

## NOTICE OF ANNUAL GENERAL MEETING

Date of Meeting: Thursday, 27 November 2014

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 2014 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 Thursday, 27 November 2014 at 1.00 pm (New South Wales time).

The Company's 2014 Annual Report can be accessed via the Company's website at:

[www.pacific-environment.com/asx-announcements](http://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 2014.

**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 M. d'ALMEIDA AS DIRECTOR**

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

*"That Murray d'Almeida, 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 – ELECTION OF D. JOHNSTONE AS DIRECTOR**

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

*"That David Johnstone, who was appointed a director of the Company by the Directors on 10 February 2014 pursuant to rule 13.2 of the Company's constitution, is elected as a director of the Company."*

**5 RESOLUTION 3 – GRANT OF OPTIONS TO DIRECTOR D. JOHNSTONE**

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 2,000,000 options to subscribe for ordinary shares in the capital of the Company to Director Mr. David Johnstone on the terms and conditions detailed in the Explanatory Memorandum accompanying this Notice of Meeting."*

**6 RESOLUTION 4 – 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 2,000,000 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."*

**7 RESOLUTION 5 – APPROVAL OF ISSUE OF 8,300,000 OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES IN THE COMPANY TO EMPLOYEES**

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

*"That, for the purposes of ASX Listing Rule 7.1, and for all other purposes, approval be and is hereby given to the allotment and issue by the Company of up to 8,300,000 options to subscribe for ordinary shares in the capital of the*

*Company as remuneration to employees of the Company, in accordance with the terms set out in the Explanatory Statement."*

**8 RESOLUTION 6 – APPROVAL OF ADDITIONAL 10% PLACEMENT CAPACITY**

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

*"That the Company has the additional capacity to issue equity securities up to 10% of the issued capital of the Company under ASX Listing Rule 7.1A calculated in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement."*

**9 RESOLUTION 7 - REMUNERATION REPORT ADOPTION**

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

*"That the Remuneration Report for the year ended 30 June 2014 be adopted."*

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

Adam Gallagher  
Company Secretary  
23 October 2014

**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 Thursday, 27 November 2014. 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 14.

**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 2014 will be presented for consideration.
- 1.2 The above mentioned reports were released by the Company to the Australian Securities Exchange (ASX) on 29 August 2014. They may also be viewed on the Company's website at [www.pacific-environment.com/asx-announcements](http://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 Monday, 24 November 2014.

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 11.8 of this Explanatory Memorandum. Alternatively, if you are submitting a Proxy Form (see section 11 of this Explanatory Memorandum) you may send it together with the Proxy Form, provided it is received by 5.00 pm (AEDST) on Monday, 24 November 2014.

### **3 AGENDA ITEM 3 (RESOLUTION 1) – RE-ELECTION OF M. D’ALMEIDA AS DIRECTOR**

- 3.1 In accordance with the Company’s constitution Murray d’Almeida 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 Murray d’Almeida has been a director of the Company since 9 May 2012 and is a member of both the Audit and Risk Management Committee and the Remuneration and Nomination Committee.
- 3.3 Mr. d’Almeida has over 35 years of diverse national and international business experience. He commenced his career in Perth with a firm of Chartered Accountants before moving into a broad range of commercial and financial reporting positions with two major USA based mining companies. He founded the Australian and international retailer, Retail Food Group and developed their presence in seven overseas countries. He has maintained operating and Board positions within a range of financial services, mining, commercial, academic, government, sporting businesses and organisations.
- 3.4 The Company’s directors, with Mr d’Almeida abstaining from making a recommendation, recommend that Shareholders vote in favour of Resolution 1.

