

NOTICE OF ANNUAL GENERAL MEETING

Date of Meeting: Wednesday, 30 October 2013

Time of Meeting: 1.00 pm (NSW Time)

Place of Meeting: Acacia 2 Room
Upper Ground Floor
Rydges North Sydney Hotel
54 McLaren Street
North Sydney, NSW 2060

This Notice of Annual 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 ANNUAL GENERAL MEETING

The 2013 Annual General Meeting of Pacific Environment Limited ("the Company") will be held in the Acacia 2 Room, Upper Ground Floor, Rydges North Sydney Hotel, 54 McLaren Street, North Sydney, New South Wales on Wednesday, 30 October 2013 at 1.00 pm (New South Wales time).

The Company's 2013 Annual Report can be accessed via the Company's website at:

www.pacific-environment.com/asx-announcements

AGENDA

1 CONSIDERATION OF REPORTS

To receive and consider the Financial Report, Directors' Report and Independent Audit Report for the Company for the financial year ended 30 June 2013.

2 QUESTIONS AND COMMENTS

Shareholders will be given a reasonable opportunity to:

- (i) ask questions about or comment on the management of the Company; and
- (ii) ask the Auditor's representative questions relevant to the Auditor's audit of the Financial Report.

The Auditor's representative will also be given a reasonable opportunity to answer any written questions submitted to the Auditor prior to the Meeting in accordance with the *Corporations Act 2001* (Cwth).

3 RESOLUTION 1 – RE-ELECTION OF A. GALLAGHER AS DIRECTOR

To consider and, if in favour, pass the following resolution as an **ordinary resolution**:

"That Adam Gallagher, who retires in accordance with the Company's constitution and being eligible offers himself for election, is elected as a director of the Company with effect from the end of the Meeting."

4 RESOLUTION 2 – APPROVAL OF THE TERMS OF CONVERTIBLE NOTE FACILITY

To consider and, if in favour, pass the following resolution as an **ordinary resolution**:

"That, pursuant to Exception 7 of Listing Rule 10.12 and for all other purposes Shareholders hereby approve the terms of the Loan Deed between Mr Robin Ormerod and the Company as set out in the Explanatory Memorandum accompanying this Notice of Meeting."

5 RESOLUTION 3 – GRANT OF OPTIONS TO DIRECTOR M. D'ALMEIDA

To consider and, if in favour, pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 10.11, and for all other purposes, the Company is authorised to grant a total of 4,500,000 options to subscribe for ordinary shares in the capital of the Company to Director Mr. Murray d'Almeida on the terms and conditions detailed in the Explanatory Memorandum accompanying this Notice of Meeting."

6 RESOLUTION 4 – GRANT OF OPTIONS TO DIRECTOR A. GALLAGHER

To consider and, if in favour, pass the following resolution as an **ordinary resolution**:

"That for the purposes of ASX Listing Rule 10.11, and for all other purposes, the Company is authorised to grant a total of 4,500,000 options to subscribe for ordinary shares in the capital of the Company to Director Mr. Adam Gallagher on the terms and conditions detailed in the Explanatory Memorandum accompanying this Notice of Meeting."

7 RESOLUTION 5 - REMUNERATION REPORT ADOPTION

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

"That the Remuneration Report for the year ended 30 June 2013 be adopted."

8 RESOLUTION 6 – SPILL RESOLUTION (if required)

If 25% or more of the votes that are cast on Resolution 5 are voted against the adoption of the Remuneration Report, to consider and, if thought fit, to pass the following resolution as an **ordinary resolution** (a 'spill resolution'):

"That, pursuant to section 250V of the Corporations Act:

- (a) an extraordinary meeting of shareholders ('spill meeting') be held within 90 days of this Meeting;*
- (b) all the Directors (other than the Managing Director) who were in office when the Directors' resolution to make the Remuneration Report for the year ended 30 June 2013 considered at this Meeting was passed, cease to hold office immediately before the end of the spill meeting; and*
- (c) resolutions to appoint persons to offices that will be vacated immediately before the end of the spill meeting be put to the vote at the spill meeting."*

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

Adam Gallagher
Company Secretary

30 September 2013

PACIFIC ENVIRONMENT LIMITED
ABN 42 122 919 948

NOTICE OF ANNUAL GENERAL MEETING
EXPLANATORY STATEMENT

INTRODUCTION

This Explanatory Statement forms part of the notice convening the Company's Annual General Meeting to be held on Wednesday, 30 October 2013. 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 13.

1 AGENDA ITEM 1 – CONSIDERATION OF REPORTS

- 1.1 The Financial Report, the Directors' Report and the Independent Audit Report for the financial year ended 30 June 2013 will be presented for consideration.
- 1.2 The above mentioned reports were released by the Company to the Australian Securities Exchange (ASX) on 30 August 2013. They may also be viewed on the Company's website at www.pacific-environment.com/asx-announcements. Shareholders are not required to vote on the reports, however Shareholders will be given a reasonable opportunity to ask questions concerning the reports.

2 AGENDA ITEM 2 – QUESTIONS AND COMMENTS

- 2.1 The Chairman of the meeting ("the Chairman") will give Shareholders a reasonable opportunity to ask questions about or make comments on the management of the Company.
- 2.2 A representative of the Company's Auditor will attend the Meeting. The Chairman will give Shareholders a reasonable opportunity to ask the Auditor's representative questions relevant to:
 - (i) the conduct of the audit; and
 - (ii) the preparation and content of the Auditor's report; and
 - (iii) the accounting policies adopted by the Company in relation to the preparation of the financial statements; and
 - (iv) the independence of the Auditor in relation to the conduct of the audit.
- 2.3 The Chairman will also give the Auditor's representative a reasonable opportunity to answer written questions submitted to the Auditor in accordance with the *Corporations Act 2001* (Cth). A list of written questions, if any, submitted by Shareholders will be made available at the start of the meeting, and any written answer tabled by the Auditor's representative at the meeting will be made available to Shareholders as soon as practicable after the meeting.
- 2.4 Pursuant to section 250PA *Corporations Act 2001* (Cth) a shareholder entitled to vote at the Meeting may submit a written question to the Company's auditor if the question is relevant to:
 - (i) the content of the Auditor's report to be considered at the Annual General Meeting; or
 - (ii) the conduct of the audit of the annual financial report to be considered at the Annual General Meeting.

A shareholder must give the question to the Company (who will pass it on to the Auditor) no later than 5.00 pm (AEDST) on Friday, 25 October 2013.

If you wish to submit a question to the Company's auditor please deliver it, marked "Attention: The Company Secretary, Pacific Environment Limited", to the Company either personally or by post or facsimile to the address, facsimile number or email address designated in Section 10.8 of this Explanatory Memorandum. Alternatively, if you are submitting a Proxy Form (see section 10 of this Explanatory Memorandum) you may send it together with the Proxy Form, provided it is received by 5.00 pm (AEDST) on Friday, 25 October 2013.

