

**PHOTO-ME AUSTRALIA LIMITED**  
**ACN 110 184 355**

**NOTICE OF GENERAL MEETING**

**TIME:** 4.00pm (WST)  
**DATE:** Wednesday 30 June 2010  
**PLACE:** Level 7, the Quadrant, 1 William St  
Perth, Western Australia

**This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.**

**Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact TJ Spooner, the Company Secretary on + 61 (8) 9463 2463.**

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Proxy Form

## **TIME AND PLACE OF GENERAL MEETING AND HOW TO VOTE**

### **VENUE**

The General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 4.00pm (WST) on Wednesday 30 June 2010 at:

Level 7, the Quadrant, 1 William St  
Perth, Western Australia

### **YOUR VOTE IS IMPORTANT**

The business of the General Meeting affects your shareholding and your vote is important.

### **VOTING IN PERSON**

To vote in person, attend the General Meeting on the date and at the place set out above.

### **VOTING BY PROXY**

To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

(a) post to Photo-Me Australia Limited, Level 7, the Quadrant, 1 William St, Perth, Western Australia, 6000; or

(b) facsimile to the Company on facsimile number +61 (8) 9463 2499,

so that it is received not later than 4.00pm (WST) on Monday 28 June 2010.

**Proxy Forms received later than this time will be invalid.**

## NOTICE OF GENERAL MEETING

Notice is given that the General Meeting of Shareholders will be held at 4.00 pm (WST) on Wednesday 30 June 2010 at Level 7, the Quadrant, 1 William St, Perth, Western Australia.

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the General Meeting are those who are registered Shareholders of the Company at 5:00pm (WST) on Monday 28 June 2010.

Terms and abbreviations used in this Notice of Meeting and Explanatory Statement are defined in the Glossary.

## AGENDA

### 1. RESOLUTION 1 – CONVERSION OF LOAN FROM OCEANSIDE SECURITIES LIMITED

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

*“That, for the purposes of Sections 606 and 611 (item 7) of the Corporations Act, and for all other purposes, Shareholders approve:*

- (a) the issue of 155,770,400 shares to Oceanside Securities Limited (‘Oceanside’) in settlement of part of the loan balance (‘Oceanside Loan’); and*
- (b) the acquisition of voting power in the Company by Oceanside as a result of the conversion of the Oceanside Loan into Shares in accordance with their terms*

*on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Independent Expert’s Report:** Shareholders should carefully consider the Independent Expert’s Report prepared by NEXIA ASR for the purposes of the Shareholder approval required under Sections 606(1A) and 611 Item 7 of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction to non-associated Shareholders in the Company. The Independent Expert has determined the issue of the Shares upon conversion of the loans the subject of Resolution 1, is not fair but reasonable to the non-associated Shareholders of the Company.

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any 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, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

### 2. RESOLUTION 2 – CONVERSION OF LOANS FROM SEREC PTY LTD AND MUNGALA INVESTMENTS PTY LIMITED

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

*“That, for the purposes of Sections 606 and 611 (item 7) of the Corporations Act, and for all other purposes, Shareholders approve:*

- (a) the issue of 20,000,000 shares to Mungala Investments Pty Ltd (‘Mungala’) respectively in settlement of the loan balance therefrom (‘Mungala Loan’); and*
- (b) the acquisition of voting power in the Company by Serec and Mungala and their associates as a result of the conversion of the Serec and Mungala loans into Shares in accordance with their terms*

*on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”*

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by NEXIA ASR for the purposes of the Shareholder approval required under Sections 606(1A) and 611 Item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to non-associated Shareholders in the Company. The Independent Expert has determined the issue of the Shares upon conversion of the loans the subject of Resolution 2, is not fair but reasonable to the non-associated Shareholders of the Company.

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any 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, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

3. **RESOLUTION 3 – CONVERSION OF LOAN FROM SEREC PTY LTD**

To consider and, if thought fit, to pass, with or without amendment, the following Resolution as an **ordinary Resolution**:

*"That, for the purposes of Sections 606 and 611 (item 7) of the Corporations Act, and for all other purposes, Shareholders approve the acquisition of voting power in the Company by Serec and Mungala and their associates as a result of the conversion of the Serec loan into Shares in accordance with its terms and on the terms and conditions set out in the Explanatory Statement accompanying this Notice."*

**Note:**

**Resolution 3 will only be put to the meeting if neither Resolution 1 nor Resolution 2 is passed.**

**Independent Expert's Report:** Shareholders should carefully consider the Independent Expert's Report prepared by NEXIA ASR for the purposes of the Shareholder approval required under Sections 606(1A) and 611 Item 7 of the Corporations Act. The Independent Expert's Report comments on the fairness and reasonableness of the transaction to non-associated Shareholders in the Company. The Independent Expert has determined the issue of the Shares upon conversion of the loans the subject of Resolution 2, is not fair but reasonable to the non-associated Shareholders of the Company.

**Voting Exclusion:** The Company will disregard any votes cast on this Resolution by any 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, and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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.

**DATED 1 JUNE 2010**

**BY ORDER OF THE BOARD**



**TJ SPOONER**

**COMPANY SECRETARY**

## EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the General Meeting to be held at 4.00pm (WST) on Wednesday 30 June 2010 at Level 7, the Quadrant, 1 William St, Perth, Western Australia.

The purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

### 1. RESOLUTIONS 1, 2 AND 3 – CONVERSION OF LOANS

#### 1.1 General

The Company proposes to convert certain loans to the Company. This will significantly improve the Company's working capital position and its net asset position by eliminating all long term debt in the company's balance sheet as at 31 December 2009.

As at 31 December 2009 the company's Non Current Debts comprised Interest Bearing Loans to Oceanside, Serec and Mungala amounting to \$727,521 plus accrued interest (together with a Convertible Note with a principal amount outstanding of \$700,100 which was settled in January 2010 by the payment of \$100,000). A further amount of \$200,000 has been advanced by Oceanside since 31 December 2009.

In the event that approval is obtained from shareholders to the conversion of the loans referred to in Resolutions 1 and 2 ('Conversion Shares'), the following shares will be issued:

	Principal \$	Conversion Shares Number
Mungala	100,000	20,000,000
Oceanside	778,852	155,770,400

In addition, a further 9,733,800 Shares will be issued to Serec in respect of the conversion of the remaining principal outstanding in respect of a convertible note issued by the Company in February 2007 ('Serec Convertible Note') prior to the Company being listed on ASX and as such shareholder approval for this conversion is not ordinarily required in accordance with Exception 4 to Listing Rule 7.1. However shareholder approval will be required pursuant to the Corporations Act in the event that such issue would lead to the acquisition of a relevant interest in voting shares of the Company by Serec and Mungala and their associates. This circumstance will only arise in the event that neither Resolution 1 nor Resolution 2 is passed, as a result of which Resolution 3 will be put to the meeting (this is referred to in more detail below).

The amount due to Mungala of \$100,000 comprises an unsecured loan from Mungala.

Oceanside is a substantial shareholder in the Company and pursuant to the Company's recent entitlements issue holds an interest in the company's ordinary share capital of 26.51%. As referred to in the Capital Structure in section 1.3 below, Oceanside's interest in the issued share capital of the Company following the issue of the Conversion Shares will increase to 54.3% if both resolutions are passed and to 57.29% if Resolution 2 is not passed.

**Resolution 1** seeks Shareholder approval in accordance with sections 606 and 611 Item 7 of the Corporations Act, for the acquisition of a relevant interest in voting shares of the Company by Oceanside by virtue of the issue to Oceanside of 155,770,400 Conversion Shares.

**Resolution 2** seeks Shareholder approval in accordance with sections 606 and 611 Item 7 of the Corporations Act, for the acquisition of a relevant interest in voting shares of the Company by Serec and Mungala and their associates by virtue of the issue to Mungala of 20,000,000 Conversion Shares.

**Resolution 3** will only be put to the meeting in the event that neither Resolution 1 nor Resolution 2 is passed. Resolution 3 seeks Shareholder approval in accordance with sections 606 and 611 Item 7 of the Corporations Act, for the acquisition of a relevant interest in voting shares of the Company by Serec and Mungala and their associates by virtue of the issue to Serec of 9,733,800 Conversion Shares which would not otherwise be subject to shareholder approval.

Section 1.4 below provides further information on the requirements of ASX Listing Rules 7.1.

Sections 1.5 to 1.13 provide further information in relation to the Corporations Act provisions and associated disclosures.

## 1.2 Serec principal convertible note terms

The amount proposed to be converted of \$48,669 represents the remaining principal outstanding in respect of a convertible note issued by the Company in February 2007. The terms of the conversion are based on the lower of the volume weighted average price ('VWAP') for the five days before the conversion or the issue price under the terms of the Company's proposed initial public offer (20 cents). The relevant VWAP equated to \$0.005. The sole director of the company is Angus Edgar.

## 1.3 Capital structure

### 1.3.1 Capital Structure assuming Resolutions 1 and 2 are passed

As detailed above, the Conversion shares amount to 185,504,200 Shares (assuming the matters set out in Note 1 below). The proposed capital structure of the Company immediately following the issue of the Conversion Shares (assuming no other Shares are issued to any person and no existing Options are exercised and both Resolutions 1 and 2 are passed) is set out below:

Shareholder	No. of Shares Currently Held	% of Company's Issued Capital	No. of Shares held following issue of Conversion Shares	% of Company's Issued Capital following issue of Conversion Shares
Oceanside	52,500,000	26.51%	208,270,400	54.30%
Serec/Mungala	43,021,425	21.72%	72,755,225	18.97%
Non associated Shareholders	102,512,623	51.77%	102,512,623	26.73%
<b>TOTAL</b>	<b>198,034,048</b>	<b>100%</b>	<b>383,538,248</b>	<b>100%</b>

Note 1

The proposed capital structure of the Company immediately following the issue of the Conversion Shares assumes that no options in the Company are exercised and that no further shares in the Company are issued prior to the holding of the Meeting. The Option exercise price in respect of the Company's Options on issue is six cents which is considerably in excess of the prevailing share price and Option conversions have been excluded from the above table.