### **4 AGENDA ITEM 4 (RESOLUTION 2) – ELECTION OF D. JOHNSTONE AS DIRECTOR**

- 4.1 David Johnstone was appointed by the Company’s directors as a director of the Company on 10 February 2014 pursuant to rule 13.2 of the Company’s constitution which allows the Company’s directors to appoint a person as a Director to fill a casual vacancy or as an addition to the Board. Under the Company’s constitution Mr David Johnstone will hold office as a Director until the Annual General Meeting on 27 November 2014 and may be re-elected as a Director at that meeting.
- 4.2 Mr Johnstone is Chairman of the Company’s Acquisitions Committee.
- 4.3 Mr Johnstone is an experienced company director and executive. He was previously CEO and Group Head of Corporate Development of Professional Investment Services Ltd, a subsidiary of Centrepont Alliance. He is a past Chairman of the International Reciprocal Trade Association, a Global Industry Association based in the USA. He continues to provide consulting and non-executive director services to many businesses both listed and unlisted. Over the past 20 years he has successfully managed many mergers and acquisitions and the Board intends to use his expertise in the company’s stated strategy of growth through acquisition.
- 4.4 The Company’s directors, with Mr Johnstone 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 D. JOHNSTONE**

- 5.1 Resolution 3 seeks Shareholder approval pursuant to ASX Listing Rule 10.11 for the grant of 2,000,000 options to Mr David Johnstone as an incentive component to his remuneration as Director.
- 5.2 Mr Johnstone receives cash remuneration of \$35,000 per annum in relation to his role as Director and a further \$5,000 per annum for the Committee that he chairs.
- 5.3 The board considers that a proposed grant of options is reasonable on the following basis:
  - (a) Mr Johnstone has been an integral part of a small board working closely with the executive team.
  - (b) The workload placed on Mr. Johnstone has been significantly greater than what would normally be expected for a Director that does not hold an executive role in the company.
  - (c) Since Mr. Johnstone’s appointment the company has completed two acquisitions and worked through numerous other potential targets that he has overseen through Chairing the Acquisitions Committee.
- 5.4 The future value of the proposed options will depend on the future performance of the board and management of which Mr. Johnstone is an integral part. The Directors believe that Mr. Johnstone will play a key role in the future performance of the Company and that it is appropriate to seek to align his personal interests with those of shareholders.
- 5.5 The Directors (with Mr. Johnstone 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.

- 5.6 Subject to shareholder approval, Mr Johnstone will be issued 2,000,000 options exercisable at \$0.07 each
- 5.7 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 A**.
- 5.8 Other than time based vesting periods there are no additional performance criteria on the options.
- 5.9 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 A**. In lieu of options the company could offer Mr Johnstone 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 Johnstone's interests with those of shareholders.
- 5.10 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 David Johnstone.
  - (ii) The maximum number of securities to be issued is 2,000,000 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 Johnstone as an additional incentive component to his remuneration as Director. The terms of the options will be as follows:

*Table 1: Summary of Options to be issued to Mr. David Johnstone*

(a) No. of options	2,000,000
(b) Exercise price	\$0.07
(c) Expiring	12/11/2019
(d) Vesting	12/11/2016

(e) the terms of issue of the options are otherwise set out in **Annexure A** 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) David Johnstone; and
- (b) an associate (as defined in the ASX Listing Rules) of Mr Johnstone.

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.

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

## Chapter 2E Corporations Act

- 5.12 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).
- 5.13 In the present case the Company commissioned a valuation of the options proposed to be issued to Mr Johnstone. That valuation is attached as **Annexure B** to this Notice of Meeting. The valuation concludes that the current value of the options proposed to be issued to Mr Johnstone is \$29,342.91. Accordingly the Company’s directors lodged this Notice of Meeting including the option terms and valuation with ASIC for review and seek member approval for issue of the options under Chapter 2E *Corporations Act 2001* (Cth) at the Annual General Meeting.

#### **Other Information**

- 5.14 Mr Johnstone owns no other securities in the Company and has not otherwise entered into an agreement or arrangement in relation to securities in the Company.
- 5.15 The Company’s directors, with Mr Johnstone abstaining, recommend that Shareholders vote in favour of Resolution 3.

### **6 AGENDA ITEM 6 (RESOLUTION 4) – GRANT OF OPTIONS TO DIRECTOR M. D’ALMEIDA**

- 6.1 Resolution 4 seeks Shareholder approval pursuant to ASX Listing Rule 10.11 for the grant of 2,000,000 options to Mr Murray d’Almeida as an incentive component to his remuneration as Chairman.
- 6.2 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.
- 6.3 Mr d’Almeida receives a cash remuneration of \$60,000 per annum.
- 6.4 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 second and consecutive operational net profit in the financial year ended 30 June 2014, as well as two acquisitions this calendar year to date.
  - (b) Mr d’Almeida’s base Chairman’s fee has not increased since his appointment in 2012.
- 6.5 Subject to shareholder approval, Mr d’Almeida will be issued:
- (a) 1,000,000 options exercisable at \$0.10 each
  - (b) 1,000,000 options exercisable at \$0.15 each
- 6.6 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 A**.
- 6.7 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 it’s 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 the board and management team he leads to increase the value of the Company such that the options carry sufficient value to warrant exercising.
- 6.8 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 A**. 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.
- 6.9 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:

- (ii) The name of the person to whom the options are to be issued is Murray d'Almeida.
- (iii) The maximum number of securities to be issued is 2,000,000 options.
- (iv) 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.
- (v) 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	1,000,000
(b) Exercise price	\$0.10	\$0.15
(c) Expiring	31/10/2019	31/10/2019
(d) Vesting	31/10/2016	31/10/2016

- (vi) the terms of issue of the options are otherwise set out in **Annexure A** to this Notice of Meeting.
- (vii) Voting Exclusion Statement

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

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

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

#### **Chapter 2E Corporations Act**

- 6.11 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).
- 6.12 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 B** to this Notice of Meeting. The valuation concludes that the current value of the options proposed to be issued to Mr d'Almeida is \$652.68. 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.

- 6.13 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

- 6.14 Mr d'Almeida owns the following unlisted options in the company:

(a) No. of options	500,000	1,000,000	1,500,000	2,000,000
(b) Exercise price	\$0.05	\$0.08	\$0.12	\$0.16
(c) Expiring	08/05/2017	31/10/2018	31/10/2018	31/10/2018
(d) Vesting	Vested 9/05/2014	31/10/2015	31/10/2015	31/10/2015

- 6.15 Other than these securities he has not entered into any other agreement or arrangement in relation to securities in the Company.
- 6.16 The Company's directors, with Mr d'Almeida abstaining from making a recommendation, recommend that Shareholders vote in favour of Resolution 4.

## 7 AGENDA ITEM 7 (RESOLUTION 5) – APPROVAL OF ISSUE OF 8,300,000 OPTIONS TO SUBSCRIBE IN THE COMPANY TO EMPLOYEES

- 7.1 As part of remuneration to certain employees of the Company (to be determined following the Company's AGM), Resolution 5 proposes the issuing of options to subscribe for ordinary shares in the Company with the following principal terms and conditions:

i. Maximum number of options to be issued: 8,300,000.

ii. Price at which the options will be issued: [Nil].

iii. Terms of options:

(a) No. of options	2,800,000	5,500,000
(b) Exercise price	\$0.09	\$0.11
(c) Expiring	6 years from issue date	6 years from issue date
(d) Vesting	25% per annum from issue date	25% per annum from issue date

iv. Allottees: employees of the Company (or their nominees) determined by the Directors following the Company's AGM. The employees who will receive options will not be related parties of the Company.

v. Issue date: within 3 months of the date of the Company's AGM.

- 7.2 No funds will be raised from the issue of the options.

- 7.3 Voting Exclusion Statement: The Company will disregard any votes cast on Resolution 5 by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if the resolution is passed. 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.

- 7.4 The options that may be issued form part of remuneration to employees to recognise their contribution to the Company and reward their performance. The Directors believe that incentivising employees with options rather than cash is a prudent means of conserving the Company's cash and is useful to assist in the retention of valuable employees by the Company.
- 7.5 By approving this issue, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1 without the requirement to obtain prior shareholder approval.

## **8 AGENDA ITEM 8 (RESOLUTION 6) – APPROVAL OF ADDITIONAL 10% PLACEMENT CAPACITY**

- 8.1 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.
- 8.2 The ASX Listing Rules enable “eligible entities” to issue under Listing Rule 7.1A, in addition to the 15% issue capacity under Listing Rule 7.1, equity securities up to 10% of the company's issued share capital through placements over a 12 month period following the company's annual general meeting provided shareholder approval by way of a special resolution is received at that annual general meeting.
- 8.3 An “eligible entity” for the purposes of ASX Listing Rule 7.1A is an entity that, at the date the requisite special resolution is passed:
- (i) is not included in the S&P/ASX 300 Index; and
  - (ii) has a market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) equal to less than \$300 million dollars.

The Company is an eligible entity.