3 AGENDA ITEM 3 (RESOLUTION 1) – RE-ELECTION OF A. GALLAGHER AS DIRECTOR

- 3.1 In accordance with the Company's constitution Adam Gallagher retires by rotation at the close of the Annual General Meeting and, being eligible, offers himself for re-election as a director of the Company.
- 3.2 Adam Gallagher BEcon MCom GDip ACG GDip Info Sys MAICD ICISA has been a director of the Company since 20 November 2012 and is the Chairman of both the Audit and Risk Management Committee and the Remuneration and Nomination Committee. He was also appointed as Company Secretary by the Directors on 18 October 2012.
- 3.3 Mr Gallagher has strong finance and capital markets experience through a fourteen year career to date spanning commercial banking, private equity, funds management and corporate advisory. He is a Director of Scintilla Strategic Investments Limited, a microcap-focused investment company. Through this role he is involved in strategy formulation and advice, market communications, and corporate transactions with investee companies. His private business DG Capital Partners assists businesses across a range of industries through transitional phases including listings, mergers, growth management and corporate governance development. He also acts as Company Secretary for a number of public companies. He is a Chartered Company Secretary and is a Member of the Australian Institute of Company Directors and the Institute of Chartered Secretaries and Administrators. Adam holds a Bachelor of Economics, Masters in Commerce, and Graduate Diploma in Information Systems, as well as a Graduate Diploma in Applied Corporate Governance.
- 3.4 The Company's directors, with Mr Gallagher abstaining from making a recommendation, recommend that Shareholders vote in favour of Resolution 1.

4 AGENDA ITEM 4 (RESOLUTION 2) – APPROVAL OF THE TERMS OF CONVERTIBLE NOTE FACILITY

- 4.1 Resolution 2 seeks Shareholder approval for the terms contained in the Loan Deed between Director, Mr. Robin Ormerod and the Company.
- 4.2 On 31 December 2012 the Company announced that it had reached agreement with Mr. Robin Ormerod to extend the loan term of the existing \$1.8m convertible note facility by negotiation of a new Loan Deed that replaced the original agreement that was due to expire on 27 November 2013.
- 4.3 The main points of the new Loan Deed released to the ASX are restated below:
- a) *The Loan is for \$1.8m, expiring on the 30th June 2017. The Company may repay the loan earlier at its discretion.*
 - b) *The effective interest rate on the outstanding loan amount is 11% per annum including a 2% discount that applies whilst the Loan is not in default.*
 - c) *The Financier may convert some or all, of the loan amount to shares at a share price calculated at the volume-weighted average share price for the three months prior to the signing of the Loan deed.*
 - d) *The number of converted shares that can be traded is restricted to 10% of the issued share capital of the Company per year in each of the first, second, third and fourth year of the loan. There are no restrictions on trading in the converted shares after the fourth year.*
 - e) *If the Company defaults in the performance of any term and condition under the Loan deed, and has failed to remedy the breach in 28 days, the Financier's remedies include:*
 - (i) *the right to immediately demand all monies outstanding under the Loan deed;*
 - and;*
 - (ii) *the right to be allotted 100,000 shares in the Company in respect of each breach by the Company of the Loan deed.*
 - f) *A change of control of the board or the controlling shareholding of the Company constitutes a default event that may lead the Financier to exercise their rights described in (e) above.*
 - g) *The Financier has sought external funding in order to provide the loan to Pacific Environment Limited. The board has reviewed the loan documentation with the external funder and has required the Financier to sign an undertaking that forms part of the Loan deed, that they will adhere to the terms and conditions of their external arrangements.*

h) The obligation to issue any shares or any other provisions in the Loan deed will be subject to approval by shareholders if required by law or if mandated by the ASX.

- 4.4 The Loan arrangement was also discussed in note 17(a)(ii) to the accounts on page 64 of the Company's 2013 Annual Report released to the ASX on 30 August 2013.
- 4.5 The Loan Deed provides that if Mr Ormerod requests a conversion that requires Shareholder approval for the issue of shares, then the Directors are obliged to seek such shareholder approval as soon as practicable.
- 4.6 As at the date of this Notice of Meeting a specific formal request to convert under the Loan Deed has not been received by the Company, however Mr Ormerod has asked that Shareholder approval be sought at this Meeting to approve the terms of the Deed and in-so-doing cover any and all future conversions that he may wish to make under the Loan Deed.
- 4.7 Mr Ormerod has provided a letter to the Company addressed to shareholders regarding this resolution which is included in this Notice of Meeting as Annexure A.
- 4.8 The Company's auditor has independently verified the conversion price of \$0.0337 (3.37c) being the Volume Weighted Average Price of Shares in the three months prior to signing the Loan Deed.
- 4.9 The outstanding loan balance as at the date of this Notice of Meeting is \$1.8m with interest only payments having been made to date.
- 4.10 ASX Listing Rule 10.11 provides that unless one of the exceptions in Listing Rule 10.12 applies, an ASX-listed company must not issue or agree to issue equity securities to a director of the Company without the approval of the Company's Shareholders. Exception 7 under Listing Rule 10.12 provides that where a person is to receive securities on the conversion of convertible securities the entity must have complied with the Listing Rules when it issued the convertible securities.
- 4.11 Under Listing Rule 10.13.3, equity securities approved by shareholders are to be issued not later than 1 month after the date of this Annual General Meeting (or such later date as permitted by any ASX waiver or modification by the ASX Listing Rules). As the Convertible Note facility is already in place, upon receiving shareholder approval for Resolution 2, the Shares to be issued upon conversion of the Related Party Convertible Note can be allotted by the Company at any time up to and including the maturity date, being 30 June 2017.

Voting Exclusion Statement

As required by the ASX Listing Rules, the Company will disregard any votes cast on Resolution 2 by:

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

However, the Company need not disregard a vote if:

- (a) 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
- (b) 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.

As required by the Corporations Act a vote must not be cast on Resolution 2 by a member of the Group's Key Management Personnel, or a Closely Related Party of such a person, acting as proxy if their appointment does not specify the way the proxy is to vote on Resolution 2. However, the Company will not disregard any proxy votes cast on Resolution 2 by a member of the Group's Key Management Personnel if that person is the Chair of the Meeting acting as proxy and their appointment as proxy expressly authorised the Chair to exercise the proxy even though the resolution is connected with the remuneration of a member of the Group's Key Management Personnel.

- 4.12 No funds will be raised by the issue of the shares however any conversion will have the effect of reducing the debt by an equal dollar amount to the number of shares issued multiplied by the conversion price. For example if Mr Ormerod requested the conversion of \$100,000 of his debt to shares then the outstanding loan principal will be reduced by \$100,000 and he will be issued with 2,967,359 fully paid ordinary shares.