### 1.3.2 Capital Structure assuming Resolution 1 is not passed but Resolution 2 is passed

In this event and assuming all other assumptions stated in Section 1.3.1 remain the same, the proposed capital structure of the Company immediately following the issue of the Conversion Shares to Serec and Mungala only (assuming no other Shares are issued to any person and no existing Options are exercised) is set out below:

Shareholder	No. of Shares Currently Held	% of Company's Issued Capital	No. of Shares held following issue of Conversion Shares	% of Company's Issued Capital following issue of Conversion Shares
Oceanside	52,500,000	26.51%	52,500,000	23.05%
Serec/Mungala	43,021,425	21.72%	72,755,225	31.94%
Non associated Shareholders	102,512,623	51.77%	102,512,623	45.01%
<b>TOTAL</b>	<b>198,034,048</b>	<b>100%</b>	<b>227,767,848</b>	<b>100%</b>

Note 1

The proposed capital structure of the Company immediately following the issue of the Conversion Shares (excluding the Conversion Shares the subject of Resolution 1) assumes that no options in the Company are exercised and that no further shares in the Company are issued prior to the holding of the Meeting. The Option exercise price in respect of the Company's Options on issue is six cents which is considerably in excess of the prevailing share price and Option conversions have been excluded from the above table.

**1.3.3 Revised Capital Structure assuming Resolution 1 is passed, but Resolution 2 is not passed**

In the event that Resolution 2 is not passed but all other assumptions stated in Section 1.3.1 remain the same, the proposed capital structure of the Company immediately following the issue of the Conversion Shares to Oceanside and Serec (assuming no other Shares are issued to any person and no existing Options are exercised) is set out below:

Shareholder	No. of Shares Currently Held	% of Company's Issued Capital	No. of Shares held following issue of Conversion Shares	% of Company's Issued Capital following issue of Conversion Shares
Oceanside	52,500,000	26.51%	208,270,400	57.29%
Serec/Mungala	43,021,425	21.72%	52,755,225	14.51%
Non associated Shareholders	102,512,623	51.77%	102,512,623	28.20%
<b>TOTAL</b>	<b>198,034,048</b>	<b>100%</b>	<b>363,538,248</b>	<b>100%</b>

Note 1

The proposed capital structure of the Company immediately following the issue of the Conversion Shares (excluding the Conversion Shares the subject of Resolution 2) assumes that no options in the Company are exercised and that no further shares in the Company are issued prior to the holding of the Meeting. The Option exercise price in respect of the Company's Options on issue is six cents which is considerably in excess of the prevailing share price and Option conversions have been excluded from the above table.

In the event that Resolution 1 is passed, the issue of 9,733,800 shares to Serec on conversion of the loan is not subject to shareholder approval in these circumstances and will occur even if Resolution 2 is not passed and hence these shares have been included in the above table.

**1.3.4 Revised Capital Structure assuming that Resolution 3 is passed**

In the event that Resolution 3 is passed (which will only be put to the meeting if neither Resolution 1 nor Resolution 2 is passed) but all other assumptions stated in Section 1.3.1 remain the same, the proposed capital structure of the Company immediately following the issue of 9,733,800 Conversion Shares to Serec (assuming no other Shares are issued to any person and no existing Options are exercised) is set out below:

Shareholder	No. of Shares Currently Held	% of Company's Issued Capital	No. of Shares held following issue of Conversion Shares	% of Company's Issued Capital following issue of Conversion Shares
Oceanside	52,500,000	26.51%	52,500,000	25.27%
Serec/Mungala	43,021,425	21.72%	52,755,225	25.39%
Non associated Shareholders	102,512,623	51.77%	102,512,623	49.34%
<b>TOTAL</b>	<b>198,034,048</b>	<b>100%</b>	<b>207,767,848</b>	<b>100%</b>

Note 1

The proposed capital structure of the Company immediately following the issue of the Conversion Shares to Serec assumes that no options in the Company are exercised and that no further shares in the Company are issued prior to the holding of the Meeting. The Option exercise price in respect of the Company's Options on issue is six cents which is considerably in excess of the prevailing share price and Option conversions have been excluded from the above table.

#### 1.4 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

There are a number of exceptions where ASX Listing Rule 7.1 does not apply. One such exception is where the issue of securities is approved for the purposes of Item 7 of section 611 of the Corporations Act. Further information regarding section 611 of the Corporations Act is contained in Section 1.5 below.

The effect of Resolutions 1 and 2 will be to allow the Directors to issue the Conversion Shares during the period of 3 months after the Extraordinary General Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity. This will enable the Company to have the flexibility to issue equity securities in the future up to the 15% threshold without the requirement to obtain Shareholder approval.

#### 1.5 Section 606 of the Corporations Act and relevant interests

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point above 20% and below 90%.

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person (**second person**) will be an "associate" of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
  - (i) a body corporate the first person controls;
  - (ii) a body corporate that controls the first person; or
  - (iii) a body corporate that is controlled by an entity that controls the person;
- (b) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the Company's board or the conduct of the Company's affairs; and
- (c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the Company's affairs.

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

For the purposes of the Corporations Act, as at the date of this Notice of Meeting, Serec and Mungala are associates by virtue of being under the common control of Mr Angus Edgar.

Oceanside has no associates who are Shareholders.

Please refer to the following sections for further information relating to associates.

## **1.6 Section 611 Item 7 of the Corporations Act – exemption from Section 606**

Section 611 of the Corporations Act provides that certain acquisitions of relevant interests in a company's voting shares are exempt from the prohibition in Section 606(1), including acquisitions approved previously by a resolution passed at a general meeting of the company in which the acquisition is made (Section 611 Item 7).