- 8.4 The Company is seeking Shareholder approval to have the additional capacity to issue equity securities under Listing Rule 7.1A. The additional capacity (i.e. additional number of equity securities that the Company may issue or agree to issue during the period of the approval) is calculated in accordance with the following formula:

$$(A \times D) - E$$

- A = The number of fully paid ordinary securities on issue 12 months before the date of issue or agreement,
- (i) plus the number of fully paid ordinary securities issued in the 12 months under an exception in Listing Rule 7.2,
  - (ii) plus the number of partly paid ordinary securities that became fully paid in the 12 months,
  - (iii) plus the number of fully paid ordinary securities issued in the 12 months with approval of holders of ordinary securities under Listing Rule 7.1 or 7.4,
  - (iv) less the number of fully paid ordinary securities cancelled in the last 12 months.

D = 10%

E = The number of equity securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are *not* issued with the approval of holders of ordinary securities under Listing Rule 7.1 or 7.4.

Any equity securities issued under Listing Rule 7.1A.2 must be in an existing quoted class of the Company's equity securities. (As at the date of this Notice the Company has on issue one quoted class of equity securities, namely fully paid ordinary shares).

- 8.5 As at the date of this Notice of Meeting the Company has on issue 99,129,598 Shares. In the last twelve months the Company has not issued any shares either with shareholder approval or under the Company's 15% placement capacity and therefore has the capacity to issue:
- (a) up to 14,869,439 Shares (15% of issued capital under Listing Rule 7.1 which is not subject to shareholder approval) less the number of securities issued in the last twelve months under LR 7.1 (nil). Thus as at the date of the Notice of Meeting the Company can issue 14,869,439 Shares under Listing Rule 7.1; and

- (b) up to 9,912,959 Shares (10% of issued capital under Listing Rule 7.1A which is subject to Shareholder approval).

8.6 As required by ASX Listing Rule 7.3A the following information is provided:

- (i) The minimum price at which the equity securities may be issued for the purposes of Listing Rule 7.1A.3 is 75% of the volume weighted average price for securities in that class calculated over the 15 trading days on which trades in that class were recorded immediately before:
- (a) the date on which the price at which the securities are to be issued is agreed; or
- (b) if the securities are not issued within 5 trading days of the date in paragraph (a), the date on which the securities are issued.
- (Note: If equity securities are issued for non-cash consideration the Company will provide to the market in accordance with the ASX Listing Rules a valuation of the non-cash consideration that demonstrates that the issue price of the securities complies with Listing Rule 7.3A(i))
- (ii) If equity securities are issued by the Company under Listing Rule 7.1A there is a risk of economic and voting dilution of existing ordinary security holders, including the risk that:
- (a) the market price for equity securities in that class may be significantly lower on the issue date than on the date of the approval under Listing Rule 7.1A; and
- (b) the equity securities may be issued at a price that is at a discount to the market price for those equity securities on the issue date.

The following table describes the potential dilution of existing ordinary security holders on the basis of three different issue prices and values for the variable "A" in the formula in Listing Rule 7.1A.2 (set out in Section 8.4 (above)), including an example that assumes that "A" is double the number of ordinary securities on issue at the time of the approval under Listing Rule 7.1A and that the price of equity securities has fallen by at least 50%:

		Dilution		
		Issue Price of \$0.0365 (50% of the current market price of the Company's shares)	Issue Price of \$0.073 (the current market price of the Company's shares)	Issue Price of \$0.145 (100% increase in the current market price of the Company's shares)
Variable "A" in Listing Rule 7.1A.2	99,129,598 (current Variable A)	10% Voting Dilution	9,912,959 Shares	9,912,959 Shares
		Funds raised	\$361,823	\$1,437,379
148,694,397 (50% increase in current Variable A)		10% Voting Dilution	14,794,439 Shares	14,794,439 Shares
		Funds raised	\$539,997	\$2,145,193
198,259,196 (100% increase in current Variable A)		10% Voting Dilution	19,725,919 Shares	19,725,919 Shares
		Funds raised	\$719,996	\$2,860,258

The table has been prepared based on the following assumptions:

- Resolution 6 is passed at the Meeting and as such the calculations are based on 99,129,598 Shares on issue as at the date of the Meeting.
- The Company issues (as Shares) the maximum number of equity securities available under the 10% placement capacity.
- No unlisted options are exercised into fully paid ordinary shares before the date of the issue of securities under ASX Listing Rule 7.1A. The Company has 26,050,000 unquoted options on issue at the date of this Notice of Meeting.
- No shares are issued through conversion of the Convertible note. The Company may be required to issue up to 53,412,462 shares at the discretion of the note holder in settlement of the outstanding balance as at the date of this Notice of Meeting.
- The table shows only the effect of issues of equity securities under ASX Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
- The issue price of \$0.073 is the closing price of the Company's shares on ASX on 2 October 2014.