Chapter 2E Corporations Act

- 4.13 Under Chapter 2E *Corporations Act 2001* (Cth) a public company must not give a "financial benefit" to a "related party" without shareholder approval unless an exception applies. ("Related party" includes a director of the public company and a person who has been a director of the Company any time in the previous 6

months. The expression "financial benefit" is widely defined and includes the issue of securities in the company).

Other Information

- 4.14 Mr Ormerod has a notifiable interest in 15,007,841 fully paid ordinary shares in the Company as at the date of this Notice of Meeting. Assuming no other new equity issues, if Mr Ormerod converts to the maximum number of fully paid ordinary shares each year in accordance with the Loan Deed and his voluntary undertaking to shareholders detailed in Annexure A it will have the following effect on the issued share capital of the Company:

Calendar year	Shares on issue prior to conversion	New shares issued to Mr Ormerod	Total shares held by Mr Ormerod	Total shares on issue
2013	98,629,598	5,341,246	20,349,087	103,970,844
2014	103,970,844	10,682,492	31,031,579	114,653,336
2015	114,653,336	10,682,492	41,714,071	125,335,828
2016	125,335,828	10,682,492	52,396,563	136,018,320
2017	136,018,320	16,023,740	68,420,303	152,042,060

- 4.15 If Resolution 2 is not passed at this meeting any conversion(s) requested by Mr Ormerod in the future in accordance with the Loan Deed will remain subject to shareholder approval that will be sought at that time.
- 4.16 The Company's directors, with Mr Ormerod abstaining from making a recommendation, recommend that Shareholders vote in favour of Resolution 2.

5 AGENDA ITEM 5 (RESOLUTION 3) – GRANT OF OPTIONS TO DIRECTOR M. D'ALMEIDA

- 5.1 Resolution 3 seeks Shareholder approval pursuant to ASX Listing Rule 10.11 for the grant of 4,500,000 options to Mr Murray d'Almeida as an incentive component to his remuneration as Chairman.
- 5.2 Mr d'Almeida was appointed as Chairman of the board in May 2012 and filled a casual vacancy in accordance with the Company's constitution until he was elected as a Director by Shareholders on 20 November 2012. Mr d'Almeida is also a member of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee.
- 5.3 Mr d'Almeida receives a cash remuneration of \$60,000 per annum.
- 5.4 The Directors believe that the proposed grant of options is reasonable for the following reasons:
- (a) Mr d'Almeida has led a small board and management team to deliver the Company's first ever operational net profit in the financial year ended 30 June 2013.
 - (b) The workload placed on Mr. d'Almeida has been significantly greater than what would normally be expected for a Non-Executive Chairman.
 - (c) Since the 2012 Annual General Meeting the share price has increased from \$0.03 to \$0.09 as at the date of this Notice of Meeting.
- 5.5 Subject to shareholder approval, Mr d'Almeida will be issued:
- (a) 1,000,000 options exercisable at \$0.08 each
 - (b) 1,500,000 options exercisable at \$0.12 each
 - (c) 2,000,000 options exercisable at \$0.16 each
- 5.6 The options will have an expiry date of five years from the date of the Meeting and vest in two years as set out in Table 1 below and on the terms and conditions contained in **Annexure B**.
- 5.7 Other than time based vesting periods there are no additional performance criteria associated with the options. Given the nature of the Company's activities and the small board and management team responsible for its running it is considered that the performance of Mr d'Almeida and the performance of the Company are closely related. The future value of the options will depend upon the ongoing performance of

Mr d'Almeida and his board and management team to increase the value of the Company such that the options carry sufficient value to warrant exercising.

5.8 The Board does not consider that there are any significant opportunity costs to the Company in issuing the options on the proposed terms and conditions as set out in **Annexure B**. In lieu of options the company could offer Mr d'Almeida additional amounts of cash however the Board considers it reasonable to both preserve the Company's cash reserves and seek to align Mr d'Almeida's interests with those of shareholders.

5.9 ASX Listing Rule 10.11 provides that an ASX-listed company must not issue or agree to issue equity securities to a director of the company without the approval of the company's shareholders. The notice of the meeting to obtain shareholders' approval must comply with Listing Rule 10.13. Therefore, as required by Listing Rule 10.13, the following information is provided:

- (i) The name of the person to whom the options are to be issued is Murray d'Almeida.
- (ii) The maximum number of securities to be issued is 4,500,000 options.
- (iii) The Company will issue the options as soon as possible after the Meeting, and in any event no later than 1 month after the date of the Meeting.
- (iv) The issue price of the options will be nil. The options will be issued to Mr d'Almeida as an additional incentive component to his remuneration as Chairman. The terms of the options will be as follows:
Table 1: Summary of Options to be issued to Mr. Murray d'Almeida

(a) No. of options	1,000,000	1,500,000	2,000,000
(b) Exercise price	\$0.08	\$0.12	\$0.16
(c) Expiring	31/10/2018	31/10/2018	31/10/2018
(d) Vesting	31/10/2015	31/10/2015	31/10/2015

(e) the terms of issue of the options are otherwise set out in **Annexure B** to this Notice of Meeting.

(V) **Voting Exclusion Statement**

As required by the ASX Listing Rules, the Company will disregard any votes cast on Resolution 3 by:

- (a) Murray d'Almeida; and
- (b) an associate (as defined in the ASX Listing Rules) of Mr d'Almeida.

However, the Company need not disregard a vote if:

- (a) 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
- (b) 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.

As required by the Corporations Act a vote must not be cast on Resolution 3 by a member of the Group's Key Management Personnel, or a Closely Related Party of such a person, acting as proxy if their appointment does not specify the way the proxy is to vote on Resolution 3. However, the Company will not disregard any proxy votes cast on Resolution 3 by a member of the Group's Key Management Personnel if that person is the Chair of the Meeting acting as proxy and their appointment as proxy expressly authorised the chair to exercise the proxy even though the resolution is connected with the remuneration of a member of the Group's Key Management Personnel.

- (vi) No funds will be raised by the issue of the options.

5.10 If approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

Chapter 2E Corporations Act

5.11 Under Chapter 2E *Corporations Act 2001* (Cth) a public company must not give a "financial benefit" to a "related party" without shareholder approval unless an exception applies. ("Related party" includes a director of the public company and a person who has been a director of the Company at any time in the previous 6 months. The expression "financial benefit" is widely defined and includes the issue of securities in the company). One of the exceptions is where the benefit is remuneration to a related party as an officer or employee of the company and to give the remuneration would be reasonable given the circumstances of

the company and the related party's circumstances (including the responsibilities involved in the office or employment).