For the exemption in Section 611 Item 7 to apply, Shareholders must be given all information known to the person proposing to make the acquisition or their associates, or known to the Company, that was material to the decision on how to vote on the resolution. The ASIC has indicated what additional information should be provided to Shareholders in these circumstances.

## **1.7 Reason why Section 611 approval required**

As a consequence of the passing of Resolution 1, Oceanside will acquire a relevant interest in the Company greater than 20%.

In the event that Resolution 1 is not passed, but Resolution 2 is passed or if Resolution 3 is passed, Serec and Mungala and their associates will acquire a relevant interest in the Company greater than 20%. If Resolution 1 is passed or Resolution 2 is not passed, Serec and Mungala and their associates will not acquire a relevant interest in the Company of greater than 20%.

## **1.8 Prescribed information**

For the purposes of the Corporations Act and ASIC Regulatory Guide 74, the following information is disclosed in relation to the acquisition of a relevant interest in the Company by Oceanside, and potentially by Serec and Mungala. Shareholders are also referred to the Independent Expert's Report prepared by Nexia ASR which forms part of this Explanatory Statement.

### **1.9.1 Oceanside prescribed information**

- (a) 155,770,400 Conversion Shares will be issued to Oceanside.
- (b) The maximum extent of the increase in Oceanside's voting power that would result from the issue of the Conversion Shares is 30.78%, subject to the further information set out in this section below.
- (c) The voting power that Oceanside would have as a result of the issue of the Conversion Shares is 57.29% if Resolution 2 is not passed and 54.30% if both Resolutions 1 and 2 are passed, and 25.27% if Resolution 3 is passed, subject to the further information set out in this section below.

The figures in this section assume that:

- No other Shares are issued in the capital of the Company other than the Conversion Shares to be issued to Serec and Mungala; and
- Oceanside does not acquire any Shares other than those referred to in Resolution 1.

### **1.9.2 Serec and Mungala prescribed information**

- (a) A total of 29,733,800 Conversion Shares will be issued to Serec and Mungala if Resolution 2 is passed and 9,733,800 Conversion Shares to Serec if Resolution 3 is passed.
- (b) The maximum extent of the increase in Serec and Mungala and their associates' combined voting power that would result from the issue of the Conversion Shares is 10.22%, subject to the further information set out in this section below.
- (c) The combined voting power that Serec and Mungala and their associates would have as a result of the issue of the Conversion Shares is 31.94% if Resolution 1 is not passed and a combined voting power of 25.39% if Resolution 3 is passed, subject to the further information set out in this section below.

In the event that either both Resolutions 1 and 2 are passed, or Resolution 2 is not passed, Serec and Mungala and their associates would have a combined voting power of 18.97% and 14.51% respectively (hence Serec and Mungala and their associates would not acquire a relevant interest in the Company of greater than 20%).

The figures in this section assume that:

- No other Shares are issued in the capital of the Company other than the Conversion Shares; and
- Neither Serec nor Mungala or their associates acquire any Shares other than those referred to in Resolution 2 and the Conversion shares to be issued to Serec.

#### **1.10.1 Oceanside's intentions in relation to the Company**

The Company understands that Oceanside:

- (a) has no intention of making any changes to the business of the Company;
- (b) does not presently intend to inject further capital into the Company other than its participation in any rights issue that may be implemented by the Company or if required by the company;
- (c) has no current intentions regarding the future employment of the present employees of the Company;
- (d) does not intend to transfer any property between the Company and itself nor any person associated with it;
- (e) does not intend to redeploy any fixed assets of the Company; and
- (f) has no current intention to change the Company's existing policies in relation to financial matters or dividends in a way that may be detrimental to non-associated Shareholders.

#### **1.10.2 Serec and Mungala's intentions in relation to the Company**

The Company understands that Serec and Mungala and their associates:

- (a) have no intention of making any changes to the business of the Company;
- (b) do not presently intend to inject further capital into the Company other than its participation in any rights issue that may be implemented by the Company;
- (c) have no current intentions regarding the future employment of the present employees of the Company;
- (d) do not intend to transfer any property between the Company and itself nor any person associated with it;
- (e) do not intend to redeploy any fixed assets of the Company; and
- (f) have no current intention to change the Company's existing policies in relation to financial matters or dividends in a way that may be detrimental to non-associated Shareholders.

### 1.11 Pro-forma consolidated statement of financial position

A pro-forma Statement of Financial Position of the Company post issue of the Conversion Shares is set out below:

	31/12/2009 Reviewed \$	Adjustments (Note (i)) \$	Pro Forma Unaudited \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	238,686	24,500	263,186
Trade and other receivables	280,930	(100,000)	180,930
Inventories	139,049		139,049
<b>TOTAL CURRENT ASSETS</b>	<b>658,665</b>	<b>(75,500)</b>	<b>583,165</b>
<b>NON CURRENT ASSETS</b>			
Trade and other receivables	115,969		115,969
Intangible Assets		200,000	200,000
Property, plant and equipment	2,858,097		2,858,097
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,974,066</b>	<b>200,000</b>	<b>3,174,066</b>
<b>TOTAL ASSETS</b>	<b>3,632,731</b>	<b>124,500</b>	<b>3,757,231</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	555,532		555,532
Interest bearing liabilities	1,522,098	(1,337,065)	185,033
Provisions	16,641		16,641
<b>TOTAL CURRENT LIABILITIES</b>	<b>2,094,271</b>	<b>(1,337,065)</b>	<b>757,206</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest bearing liabilities	108,175	(100,000)	8,175
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>108,175</b>	<b>(100,000)</b>	<b>8,175</b>
			<b>0</b>
<b>TOTAL LIABILITIES</b>	<b>2,202,446</b>	<b>(1,437,065)</b>	<b>765,381</b>
<b>NET ASSETS</b>	<b>1,430,285</b>	<b>1,561,565</b>	<b>2,991,850</b>

Note (i)

The adjustments referred to above include certain material transactions undertaken since 31 December 2009 and the impact of the proposed transactions referred to herein. Please refer to the attached Independent Expert's Report for further details in this respect.