- (iii) The date the equity securities may be issued by (assuming Resolution 6 is passed at the Meeting) is the earlier of the following:
  - (a) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; and
  - (b) the date of the approval by holders of ordinary shares in the Company of a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of the Company's activities) or Listing Rule 11.2 (disposal of the Company's main undertaking).

(The Shareholder approval under Resolution 6 to issue the additional equity securities will cease to be valid in the event that holders of the Company's ordinary shares approve a transaction under Listing Rule 11.1.2 or 11.2).

- (iv) The equity securities may be issued by the Company for one or more of the following purposes (although the Company has no proposal to do so as at the date of this Notice):
  - (a) to raise capital to fund any one or more of the following:
    - exploration activities;
    - development activities
    - working capital;
    - acquisition of new resource assets or investments; and
  - (b) as non-cash consideration (either wholly or partly) for any one or more of the following:
    - the acquisition of goods and/or services;
    - the acquisition of new resource assets or investments.
- (v) The Company's allocation policy for issues of equity securities pursuant to approval under Resolution 6 will depend on prevailing market conditions and the Company's circumstances at the time of any proposed issue. The identity of the allottees of equity securities will be determined on a case by case basis having regard to any one or more of the following factors:
  - (a) the methods of raising funds available to the Company including, but not limited to; rights issue or other issue in which existing security holders can participate;
  - (b) the effect of the issue of the equity securities on the control of the Company;
  - (c) the financial situation of the Company; and
  - (d) advice from any one or more of the Company's professional advisers.

Allottees under the additional placement facility (should the Company elect to use the facility) have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not Related Parties or associates of a Related Party of the Company. In addition, if the Company is successful in acquiring new assets or investments it is possible that allottees under the additional placement facility will be or include vendors of the new assets or investments.

- (vi) The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.

(vii) **Voting Exclusion Statement**

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

- (a) a person or entity who may participate in the proposed issue of any additional equity securities and a person or entity who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if Resolution 6 is passed; and
- (b) an associate (as defined in the ASX Listing Rules) of any such person or entity.

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.

8.7 Under the ASX Listing Rules Resolution 6 is required to be passed as a special resolution which means that it must be approved by at least 75% of the votes cast by members entitled to vote on the resolution.

8.8 The Company's directors recommend that Shareholders vote in favour of Resolution 6.

## **9 AGENDA ITEM 9 (RESOLUTION 7) – REMUNERATION REPORT ADOPTION**

9.1 The Remuneration Report is contained in the Company's 2014 Annual Report commencing on page 23. 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.
- 9.2 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.
- 9.3 The Chairman will give Shareholders a reasonable opportunity to ask questions about, or make comments on, the Remuneration Report.
- 9.4 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.
- 9.5 **Voting Exclusion Statement**  
 Section 250R(4) Corporations Act provides that a vote must not be cast (in any capacity) on Resolution 7 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 7 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.
- 9.6 The Company's directors recommend that Shareholders vote in favour of Resolution 7.

## 10 VOTING RIGHTS

- 10.1 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 25 November 2014 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.

## 11 PROXIES

- 11.1 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.
- 11.2 A Shareholder may appoint an individual person or a body corporate as the Shareholder's proxy.
- 11.3 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.
- 11.4 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.

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

11.6 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).

11.7 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.