- 5.12 In the present case the Company commissioned a valuation of the options proposed to be issued to Mr d'Almeida. That valuation is attached as **Annexure C** to this Notice of Meeting. The valuation concludes that the current value of the options proposed to be issued to Mr d'Almeida is \$14,316.36. Accordingly the Company's directors consider that the issue of options as remuneration as proposed to Mr d'Almeida would be reasonable given the Company's circumstances and the circumstances of Mr d'Almeida.
- 5.13 Accordingly the Directors consider that the issue of options to Mr d'Almeida as proposed would represent reasonable remuneration for the purposes of Chapter 2E *Corporations Act*, and therefore Shareholder approval is not required for the purpose of Chapter 2E *Corporations Act*.

Other Information

- 5.14 Mr d'Almeida owns 500,000 unlisted options with an exercise price of \$0.05 vesting 9 May 2014 and expiring 8 May 2017. Other than these securities he has not entered into any other agreement or arrangement in relation to securities in the Company.
- 5.15 The Company's directors, with Mr d'Almeida abstaining from making a recommendation, recommend that Shareholders vote in favour of Resolution 3.

6 AGENDA ITEM 6 (RESOLUTION 4) – GRANT OF OPTIONS TO DIRECTOR A. GALLAGHER

- 6.1 Resolution 4 seeks Shareholder approval pursuant to ASX Listing Rule 10.11 for the grant of 4,500,000 options to Mr Adam Gallagher as an incentive component to his remuneration as Director.
- 6.2 Mr Gallagher was appointed as a Director of the board on 21 September 2012 and filled a casual vacancy in accordance with the Company's constitution until elected as a Director by Shareholders on the 20 November 2012. Mr Gallagher is also the Chairman of the Audit and Risk Management Committee and Chairman of the Remuneration and Nomination Committee.
- 6.3 Mr Gallagher receives cash remuneration of \$30,000 per annum in relation to his role as Director and a further \$5,000 for each Committee that he chairs.
- 6.4 The board considers that a proposed grant of options is reasonable on the following basis:
- (a) Mr Gallagher has been an integral part of a board of three people, working closely with a small head office management team to deliver the Company's first ever operational net profit.
 - (b) The workload placed on Mr. Gallagher has been significantly greater than what would normally be expected for a Director that does not hold an executive role beyond the provision of company secretarial services.
 - (c) Since Mr. Gallagher's appointment the share price has increased from \$0.025 to \$0.09 as at the date of this Notice of Meeting.
- 6.5 The future value of the options will depend on the future performance of the board and management of which Mr. Gallagher is an integral part. The Directors believe that Mr. Gallagher has played a key role in the turnaround of the Company and that it is appropriate to seek to align his personal interests with those of shareholders.
- 6.6 The Directors (with Mr. Gallagher abstaining) consider that the grant of options in the Company is an effective way for a small Company with limited cash resources to both retain and incentivise those people that are believed to be important in delivering the Company's future performance.
- 6.7 Subject to shareholder approval, Mr Gallagher will be issued:
- (a) 1,000,000 options exercisable at \$0.10 each
 - (b) 1,500,000 options exercisable at \$0.15 each
 - (c) 2,000,000 options exercisable at \$0.20 each
- 6.8 The options will have an expiry date of five years from the date of this meeting and vest in two years as set out in Table 2 below and on the terms and conditions set out in **Annexure B**.
- 6.9 Other than time based vesting periods there are no additional performance criteria on the options.

6.10 The Board does not consider that there are any significant opportunity costs to the Company in issuing the options on the proposed terms and conditions as set out in **Annexure B**. In lieu of options the company could offer Mr Gallagher additional amounts of cash however the Board considers it reasonable and appropriate to both preserve the Company's cash reserves and seek to align Mr Gallagher's interests with those of shareholders.

6.11 ASX Listing Rule 10.11 provides that an ASX-listed company must not issue or agree to issue equity securities to a director of the company without the approval of the company's shareholders. The notice of the meeting to obtain shareholders' approval must comply with Listing Rule 10.13. Therefore, as required by Listing Rule 10.13, the following information is provided:

- (i) The name of the person to whom the options are to be issued is Adam Gallagher.
- (ii) The maximum number of securities to be issued is 4,500,000 options.
- (iii) The Company will issue the options as soon as possible after the Meeting, and in any event no later than 1 month after the date of the Meeting.
- (iv) The issue price of the options will be nil. The options will be issued to Mr Gallagher as an additional incentive component to his remuneration as Director. The terms of the options will be as follows:
Table 2: Summary of Options to be issued to Mr. Adam Gallagher

(a) No. of options	1,000,000	1,500,000	2,000,000
(b) Exercise price	\$0.10	\$0.15	\$0.20
(c) Expiring	31/10/2018	31/10/2018	31/10/2018
(d) Vesting	31/10/2015	31/10/2015	31/10/2015

(e) the terms of issue of the options are otherwise set out in **Annexure B** to this Notice of Meeting.

(V) **Voting Exclusion Statement**

As required by the ASX Listing Rules, the Company will disregard any votes cast on Resolution 4 by:

- (a) Adam Gallagher; and
- (b) an associate (as defined in the ASX Listing Rules) of Mr Gallagher.

However, the Company need not disregard a vote if:

- (a) 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
- (b) 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.

As required by the Corporations Act a vote must not be cast on Resolution 4 by a member of the Group's Key Management Personnel, or a Closely Related Party of such a person, acting as proxy if their appointment does not specify the way the proxy is to vote on Resolution 4. However, the Company will not disregard any proxy votes cast on Resolution 4 by a member of the Group's Key Management Personnel if that person is the chair of the Meeting acting as proxy and their appointment as proxy expressly authorised the chair to exercise the proxy even though the resolution is connected with the remuneration of a member of the Group's Key Management Personnel.

- (vi) No funds will be raised by the issue of the options.

6.12 If approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1

Chapter 2E Corporations Act

6.13 Under Chapter 2E *Corporations Act 2001* (Cth) a public company must not give a "financial benefit" to a "related party" without shareholder approval unless an exception applies. ("Related party" includes a director of the public company and a person who has been a director of the Company any time in the previous 6 months. The expression "financial benefit" is widely defined and includes the issue of securities in the company). One of the exceptions is where the benefit is remuneration to a related party as an officer or employee of the company and to give the remuneration would be reasonable given the circumstances of the company and the related party's circumstances (including the responsibilities involved in the office or employment).