### 1.12 Independent Expert's Report

The Independent Expert's Report prepared by Nexia ASR (a copy of which is set out in the Schedule to this Explanatory Statement) assesses whether the acquisition of the voting power by Oceanside, Serec and Mungala is fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the acquisitions are not fair but reasonable to the non-associated Shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

### **1.13 Directors' recommendation**

Each of the Directors has approved the putting of Resolutions 1 to 3 (as necessary) to Shareholders and the issue of this Notice of Meeting.

The Directors do not have any personal interests in the outcome of Resolutions 1 to 3, except in their capacity as Shareholders. Each of the Directors recommends that Shareholders vote in favour of both Resolution 1 and 2, and Resolution 3 (if put to the meeting), as they are of the view that the issue of the Conversion Shares to Oceanside, Serec and Mungala and the resulting improvement in the Company's Net Asset position are in the best interests of the Company.

The Directors' recommendations are based on the following:

- (a) if the Company does not proceed with the issue of the Conversion Shares, its cash reserves will be utilised on retirement of the debts as and when they fall due for payment and further alternative sources of finance will need to be obtained which may be on less favourable terms;
- (b) if suitable alternative finance can not be arranged, the Company will need to raise further capital, potentially by the issue of further shares resulting in additional dilution of shareholders' respective interests in the Company;
- (c) the issue price of the Conversion Shares is the same as the rate at which eligible shareholders were able to participate in the recent 2:1 entitlements issue that the company undertook in December 2009; and
- (d) the independent expert Nexia ASR, has determined the issue of the Conversion Shares is not fair but reasonable to non-associated Shareholders.

## **2. ENQUIRIES**

Shareholders should contact TJ Spooner, the Company Secretary on + 61 (8) 9463 2463 if they have any queries in respect of the matters set out in these documents.

## **GLOSSARY**

**\$** means Australian dollars.

**ASIC** means the Australian Securities and Investments Commission.

**ASX** means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

**ASX Listing Rules** means the official Listing Rules of ASX.

**Board** means the current board of directors of the Company.

**Business Day** means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

**Company** means Photo-Me Australia Limited (ACN 110 184 355).

**Constitution** means the Company's constitution.

**Conversion Shares** means the fully paid Ordinary Shares in the Company that will be issued pursuant to the passing of Resolutions 1 and 2 and Resolution 3 (if put to the Meeting) of this Notice of Meeting and the conversion of the Convertible Note in favour of Serec.

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

**Directors** means the current directors of the Company.

**Explanatory Statement** means the explanatory statement accompanying the Notice of Meeting.

**General Meeting** means the meeting convened by the Notice of Meeting.

**Mungala** means Mungala Investments Pty Ltd (ACN 004 540 792).

**Nexia ASR** means Nexia ASR Pty Ltd (ACN 052 362 348).

**Notice of Meeting** or **Notice of General Meeting** means this notice of general meeting including the Explanatory Statement.

**Oceanside** means Oceanside Securities Pty Ltd as trustee for the David Wee Property Investment Trust.

**Option** means an option to acquire a Share.

**Resolution** means the resolution set out in the Notice of Meeting.

**Serec** means Serec Pty Ltd (ACN 064 450 700).

**Share** means a fully paid ordinary share in the capital of the Company.

**Shareholder** means a holder of a Share.

**WST** means Western Standard Time as observed in Perth, Western Australia.

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**SCHEDULE – INDEPENDENT EXPERT’S REPORT**

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30 April 2010

The Directors  
Photo-Me Australia Limited  
c/o T.J. Spooner, Company Secretary  
Level 7, The Quadrant  
1 William Street  
PERTH WA 6000

Dear Sirs,

## **Independent Expert's Report pursuant to Section 611(7) of the Corporations Act**

### **1. Introduction**

#### **1.1 The Proposed Transactions**

On 22 October 2009, the Board of Photo Me Australia Limited ("PTO" or "the Company") resolved, subject to Shareholder approval, to convert loans from Oceanside Securities Limited ("Oceanside") and Mungala Investments Pty Ltd ("Mungala").

On 24<sup>th</sup> January 2010 the Company received a Notice of Conversion from Serec Pty Ltd ("Serec") in relation to the conversion of the residual balance on a Convertible Note issued in 2007.

Pursuant to the Notice of Meeting scheduled to be held on 30 June 2010, the Company is seeking the following approvals from shareholders:

- the issue of 155.77 million shares to Oceanside in settlement of the loan owing to Oceanside (subject of Resolution 1); and
- the issue of 20 million shares to Mungala in settlement of the loan owing to it (subject of Resolution 2); and
- the issue of 9.74 million shares to Serec as a result of conversion of the convertible note held by Serec (subject of Resolution 2 or Resolution 3).

