

14 December 2009

Company Announcements Office
Australian Securities Exchange

- 1. Legal Action against CES Vendors**
- 2. Appointment of New Auditor**

1. LEGAL ACTION AGAINST CES VENDORS

Pacific Environment Limited ("PEL" or "the Company") acquired Commercial Energy Services Pty Ltd ("CES") on 23 December 2008 pursuant to a Share Purchase Agreement ("the Share Purchase Agreement"). PEL paid to the CES vendors a total of \$200,000 and issued to them a total of 3,562,364 shares in PEL as partial consideration for the acquisition of CES. Under the Share Purchase Agreement PEL was also liable to make a further payment of \$700,000 to the CES vendors and possibly other performance-related payments, contingent on the performance of CES.

At the time of the acquisition of CES PEL advised the Market that it viewed the acquisition as a good fit for PEL and also advised, based on representations made to PEL and information received from the CES vendors, that it expected that CES would contribute initially annualised EBIT of approximately \$1 million to PEL's EBIT.

Following the acquisition of CES however it gradually became clear to PEL that the performance of CES and other aspects of CES's operations were not as had previously been represented to PEL by the CES vendors. Subsequently in June this year the directors of CES appointed voluntary administrators to CES, and the business of CES was subsequently sold to a company unrelated to PEL, FSL Holdings Pty Ltd.

PEL subsequently terminated the Share Purchase Agreement and has now commenced legal action in the New South Wales Supreme Court against the vendors of CES alleging, amongst other things, misrepresentation and misleading and deceptive conduct and, in the case of at least one of the CES vendors, fraud. The orders being sought by PEL include orders that:

1. the CES vendors repay to PEL the \$200,000 previously paid by PEL to them;
2. the shares issued by PEL to the CES vendors be cancelled;
3. PEL has no further liability to the CES vendors under the Share Purchase Agreement; and
4. the CES vendors pay damages and PEL's costs of the legal action to PEL.

2. APPOINTMENT OF NEW AUDITOR

The Company advises that it has appointed MGI Assurance (Brisbane) Pty Ltd (an arm of MGI Brisbane Chartered Accountants) as its new auditor to replace PricewaterhouseCoopers.

Yours faithfully

PACIFIC ENVIRONMENT LIMITED

Darren Herft
Executive Chairman