- 6.14 In the present case the Company commissioned a valuation of the options proposed to be issued to Mr Gallagher. That valuation is attached as **Annexure C** to this Notice of Meeting. The valuation concludes that the current value of the options proposed to be issued to Mr Gallagher is \$3,472.18. Accordingly the Company's directors consider that the issue of options as remuneration as proposed to Mr Gallagher would be reasonable given the Company's circumstances and the circumstances of Mr Gallagher.
- 6.15 Accordingly the Directors consider that the issue of options to Mr Gallagher as proposed would represent reasonable remuneration for the purposes of Chapter 2E *Corporations Act*, and therefore Shareholder approval is not required for the purpose of Chapter 2E *Corporations Act*.

Other Information

- 6.16 Mr Gallagher owns no other securities in the Company and has not otherwise entered into an agreement or arrangement in relation to securities in the Company.
- 6.17 The Company's directors, with Mr Gallagher abstaining, recommend that Shareholders vote in favour of Resolution 4.

7 AGENDA ITEM 7 (RESOLUTION 5) – REMUNERATION REPORT ADOPTION

- 7.1 The Remuneration Report is contained in the Company's 2013 Annual Report commencing on page 16. The Remuneration Report's contents include:
- (i) an explanation of the Board's policy for remuneration of the Key Management Personnel; and
 - (ii) details of remuneration paid to the Key Management Personnel.
- 7.2 Under the *Corporations Act 2001* (Cth) a resolution that the Remuneration Report be adopted must be put to a vote of shareholders at the Company's Annual General Meeting.
- 7.3 The Chairman will give Shareholders a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.
- 7.4 The vote on the resolution is advisory only and does not bind the Company or the Company's directors. However the Board will take the outcome of the vote into consideration when reviewing the remuneration practices and policies of the Company.

7.5 Voting Exclusion Statement

Section 250R(4) *Corporations Act* provides that a vote must not be cast (in any capacity) on Resolution 5 by or on behalf of a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report or a Closely Related Party of such a person. However section 250R(5) *Corporations Act* provides that a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report or a Closely Related Party of such a person (each "the Voter") may cast a vote on Resolution 5 as a proxy if the vote is not cast on behalf of a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report or a Closely Related Party of such a person and either:

- (i) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the resolution; or
- (ii) the Voter is the chair of the meeting and the appointment of the chair as proxy:
 - (a) does not specify the way the proxy is to vote on the resolution; and
 - (b) expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

In accordance with section 250R(8) *Corporations Act* a vote cast in contravention of section 250R(4) *Corporations Act* will not be counted.

- 7.6 The Company's directors recommend that Shareholders vote in favour of Resolution 5.

8 AGENDA ITEM 8 (RESOLUTION 6) – SPILL MEETING (if required)

- 8.1 At the Company's last annual general meeting, more than 25% of the votes cast in respect of the non-binding resolution to adopt the 2012 Remuneration Report were against the resolution.
- 8.2 Under changes to the *Corporations Act* which came into effect on 1 July 2011, if at least 25% of the votes cast on Resolution 5 at this Meeting (2013 Annual General Meeting) are voted against adoption of the

Remuneration Report, the Company will be required to put to Shareholders a resolution proposing the calling of a general meeting to consider the appointment of directors of the Company (**spill resolution**). If more than 50% of Shareholders vote in favour of the spill resolution the Company must convene the general meeting (**spill meeting**) within 90 days of the Meeting. All of the Directors who were in office when the Company's 2013 Directors' Report was approved, other than the Company's Managing Director, will cease to hold office immediately before the end of the spill meeting but may stand for re-election at the spill meeting. Following the spill meeting those persons whose election or re-election as Directors is approved will be the directors of the Company.

- 8.3 As the Directors have a material personal interest in the outcome of Resolution 6, the Directors do not make any recommendation to Shareholders as to how the Shareholders should vote in respect of Resolution 6.

9 VOTING RIGHTS

- 9.1 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 (AEDST) on 28 October 2013 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.

10 PROXIES

- 10.1 A Shareholder entitled to attend and vote at the Meeting may appoint:
- (i) one proxy if the Shareholder is only entitled to one vote at the meeting; or
 - (ii) 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.
- 10.2 A Shareholder may appoint an individual person or a body corporate as the Shareholder's proxy.
- 10.3 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.
- 10.4 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.
- 10.5 A proxy need not be a shareholder of the Company.
- 10.6 Section 250BB(i) Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and **if it does**:
- (i) the proxy need not vote on a show of hands but if the proxy does so the proxy must vote that way (i.e. as directed); and
 - (ii) if the proxy has 2 or more appointments that specify different ways to vote on the resolution the proxy must not vote on a show of hands; and
 - (iii) if the proxy is the chair of the meeting at which the resolution is voted on the proxy must vote on a poll and must vote that way (i.e. as directed); and
 - (iv) if the proxy is not the chair the proxy need not vote on the poll but if the proxy does so the proxy must vote that way (i.e. as directed).
- 10.7 Section 250BC Corporations Act provides that if:
- (i) 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
 - (ii) the appointed proxy is not the chair of the meeting; and
 - (iii) at the meeting, if a poll is duly demanded on the question that the resolution be passed; and
 - (iv) either of the following apply:
 - (a) if a record of attendance is made for the meeting – the proxy is not recorded as attending;
 - (b) 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 the proxy for the purposes of voting on the resolution at that meeting.

- 10.8 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 1.00pm (AEDST) on Monday, 28 October 2013:

(i) **by post or delivery:**

Pacific Environment Limited
Level 1, 146 Arthur Street
North Sydney, NSW 2060; or

(ii) **by facsimile:**

(02) 9870 0999; or

(iii) **by email:**

shareholder.info@pacific-environment.com

11 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.

12 OTHER INFORMATION

Queries in relation to the lodgement of proxies or other matters concerning the Meeting may be directed to the Company Secretary - telephone: 0428 130 447 or email: adam.gallagher@pacific-environment.com

13 INTERPRETATION

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

"ASX" means the Australian Securities Exchange.

"Auditor" means the Company's auditor.

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

"Closely Related Party" of a member of the Key Management Personnel of the Group has the meaning ascribed to it in the Corporations Act. (The expression includes, for example, certain of Key Management Personnel's family members, dependents and companies they control).

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

"Corporations Act" means the *Corporations Act 2001* (Cth).

"Directors" means the directors of the Company.

"Group" means the Pacific Environment Limited Group of companies comprising the consolidated entity referred to in the Company's 2013 Annual Report.

"Key Management Personnel" means those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

"Meeting" means the annual general meeting of Shareholders convened for 30 October 2013 and any adjournment thereof.

"Related Party" has the meaning ascribed to it in ASX Listing Rule 19.

"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.

ANNEXURE A

Dear Shareholder

Pacific Environment has worked its way into a promising position after a long period of poor performance and financial handicaps. I believe the turnaround is primarily due to the tireless efforts of the CEO and Board appointed in 2012, working very effectively together with the Company's outstanding staff. I am more optimistic now than I have ever been about the future.

