been withheld.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of our engagement are such that we have no obligation to update this Report for events occurring subsequent to the date of this Report.

**10. Indemnity**

PEL has provided an indemnity for us for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this Report.

Yours sincerely  
ALPHA SECURITIES PTY LTD

**Stuart H. Cameron**  
Authorised Representative

## FINANCIAL SERVICES GUIDE

Dated 28 March 2011

Alpha Securities Pty Ltd ACN 124 327 064 ("Alpha" or "we" or "us" or "ours as appropriate) has been given authority to issue general financial product advice in the form of a report to be provided to you.

### 1. FINANCIAL SERVICES GUIDE

In the above circumstances we are required to issue to you, as a retail client, a Financial Guide ("FSG"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees. This FSG includes information about:

- Who we are and how we can be contacted;
- The services Alpha are authorised to provide are by way of authority under their Australian Financial Services Licence, Licence No 330757;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our complaints handling procedures and how you may access them.

### 2. FINANCIAL SERVICES WE ARE LICENCED TO PROVIDE

Alpha holds an Australian Financial Services Licence and is authorised to provide general financial product advice to retail and wholesale clients including the following classes of financial products:

- Derivatives limited to old law securities, options contracts and warrants;
- Securities; and
- Superannuation

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly, but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided under an authority given by a financial services licensee authorised to provide the financial product advice contained in the report.

### 3. GENERAL FINANCIAL PRODUCT ADVICE

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal

objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider the statement before making any decision about whether to acquire the product.

### 4. FEES, COMMISSIONS AND OTHER BENEFITS THAT WE MAY RECEIVE

We have charged \$12,000 (excluding GST) for providing this report.

Except for the fees referred to above, neither Alpha, nor any of its directors, employees or related entities, have received any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

### 5. REMUNERATION OR OTHER BENEFITS RECEIVED BY OUR EMPLOYEES

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity, but not directly in connection with any engagement for the provision of a report.

### 6. REFERRALS

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

### 7. ASSOCIATIONS AND RELATIONSHIPS

From time to time, Alpha may provide professional services, including financial advisory services, to financial product issuers in the ordinary course of its business under its authority.

### 8. COMPLAINTS RESOLUTION

#### 8.1 International Complaints Resolution Process

Having authority under a holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, Alpha Securities Pty Ltd, Level 1, 275 George Street, Sydney NSW 2000.

When we receive a written complaint, we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after

receiving the written complaint, we will advise the complainant in writing of our determination.

## 8.2 Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited ("FICS"). FICS 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.

Alpha is a member of the FICS Complaints Handling Tribunal No. E-473.

Further details about FICS are available at the FICS website [www.fics.asn.au](http://www.fics.asn.au) or by contacting them directly via the details set out below.

Financial Industry Complaints Service Limited

PO Box 579  
Collins Street West  
MELBOURNE VIC 8007

Toll free: 1300 780 808  
Facsimile: (03) 9621 2291

## 9. CONTACT DETAILS

You may contact us using the details set out in paragraph 8.1 in this FSG.



**PACIFIC ENVIRONMENT LIMITED**  
**ABN 42 122 919 948**

**NOTICE OF GENERAL MEETING**  
**(Date of Meeting: 27 July 2011)**

**ANNEXURE B**

**TERMS OF ISSUE OF OPTIONS (Section 3.4)**

- The options are options to subscribe for Shares and each option gives the option holder the right to subscribe for one Share;
- Shares issued on exercise of the options will rank pari passu with all existing ordinary shares of the Company from the date of issue;
- The options may be exercised wholly or in part by notice in writing to the Company received at any time on or before 5.00 pm (EST) on the options' expiry date (Expiry Date) together with payment for the exercise price for the number of options being exercised and the options certificate (if any) for those options for cancellation by the Company. Any option not exercised before the Expiry Date will automatically lapse on the Expiry Date;
- The options held by each option holder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion. In the event the option holder holds less than 1,000 options the options must be exercised in whole if exercised;
- The Company will allot the number of Shares the subject of any exercise notice, and at its cost apply for quotation on ASX of the Shares so allotted;
- The option holder will be permitted to participate in new issues of securities of the Company on the prior exercise of the options, in which case the option holder will be afforded the period of at least 6 Business Days notice prior to and inclusive of the books record date (to determine entitlements to the issue) to exercise the options.
- In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:
  - the number of options, the exercise price of the options, or both will be reconstructed (as appropriate) in a manner consistent with the ASX Listing Rules, but with the intention that such reconstruction will not result in any benefits being conferred on the option holders which are not conferred on Shareholders; and
  - subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of Shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the options will remain unchanged.
- In the event the Company proceeds with a pro rata issue (except a bonus issue) of securities to Shareholders after the date of issue of the options, the exercise

price of the options may be reduced in accordance with the formula set out in ASX Listing Rule 6.22.2;

- If there is a bonus issue to Shareholders, the number of Shares over which an option is exercisable may be increased by the number of Shares which the option holder would have received if the option had been exercised before the record date for the bonus issue.
- The terms of the options shall only be changed if Shareholders (whose votes are not to be disregarded) approve of such a change. However, the terms of the options shall not be changed to reduce the exercise price, increase the number of options or change any period for exercise of the options.