The share issues are together referred to as the "**Proposed Transactions**".

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The nominated price at which shares are to be issued under the Proposed Transactions is 0.5 cents per share.

The Proposed Transactions to issue shares to Serec are in respect of a convertible note issued by the Company prior to the Company being listed and as such shareholder approval for this conversion is not required for the purposes of ASX Listing Rule 7.1. However, approval is required pursuant to s606 and s611 of the Corporations Act as Mungala and Serec are, for the purposes of the Corporations Act, treated as being associates by virtue of being under the common control of Mr Angus Edgar. Accordingly, approval for the conversion of the Mungala loan and the increase in voting power of both Mungala and Serec under Resolution 2 is being sought in the same resolution.

In the event of both Resolutions 1 and 2 being passed, Oceanside's holding in the Company will increase from 26.51% to 54.30% and Mungala/ Serec's will decrease from 21.72% to 18.97%

If Resolution 1 is passed and Resolution 2 is not passed, the Proposed Transactions will increase Oceanside's holding in the company from 26.51% to approximately 57.29%, and decrease Mungala/ Serec's holding from 21.72% to 14.51%.

If Resolution 1 is not passed and Resolution 2 is passed, the Proposed Transactions will result in an increase in Mungala/Serec's holdings in the company from 21.72% to 31.94% and a decrease in Oceanside's holdings in the company from 26.51% to 23.05%

In the event that both Resolution 1 and Resolution 2 are not passed, the Company will seek separate approval for the issue of shares to Serec by means of Resolution 3, as this issue will result in an increase in Mungala/Serec's holding from 21.72% to 25.39%.

The Directors have requested that Nexia ASR, being independent and qualified for the purpose, express an opinion as to whether the Proposed Transactions as set out in Resolutions 1, 2 and 3 above are fair and reasonable to Shareholders not associated with the Proposed Transactions ("the Non-Associated Shareholders"). The Non-Associated Shareholders comprise all holders of ordinary shares in the Company other than Oceanside, Mungala and Serec and their associates

## 1.2 Background

### 1.2.1 Oceanside Loan Facility

On 31 July 2009 Oceanside granted the Company with a \$1,000,000 loan facility for additional working capital. Amounts drawn down under the facility are secured by a debenture charge over the Company's assets.

The Loan Agreement has a maximum term of 12 months from the date of execution of the Debenture Deed.

The Company has identified that it wishes to strengthen its balance sheet and working capital position and has negotiated with Oceanside to convert the existing loans to equity. This may facilitate further equity raisings by the Company and potentially new draw downs under the existing Oceanside loan facility or other sources of finance. Oceanside have

confirmed that the loan facility will be extended to 31 July 2011 whether shareholder approval for Resolution 1 is received or not.

At the date of agreeing to the conversion, the amount advanced by Oceanside under that facility, together with capitalised interest, totalled \$978,852, of which \$778,852 is being converted under Resolution 1. The balance not converted relates in part to the funds recently advanced to assist the Company with the purchase of the PATLOC business.

### 1.2.2 Mungala Loan Facility

On 23 December 2008, the Company was advanced \$100,000 by Mungala with the term of the loan to be decided at a later date by the parties. Interest was payable quarterly at 3% above the 90 day spot rate.

As part of the balance sheet restructure, Mungala has agreed to convert its loan principal to equity.

At the date of agreeing to the conversion, the amount advanced by Mungala totalled \$100,000. Accrued interest on this amount is to be paid within 7 days of obtaining shareholder approval.

### 1.2.3 Serec Convertible Note

On 16 February 2007, the Company issued Serec with convertible notes with a collective principal sum of \$596,000 ("**Convertible Notes**").

The Convertible Notes are convertible at the election of the holder at a price equal to the volume weighted average price for the 5 days prior to the conversion and are for a maximum term of 3 years. Serec has periodically converted the loan into shares and/or been repaid principal.

On 24 January 2010, Serec notified the Company that it wished to convert its outstanding Convertible Notes, totalling \$48,669 to fully paid ordinary shares. Serec confirmed that in the event of shareholder approval not being given that Serec would continue with the Convertible Note under its current terms. A condition of the conversion is that all accrued interest is settled by the Company within 7 days of receiving shareholder approval.

## 1.3 Structure of the Proposed Transactions

The Proposed Transactions will result in the issue of 155,770,400, 20,000,000 and 9,733,800 fully paid PTO ordinary shares to Oceanside, Mungala and Serec respectively as repayment of all principal advances and, in the case of Oceanside only, all interest capitalised under the agreement. Oceanside, Mungala and Serec are all existing shareholders of PTO.

The Proposed Transactions will result in Oceanside increasing their interest from 26.51% to 54.30% and Mungala/ Serec decreasing their interest from 21.72% to 18.97% with the resultant dilution of non-associated Shareholders' interests from 51.77% to 26.73%, as summarised in Table 1.

Table 1 - PTO Shareholder Summary

Shareholder(s)	Pre Conversion		Post Conversion	
	No. of Shares on Issue <sup>1</sup>	% of total	No. of Shares on Issue	% of total
Oceanside Securities Pty Ltd	52,500,000	26.51%	208,270,400	54.30%
Serec/Mungala	43,021,425	21.72%	72,755,225	18.97%
Non-associated Shareholders	102,512,623	51.77%	102,512,623	26.73%
	<b>198,034,048</b>		<b>383,538,248</b>	

Note : the above table sets out the position assuming Resolutions 1 and 2 are approved, in which case Resolution 3 will not be put to shareholders.