All shareholders who invested in the Company when the share price was much higher than it is now are no doubt beyond impatient for a strong turnaround. I acknowledge that all of the founders have made very significant sacrifices for the benefit of the Company for over 5 years since listing in 2008. To varying degrees, they agreed to accept only partial payments for selling their original companies and later agreed to accept convertible notes that ultimately delivered little or no further value to them. Some of us did not receive substantial interest sums on outstanding convertible notes. As with all long-suffering shareholders, the stock we hold is a fraction of its original value, but fortunately is now growing.

In 2010 the Company was in dire need of an urgent cash injection to clear aged creditors. The Company was unable to source external funding. With extreme difficulty, I raised a loan for \$1.8 million and lent it to the Company to ensure that the Company could continue to trade and that all shareholders could have the opportunity to benefit from a much hoped for recovery. A three-year loan was negotiated with the Board as a convertible note, effectively unsecured. This was a very risky investment, according to my professional advisers.

Last year the Company again sought my assistance in dealing with its debt. My Loan with the Company needed to be renegotiated to avoid the prospect of the debt becoming a current liability on the balance sheet. At the time, the share price was near its all-time low point and the Company was in no position to repay the Loan. I received advice on commercial terms and agreed, against that advice, to extend the arrangement for another four and a half years as a convertible note.

The balance sheet, although now improved following the Company's best ever year in regard to operating profit, still retains my \$1.8m Loan as a liability. The Board has informed me that prospective funders and investors may look more favourably upon the balance sheet if this debt is reduced. With the acquisition strategy being a central pillar to the Company's future, this is one of my key considerations.

As per item 4 of the Notice of Meeting, the Loan Deed provides for repayment of the Loan by the issue of new shares. Through this repayment method, the Company reduces the debt without a corresponding reduction in cash.

In the interests of providing certainty for existing and prospective shareholders, whilst all other Loan conditions are being met and I believe it is in the Company's best interests, I hereby undertake to limit conversion of the Loan to the following terms:

- Year 1 (to 31 December 2013) - 10% of the original loan principal
- Year 2 (to 31 December 2014) - an additional 20% (cumulative 30%)

- Year 3 (to 31 December 2015) - an additional 20% (cumulative 50%)
- Year 4 (to 31 December 2016) - an additional 20% (cumulative 70%)
- Year 5 (to 30 June 2017) - balance.

These limits would apply in addition to the existing trading restriction provisions of the Loan Deed.

I would like to make it very clear that together my partner and I are heavily dependent on the increase of the Company's share value for our personal future prosperity and as such the appreciation of the share price is central. Furthermore, my obligations as a Director are to work towards providing shareholder value.

In vending their businesses into the Company, the founding vendors received shares in partial payment at a value of 50 cents. Like those founders and all other early shareholders, I have had a significant diminution in my personal wealth as a result. I have a very strong desire to assist the company in every way, as I believe I have demonstrated in many ways, and not least in providing the Loan to ensure the Company could continue to trade. As much as anyone, I would like to see the shares return to a level comparable to that at which our asset was vended into the company.

I trust that the undertaking set out above will give all shareholders and prospective investors a clear view of how, at a maximum, I would intend to take up conversion provisions in the Loan Deed in order to ensure stability and predictability. My abiding interest is the success of the Company in providing value to all shareholders. I will continue to make every effort to help preserve and build shareholder value.

Please feel free to contact me at robin.ormerod@pacific-environment.com if you have any queries arising from the above.

Yours sincerely



Robin Ormerod

25 September 2013

**ANNEXURE B
TO NOTICE OF ANNUAL GENERAL MEETING**

**PACIFIC ENVIRONMENT LIMITED
ACN 122 919 948**

TERMS AND CONDITIONS OF OPTIONS TO BE ISSUED IN 2013 TO DIRECTORS

1 Definitions

In these Terms and Conditions:

Term	Definition
ASX	means ASX Limited ACN 008 624 691.
Board	means the board of directors of the Company.
Business Day	has that meaning as defined in the Listing Rules.
Buy-Back	means the purchase by the Company or Substituted Corporation of an option prior to its exercise.
Company	means Pacific Environment Limited ACN 122 919 948.
Control	has the meaning given in section 50AA Corporations Act.
Constitution	means the Constitution of the Company.
Corporations Act	means <i>Corporations Act 2001 (Cth)</i> and <i>Corporations Regulations 2001 (Cth)</i> .
Director	has the meaning given in section 9 Corporations Act.
Exercise Date	means the date on or after which the Option Holder may exercise an Option.
Exercise Period	means the period during which the Option Holder may exercise an Option.
Exercise Price	means the price at which each Share, the subject of an Option, may be exercised.
Expiry Date	means the date on or by which an Option Holder must exercise an Option.
Fair Value	means where the Company or Substituted Corporation is listed on ASX or any other recognised stock exchange, the quoted price of the Shares at the close of business on the previous day that the Shares were traded or if the company or Substituted Corporation is not listed on a ASX or any other stock exchange the value of the Shares as determined by the Board having regard to the last Annual Valuation.
Grant Date	means the date on which the Option Holder is granted an Option.
Group	means the Company and any Related Body Corporate.
Listing Rules	means the Official Listing Rules of ASX as varied from time to time and includes any waivers or rulings made by ASX.
Notice of Exercise	means a duly completed and executed notice of exercise of the Option by an Option Holder or, as applicable, a Permitted Nominee, in such form approved by the Board from time to time.
Option	means an option granted by the Company to subscribe

Term	Definition
	for and be allotted the number of Shares the subject of the option.
Option Holder	means a person who holds Options under the terms and conditions.
Permitted Nominee	<p>means a proprietary limited company which is nominated by an Option Holder to hold an Option or a Share which may be issued pursuant to the exercise of the Option, in place of the Option Holder, and which has first been approved by the Board to be the holder of such Option or Shares, provided however, that the Option Holder:</p> <p>(a) controls, either alone or jointly with their immediate family, the composition of the board, and exercises and continues to exercise all management powers, of the nominee company; or</p> <p>(b) holds either alone, or together with their immediate family, all shares in the nominee company but subject to the proviso that the Option Holder, either alone or jointly with members of their immediate family, is at all times able to cast sufficient votes to enable them to pass an ordinary or special resolution in all general meetings of the nominee company.</p>
Related Body Corporate	has the meaning given to it by the Corporations Act.
Relevant Requirements	<p>means those events that must be satisfied before exercise of an Option can occur and which may include any or all of the following:</p> <p>(a) achievement of vesting requirements; and</p> <p>(b) sale of the Company or any entity which may control the Company resulting in change of control either in the ability of the current controllers of the Company to pass ordinary resolutions in general meetings or in the ability of the current controllers to control the composition of the board of the Company.</p>
Security Interest	means a mortgage, charge, pledge, lien or other encumbrance of any nature.
Share	means a fully paid ordinary share in the Company.
Subsidiary	means a company which is a subsidiary of a body corporate for the purposes of the Corporations Act.
Substituted Corporation	means a body corporate which becomes a parent company of the Company following commencement of these terms and conditions and whose shares become the subject of the Options granted to the Option Holders.