**PACIFIC ENVIRONMENT LIMITED**  
**ABN 42 122 919 948**

**Level 9, 221 Miller Street,  
North Sydney, NSW, Australia 2060**

**Telephone: (02) 8904 0175  
Fax: (02) 8456 6042**

**PROXY FORM**

I/We \_\_\_\_\_

\_\_\_\_\_

of \_\_\_\_\_

\_\_\_\_\_

being a shareholder/(s) of Pacific Environment Limited ("**the Company**") and entitled to

\_\_\_\_\_ shares in the Company hereby appoint \_\_\_\_\_

of \_\_\_\_\_

or failing him/her \_\_\_\_\_

of \_\_\_\_\_

or failing him/her the Chairman as my/our proxy to vote for me/us and on my/our behalf at the General Meeting of the Company to be held at the offices of JWA Business & Wealth, Suite 1101, Level 11, "The Rocket" Building, 203 Robina Town Centre Drive, Robina, Queensland on Wednesday, 27 July 2011 at 2.00 pm (Qld time) and at any adjournment thereof in respect of \_\_\_\_\_ of my/our shares or, failing any number being specified, **ALL** of my/our shares in the Company.

If two proxies are appointed, the proportion of voting rights this proxy is authorised to exercise is [    ] %.  
(The Company on request will supply an additional proxy form.)

If you wish to indicate how your proxy is to vote, please tick the appropriate boxes below.

If no directions are given, the Proxy may vote as the Proxy thinks fit or may abstain. By signing this appointment you acknowledge that the Proxy (whether voting in accordance with your directions or voting in their discretion under an undirected Proxy) may exercise your proxy even if he/she has an interest in the outcome of the resolution and even if votes cast by him/her other than as proxy holder will be disregarded because of that interest. However, if the Proxy you appoint is excluded from voting on a resolution and you do not direct the Proxy how to vote on that resolution, your vote will also be excluded.

The chairman of the meeting intends to vote undirected proxies in favour of all proposed resolutions.

**[Continued on reverse side]**

I/we direct my/our proxy to vote as indicated below:

**RESOLUTION**

	<b>FOR</b>	<b>AGAINST</b>	<b>ABSTAIN</b>
1. Selective Capital Reduction (Agenda Item 1)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Approval to grant charge to related party/substantial holder (Agenda item 2)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Ratify issue of shares and options (Agenda item 3)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our hand/s this \_\_\_\_\_ day of \_\_\_\_\_ 2011

**If a natural person(s):**

SIGNED by \_\_\_\_\_ )  
\_\_\_\_\_ )

\_\_\_\_\_ )  
in the presence of: \_\_\_\_\_ )

\_\_\_\_\_ )  
Witness \_\_\_\_\_ )

\_\_\_\_\_ )  
Name (Printed) \_\_\_\_\_ )

**If a company:**

EXECUTED by \_\_\_\_\_ )  
\_\_\_\_\_ )  
in accordance with its \_\_\_\_\_ )  
Constitution \_\_\_\_\_ )

\_\_\_\_\_ )  
Director \_\_\_\_\_ )

\_\_\_\_\_ )  
Director/Secretary \_\_\_\_\_ )

\_\_\_\_\_ )  
Name (Printed) \_\_\_\_\_ )

\_\_\_\_\_ )  
Name (Printed) \_\_\_\_\_ )

**If by power of attorney:**

SIGNED for and on behalf of \_\_\_\_\_ )  
by \_\_\_\_\_ )  
under a Power of Attorney \_\_\_\_\_ )  
dated \_\_\_\_\_ and who declares that he/she has \_\_\_\_\_ )  
not received any revocation of such Power of \_\_\_\_\_ )  
Attorney in the presence of : \_\_\_\_\_ )

\_\_\_\_\_ )  
Signature of Attorney \_\_\_\_\_ )

\_\_\_\_\_ )  
Signature of Witness \_\_\_\_\_ )

**[N.B. After completing this Proxy Form please deliver it to the Company in accordance with Section 5.6 of the Explanatory Statement in the accompanying Notice of General Meeting]**