## 2. Summary and Opinion

### 2.1 General

We have considered the terms of the Proposed Transactions as outlined in this Report and as a result of our review and after considering all of the factors, including the advantages and disadvantages of whether the Proposed Transactions proceeds or not, we are on balance of the view that

- Resolution 1 is **not fair, but is reasonable** to the non associated shareholders.
- Resolution 2 is **not fair but is reasonable** to the non associated shareholders.

In the event that Resolution 3 is put to shareholders, it is our opinion that the Resolution is **not fair but reasonable**.

We consider that the Directors are justified in recommending that Shareholders vote in favour of the Proposed Transactions.

### 2.2 Fairness of Proposal

We have considered the fairness of the Proposed Transactions with regard to the market value of PTO shares and the impact on the net asset backing of each PTO share. PTO has to date consistently incurred losses and relied on equity and debt raisings to fund its activities. Accordingly in assessing fairness we have not considered the impact of the Proposed Transactions from an earnings or cash flow perspective.

We have considered the market value of a PTO share. Although PTO stock has demonstrated relatively thin trading, the Company completed a 2:1 non-renounceable rights issue in March 2010 at a price of 0.5 cents per share. The total allotment was 50% of entitlements although the Company did place 14.9 million of the shortfall with new and existing shareholders. The issue price was in line with quoted prices since the beginning of 2010 and the share price has not moved significantly since the rights issue.

We determined that the Proposed Transactions result in a deterioration to the underlying net tangible asset backing and net asset backing of each PTO share as set out in Table 2.

Table2 - NTA and NAB Comparison

	Pro Forma Adjusted Net Assets  (\$)	Total Shares on Issue	NTA* per share  (cents)	NAB per share  (cents)
<b>Pre Proposed Transactions</b>	2,064,329	198,034,048	<b>0.94</b>	<b>1.04</b>
<b>Post Proposed Transactions:</b>				
If Resolutions 1 and 2 passed	2,991,850	383,538,248	<b>0.73</b>	<b>0.78</b>
If Resolutions 1 passed but Resolution 2 not passed	2,843,181	353,804,448	<b>0.75</b>	<b>0.80</b>
If Resolution 1 not passed and Resolution 2 passed	2,212,998	227,767,848	<b>0.88</b>	<b>0.97</b>
If Resolutions 1 and 2 not passed and Resolution 3 passed	2,112,998	207,767,848	<b>0.92</b>	<b>1.02</b>

\* NTA includes Cash, Receivables, Inventories and Property Plant & Equipment less Payables, Interest Bearing Liabilities and Provisions

In relation to Resolution 1, we do not consider the non-associated shareholders are receiving any premium for a change in control of the Company. The conversion price of the shares to be issued to Oceanside is fixed at 0.5 cents which is approximately 50% below the current NAB and NTA per share.

The above indicates that the Proposed Transactions are not fair for non associated shareholders.

### 2.3 Reasonableness of the Proposal

We have considered the analysis in Section 5 of this Report, in terms of both:

- advantages and disadvantages of the Proposal; or
- implications if the Proposed Transactions do not proceed.

In our opinion, the position of Shareholders if the Proposed Transactions proceed is more advantageous than the position if the Proposed Transactions do not proceed.

Accordingly, we believe that the Proposed Transactions are reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

Advantages	Disadvantages
Reduction of debt servicing costs	Control will pass to Oceanside from existing non-associated shareholders
No requirement to source alternative funding to repay loans and convertible notes	Potential dilution (to non-associated shareholders) of future profits
Simplifies capital structure to allow for further debt/ equity raising activities in the future	Potential for further dilution of interest held by non-associated shareholders

## 2.4 Implications if the Proposed Transactions are not Implemented

In forming our opinion we have also considered the implications if the Proposed Transactions are not approved by PTO shareholders.

Whilst the non-approval of the Proposed Transactions may mean that there is no dilution of the non associated shareholders' interests in the Company, such lack of approval would mean that PTO shareholders would not benefit from the advantages of the Proposed Transactions as noted above.

In addition if the Proposed Transactions are not approved and implemented: -

- ❑ the Company will continue to incur interest charges and be liable to repay the funds advanced by Oceanside, Mungala and Serec, and any interest capitalised to date;
- ❑ the Company will be required to re-negotiate loan terms with Oceanside and Mungala which may be less favourable than the existing loan terms;
- ❑ Serec may choose to convert the loan at a later date, with a resultant dilution on non-associated shares on terms which may be less favourable than the existing conversion rate;
- ❑ the terms of the security documents will have to be continually monitored and observed to ensure there are no breaches or defaults; and
- ❑ the Company still requires working capital funding – which potentially may be more difficult to procure with the current debt structure in place.

## 2.5 Other Matters

Acceptance or rejection of the Proposed Transactions is a matter for individual shareholders based upon their own views of value, risk, liquidity preference, and portfolio strategy. PTO shareholders who are in doubt as to the action that they should take in relation to the Proposed Transactions should consult their professional advisor.