2 Grant of options

The Company issues the Options to the Option Holder on the terms set out in the relevant Minute of Directors' Meeting.

3 Exercise of options

- (a) An Option entitles the holder of that Option to acquire the total number of Shares the subject of an Option:
 - (i) subject to the satisfaction of the Relevant Requirements;
 - (ii) provided any acquisition of Shares does not breach Corporations Act or the Listing Rules, if applicable;
 - (iii) during the Exercise Period; and
 - (iv) at the Exercise Price.
- (b) The holder of an Option may exercise their Option at any time during the Exercise Period.

4 Rights attaching to options

- (a) In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the number of Options or the Exercise Price or both will be adjusted (as appropriate) to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation. In all other respects the terms for the exercise of the Options remain unchanged.
- (b) Until Shares are issued pursuant to the exercise of Options, the holders of an Option shall not participate in dividends on Shares or, subject to clause 4(c), new issues of securities by the Company.
- (c) In the event of any pro rata bonus or cash issues of securities by the Company, the number of Shares over which an Option exists and the Exercise Price will be adjusted in the manner specified in Listing Rule 6.22 and in writing to the Eligible Employee at the time the Option is granted.
- (d) Options may be transferred only with the prior written consent of the Board.
- (e) The Company will not apply to ASX for official quotation of any of the Options.
- (f) Options will not entitle the Option Holder to participate in any new pro-rata issue of securities in the Company. However, an entitlement to participate will apply following the exercise of the Options.

5 Change of control

- (a) A Change of Control Event occurs where:
 - (i) the Company becomes a Subsidiary of another corporation;
 - (ii) there is a sale of the business of the Company other than to a company in the Group;
 - (iii) a company which is a Subsidiary ceases to be a Subsidiary of the Company; or
 - (iv) any other reorganisation of the Group occurs which results in an Option Holder ceasing to be a director or secretary of the Company.
- (b) Effect of a Change in Control

- (i) Where a Change of Control event has or in the opinion of the Board will occur the Board may determine the manner in which the Options will be dealt with, so that the Option Holder remains as at the date of the determination in a financial position in respect of the options which is as near as possible as to that which existed prior to the Change of Control Event occurring.
- (ii) In making their determination the Board may choose one of the following methods of dealing with the Options;
 - (A) allowing the Option Holders affected by the Change of Control to exercise either all or a proportion of their Options within such time as determined by the Board after which the Options will lapse;
 - (B) arranging for the new parent company of the Company (or new parent of the Subsidiary) to become a Substituted Corporation whereby it agrees to assume the obligations of the Company under these terms and conditions, to be bound by any determination made by the Board of the Company prior to it agreeing to become a Substituted Corporation, and to issue to the Option Holder Shares in the Substituted Corporation on exercise of the option (as set out in clause 5(b)(iii) (below) or alternatively options to acquire shares in the Substituted Corporation (as set out in clause 5(b)(iv) below);
 - (C) conducting a Buy-Back of the Options under these Rules;
 - (D) allowing the Option Holders affected by the Change of Control to transfer their Options.
- (iii) Where Shares in a Substituted Corporation are to be issued on exercise of Options following a Change of Control Event occurring the Board shall arrange for the Exercise Price of the Options to be suitably adjusted prior to exercise and / or an appropriate number of Shares in the Substituted Corporation to be transferred and issued on exercise of the Option, to reflect differences at that time in the Fair Values of the Shares in the Company and Substituted Corporation, any foreign exchange effects and the capital structures of the Company and Substituted Corporation.
- (iv) Where options in another corporation are to be substituted for Options following a Change of Control Event occurring the Board shall arrange for the number and terms of options substituted, the exercise price of those options and the number of Shares in the other corporation into which the new options are exercisable to as nearly as possible ensure the financial position of the Option holder whose options are substituted remains the same if they were able to exercise the substituted options at the date of substitution.

6 Buy back

- (a) The Board may cause the Company to Buy-Back Options held by an Option Holder for an amount agreed with the Option Holder at any time.
- (b) Where the company Buys-Back Options issued in accordance with these terms and conditions it shall:
 - (i) immediately notify the Option Holder whose options it has bought-back of the Buy-Back of the Options;

- (ii) account to the Option Holder for the amount payable on the Buy-Back;
- (iii) prepare all necessary transfer documents and arrange for an agent or attorney of the Participant to complete the transfer documents on their behalf;
- (iv) pay all relevant taxes, duties or other imposts in respect of the transfer other than any taxes, duties or imposts which are for the account of the Option Holder; and
- (v) cancel the Options which are bought back.

7 Issue of shares

- (a) The Board will issue Shares to an Option Holder or their Permitted Nominee after each Option has been exercised in accordance with clause 3, once the relevant Exercise Price for each Share the subject of the Option has been paid to the Company, at the next succeeding Board meeting or within 15 Business Days after receiving Notice of Exercise, whichever first occurs.
- (b) If the Company's Shares are officially quoted by ASX at the time any Shares are issued pursuant to the exercise of Options, the Company will apply to ASX for official quotation of such Shares issued pursuant to the exercise of Options within the time prescribed by the Listing Rules but, in any event, within 10 Business Days of the issue of those Shares.
- (c) A Share issued pursuant to the exercise of any Option ranks equally with all existing Shares of that class from the date of allotment.

8 No interest in shares

An Option Holder will have no interest in Shares the subject of an Option unless and until those Options are exercised and Shares are allotted to that Option Holder as a result thereof.

9 Rights of participants

Nothing in these terms and conditions:

- (i) confers on any Option Holder the right to continue as an employee or office holder of the Company or any Related Body Corporate;
- (ii) affects any rights which the Company or any Related Body Corporate may have to remove the office holder from his or her office with the Company; or
- (iii) may be used to increase damages in any action brought against the Company or any Related Body Corporate in respect of any such removal.

10 General

The entitlements of the Option Holder are subject to the Constitution, the Listing Rules (if applicable) and the Corporations Act.

11 Security interests and dealings

- (a) Option Holders may, with the prior written approval of the Board, grant Security Interests in or over, or otherwise assign, dispose or deal with any Options or any interest therein.
- (b) For avoidance of doubt, clause 11 (a) is subject to the Corporations Act, Listing Rules, the Company's policies regarding securities dealing and any escrow agreement applicable to the Options or Shares.