11.8 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 Tuesday, 25 November 2014:

(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](mailto:shareholder.info@pacific-environment.com)

## 12 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.

## 13 OTHER INFORMATION

Queries in relation to the lodgement of proxies or other matters concerning the Meeting may be directed to the Company Secretary on Telephone: 0428 130 447 or email [adam.gallagher@pacific-environment.com](mailto:adam.gallagher@pacific-environment.com)

## 14 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 2014 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 27 November 2014 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  
TO NOTICE OF ANNUAL GENERAL MEETING**

**PACIFIC ENVIRONMENT LIMITED  
ACN 122 919 948**

**TERMS AND CONDITIONS OF OPTIONS TO BE ISSUED IN 2014 TO DIRECTORS**

**1 Definitions**

---

In these Terms and Conditions:

<b>Term</b>	<b>Definition</b>
<b>ASX</b>	means ASX Limited ACN 008 624 691.
<b>Board</b>	means the board of directors of the Company.
<b>Business Day</b>	has that meaning as defined in the Listing Rules.
<b>Buy-Back</b>	means the purchase by the Company or Substituted Corporation of an option prior to its exercise.
<b>Company</b>	means Pacific Environment Limited ACN 122 919 948.
<b>Control</b>	has the meaning given in section 50AA Corporations Act.
<b>Constitution</b>	means the Constitution of the Company.
<b>Corporations Act</b>	means <i>Corporations Act 2001 (Cth)</i> and <i>Corporations Regulations 2001 (Cth)</i> .
<b>Director</b>	has the meaning given in section 9 Corporations Act.
<b>Exercise Date</b>	means the date on or after which the Option Holder may exercise an Option.
<b>Exercise Period</b>	means the period during which the Option Holder may exercise an Option.
<b>Exercise Price</b>	means the price at which each Share, the subject of an Option, may be exercised.
<b>Expiry Date</b>	means the date on or by which an Option Holder must exercise an Option.
<b>Fair Value</b>	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.
<b>Grant Date</b>	means the date on which the Option Holder is granted an Option.
<b>Group</b>	means the Company and any Related Body Corporate.
<b>Listing Rules</b>	means the Official Listing Rules of ASX as varied from time to time and includes any waivers or rulings made by ASX.
<b>Notice of Exercise</b>	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.
<b>Option</b>	means an option granted by the Company to subscribe



<b>Term</b>	<b>Definition</b>
	for and be allotted the number of Shares the subject of the option.
<b>Option Holder</b>	means a person who holds Options under the terms and conditions.
<b>Permitted Nominee</b>	<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>
<b>Related Body Corporate</b>	has the meaning given to it by the Corporations Act.
<b>Relevant Requirements</b>	<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>
<b>Security Interest</b>	means a mortgage, charge, pledge, lien or other encumbrance of any nature.
<b>Share</b>	means a fully paid ordinary share in the Company.
<b>Subsidiary</b>	means a company which is a subsidiary of a body corporate for the purposes of the Corporations Act.
<b>Substituted Corporation</b>	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.
-

Pacific Environment Limited

# Option Valuation

Valuation of options

October 2014

---

## 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 November 2014. To be able to value the options, the market price and risk free rate as at 9 October 2014 have been used as a proxy for an November 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 in-the-money meaning that the exercise price (\$0.07) is less than the current market price (\$0.075). The quantity of options is 2,000,000 and the expiry date is 12 November 2019.

The other series are out-of-the-money meaning that the exercise price (1,000,000 at \$0.10 and 1,000,000 at \$0.15) is greater than the current market price (\$0.075). For these series, the quantity of options is also 2,000,000 and the expiry date is 31 October 2019.

Both option series vest in 2016. All series are long dated (expiry in 5 years) and the in-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 \$0.075 being the current market price on 9 October 2014.

## 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 binomial 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 resulting in volatility being 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 5.57%. 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 5.57% 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 \$0.075.

### 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 generic 5 year yield on AAA rated Commonwealth Government bonds. The yield applied was 2.869%.

### 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 2019 and 12 November 2019.

### 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 \$.07 to \$.15.

### 3.7 Option Valuation

The recommended option value is as follows:

Pacific Environment Limited Options as at 9/10/2014				
No of Options	Exercise Price	Expiry Date	Option Value	Total
2,000,000	\$0.070	12/11/2019	\$0.014671	\$29,342.91
1,000,000	\$0.100	31/10/2019	\$0.000653	\$652.68
1,000,000	\$0.150	31/10/2019	\$0.000000	\$0.02

Mark Christensen

BBus, MFM, FPA, Senior Fellow FINSIA, MAICD