12 Interpretation

In these terms and conditions, except to the extent the context otherwise requires:

- (i) words importing the singular include the plural and vice versa, words importing any gender include other genders and 'person' includes a corporation;
 - (ii) headings are for convenience only and do not affect the interpretation.
- _____

Annexure C

Pacific Environment Limited

Option Valuation

Valuation of options

September 2013

1 Brief

I, Mark Christensen, have been requested to value two series of call options that may be granted by Pacific Environment Limited (PEH). The grant date is 31 October 2013. To be able to value the options, the market price and risk free rate as at 18 September 2013 have been used as a proxy for an October price and yield as it is impossible today to predict the future market prices or future interest rates.

One of the option series to be granted is at-the-money meaning that the exercise price (\$0.08) is equal to the current market price (\$0.08). The quantity of options is 1,000,000 and the expiry date is 31 October 2018.

The other five series are out-of-the-money meaning that the exercise price is greater than the current market price (\$0.08). For these series, the quantity of options is 8,000,000 the expiry date is 31 October 2018.

All option series have a vesting date of 31 October 2015. All series are long dated (expiry in 5 years) and the at-the-money series will be more valuable than any of the out-of-the-money series.

The following discussion details the valuation process and the estimated variables used in the valuation. The process resulted in the following valuation using the share price of \$0.08 being the current market price on 18 September 2013.

Pacific Environment Limited Options as at 31/10/2013				
No of Options	Exercise Price	Expiry Date	Option Value	Total
1,000,000	\$0.080	31/10/2018	\$0.013602	\$13,602.47
1,500,000	\$0.120	31/10/2018	\$0.000473	\$708.76
2,000,000	\$0.160	31/10/2018	\$0.000003	\$5.13
1,000,000	\$0.100	31/10/2018	\$0.003456	\$3,456.40
1,500,000	\$0.150	31/10/2018	\$0.000011	\$15.77
2,000,000	\$0.200	31/10/2018	\$0.000000	\$0.01

2 Option Valuation

The variables that need to be estimated in valuing share options are:

- the current market price at the time of the valuation,
- the strike price or exercise price to be paid in the future (at maturity) for the European type options or for American type options,
- the time to the maturity of the options,
- the risk free rate of return,
- the dividend yield or expected dividends, and
- the volatility of the underlying security.

The estimated variables can be used in either a binominal or Black Scholes model. The Black Scholes model was used in this case to value the European type options. This approach is also appropriate for valuing non dividend paying American type options.

3 Valuation Estimates

The required inputs were calculated for PEH Limited.

3.1 Volatility

Volatility has a major effect on the value of the option. Volatility is a measure of variability in share price. If share price does not change then volatility is low. PEH is very thinly traded where trading occurred on only 13 days over a 250 day trading period. This means that volatility is highly dependent on the estimation period chosen.

The volatility was estimated using daily rates of return over a 30 day period and then annualised. The daily volatility in many cases was 0%. With a zero volatility, at-the-money and out-of-the-money options have a zero value.

I calculated the volatility over the last 250 trading days to be 7.15%. This approach is not normally applied as factors that affected share price 250 trading days ago may not be relevant today. Even though not normally applied, I used 7.15% in the calculation of the option values as share price should change over a 5 year period and a volatility of 0% is inconsistent with this presumption.

The low volatility has a major effect upon the value of the options. A low volatility places a low value on the options.

3.2 Market Price

The market price at time of valuation was \$0.08.

3.3 Risk Free Rate

A Commonwealth Government bond is the best proxy for a risk free security. The probability of default on AAA rated Australian Government bonds is exceedingly small therefore the yield on Australian Government bonds was used as the risk free rate. The risk free rate used in the calculation for the options was the yield on 18 September 2013 for a AAA rated bond maturing as close as possible to 31 October 2018. The yield applied was 3.48%.

3.4 Dividends

The company has not paid dividends nor is it expected to pay dividends in the near future. The strike price was not adjusted for the payment of dividends.

3.5 Maturity

The maturity date for the options was 31 October 2018.

3.6 Strike Price

The last valuation issue is the strike price. The strike price or exercise price varied for each series and varied from \$.08 to \$.20.

3.7 Option Valuation

The recommended option value is as follows:

Pacific Environment Limited Options as at 31/10/2013				
No of Options	Exercise Price	Expiry Date	Option Value	Total
1,000,000	\$0.080	31/10/2018	\$0.013602	\$13,602.47
1,500,000	\$0.120	31/10/2018	\$0.000473	\$708.76
2,000,000	\$0.160	31/10/2018	\$0.000003	\$5.13
1,000,000	\$0.100	31/10/2018	\$0.003456	\$3,456.40
1,500,000	\$0.150	31/10/2018	\$0.000011	\$15.77
2,000,000	\$0.200	31/10/2018	\$0.000000	\$0.01

Mark Christensen

BBus, MFM, CPA, Senior Fellow FINSIA, MAICD



All Correspondence to:

✉ **By Mail** Pacific Environment Limited
Level 1, 146 Arthur Street
North Sydney NSW 2060

📠 **By Fax:** +61 2 9870 0999

💻 **Online:** www.pacific-environment.com

☎ **By Phone:** (02) 9870 0900

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before 1:00pm (AEDT) on Monday 28 October 2013.**

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **1:00pm (AEDT) on Monday 28 October 2013**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged:

📠 **By Fax** +61 2 9870 0999

✉ **By Mail** Pacific Environment Limited
Level 1, 146 Arthur Street
North Sydney NSW 2060

👤 **In Person** Pacific Environment Limited
Level 1, 146 Arthur Street
North Sydney NSW 2060

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Pacific Environment Limited

ABN 42 122 919 948

☐

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Pacific Environment Limited** and entitled to attend and vote hereby appoint

☐

Appoint the **Chairman of the Meeting** (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting as my/our proxy at the Annual General Meeting of the Company to be held at the **Acacia 2 Room, Upper Ground Floor, Rydes North Sydney Hotel, 54 McLaren Street NORTH SYDNEY NSW 2060 on Wednesday, 30 October 2013 at 1:00pm (AEDT)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

☐

If the Chair of the meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of resolutions 3,5 & 6 please place a mark in the box.

By marking this box, you acknowledge that the Chair of the meeting may exercise your proxy even if he has an interest in the outcome of resolutions and that votes cast by the Chair of the meeting for those resolutions other than as proxy holder will be disregarded because of that interest.

The Chairman of the Meeting intends to vote undirected proxies in favour of each of items 3 & 5 and against resolution 6.

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 1	Re-election of A Gallagher as director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Approval of the terms of convertible note facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Grant of options to director M d'Almeida	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Grant of options to director A Gallagher	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Remuneration report adoption	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Spill Resolution (if required)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 3 SIGNATURE OF SHAREHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2013