This summary opinion should be read in conjunction with and not independent of the remainder of this Report, which contains the following sections:-

Section	Description	Page Ref
3.	Purpose and Scope of the Report .....	8
4.	Profile of PTO .....	10
5.	Assessment of the Proposed Transactions .....	20
	Appendix A – Statement of Qualifications .....	27
	Appendix B – Financial Services Guide .....	28
	Appendix C – Sources of Information & PTO Announcements .....	31
	Appendix D - Valuation Methodologies .....	32

Yours sincerely,

**Nexia ASR Pty Ltd**

Holder of Australian Financial Services Licence No. 247362



**Gary Graco**  
**Authorised Representative**

### 3. Purpose & Scope of Report

#### 3.1 Purpose of the Report

The purpose of this Report is to assess whether the Proposed Transactions are fair and reasonable to the existing non-associated shareholders of PTO. The Notice of Meeting and Explanatory Statement, to which this Report is attached, sets out fully the Resolutions required to be approved by members for the Proposed Transactions to proceed.

#### 3.2 Corporations Act – Takeover Provisions

Section 606(1) of the Corporations Act 2001 (“the Act”) prohibits the acquisition of an interest of more than 20% of capital of a company or increasing its interests in a company above 20%, without making a formal takeover offer. Section 611(7) of the Act provides an exemption to Section 606 if the proposed transaction is approved by a majority of shareholders at general meeting and no votes are cast in respect of the shares held by the associates.

The issue of the shares pursuant to Resolution 1 will mean Oceanside will increase its holding in PTO by up to 32.36% from the present 26.51%. Therefore, the issue of shares to Oceanside requires approval of the PTO shareholders that are not associated with the Proposed Transactions.

In the event Resolution 1 is not passed and Resolution 2 is, the issue of shares pursuant to the Resolution 2 will mean Serec/Mungala will increase their holding in PTO by approximately 10.22% from the present 21.72%. Therefore, the issue of shares to Serec/Mungala may require approval of the PTO shareholders that are not associated with the Proposed Transactions.

In the event both Resolutions 1 and 2 are not passed, the issue of shares pursuant to Resolution 3 will mean Serec/Mungala will increase their holding in PTO by approximately 3.67% from the present 21.72%. Therefore, if put to shareholders, the issue of shares pursuant to Resolution 3 requires the approval of PTO shareholders not associated with Mungala/Serec.

Section 611 requires the Company to disclose all material information on how to vote on the resolution. The directors of PTO have determined that an Independent Experts Report commenting on whether the Proposed Transactions are fair and reasonable to the non-associated shareholders should be included with the Explanatory Statement in order for members to decide whether or not it is in the company's interests to pass the proposed resolutions.

#### 3.3 Guidelines issued by ASIC on fair and reasonable

ASIC has issued Regulatory Guides 111 – *Content of Experts Reports* (“RG111”) and Regulatory Guide 112 – *Independence of Experts* (“RG112”), which are applicable to acquisitions approved by shareholders.

The Proposed Transactions are likely to result in Oceanside gaining a controlling interest in PTO's voting capital. Accordingly, ASIC Regulatory Guide 111 (RG 111.22) requires that the Proposed Transactions be assessed as if it was a takeover of PTO.

We highlight the following from RG 111 that are pertinent to this Report.

RG 111.5 *The Corporations Act requires an expert to express the opinion in a particular language depending upon the type of transaction. For example:-*

*(a) whether a takeover bid is 'fair and reasonable' under s640.*

As noted above we are required to assess the Proposed Transactions as if it was a takeover of PTO.

RG111.9: *It has long been accepted in Australian mergers and acquisitions practice that the words 'fair and reasonable' in s640 established two distinct criteria for an expert analysing a control transaction:*

*(a) is the offer 'fair'; and*

*(b) is it 'reasonable'?*

*That is, 'fair and reasonable' is not regarded as a compound phrase.*

RG111.10 *Under this convention, an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash. The expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares.*

RG111.11 *An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.*

Additionally, in respect of approvals pursuant to item 7 of section 611, RG 111.40 requires the expert to determine whether the non associated shareholders are to receive a premium for control.

The methodology that we have used to form an opinion as to whether the Proposed Transactions are fair and reasonable, is summarised as:

- Fairness - we have considered:
  - The value of shares to be issued by PTO with reference to the net asset backing and net tangible asset backing of the Company's securities compared to the proposed conversion price under the Proposed Transactions.
  - The value of shares to be issued by PTO with reference to recent transactions and concluded whether this is on par with the proposed conversion price. In undertaking this assessment we have also identified if PTO non associated shareholders are likely to receive any premium for control.
  - Where control is likely to pass, if shareholders will receive a premium for control.

- **Reasonableness** - we have analysed other significant factors, which shareholders should consider prior to accepting or rejecting the Proposed Transactions including the advantages and disadvantages of the Proposed Transactions and the alternatives available to PTO if the Proposed Transactions are not approved.

### 3.4 Limitations of the Report

This Report has been prepared at the request of the directors for the purposes of assisting non-associated shareholders in their decision on whether or not to vote in favour of the Proposed Transactions.

The Report is not intended to serve any other purpose and should not be relied upon by any other person for any other purpose in preparation of this report. Nexia ASR has relied upon financial and other information provided by the Company. We believe that the information provided was reliable, complete and not misleading and there is no reason to believe that any material facts have been withheld however, we have not conducted any due diligence of our own to assess the correctness or completeness of this information.

The opinion of Nexia ASR is based on economic market and other conditions prevailing on the date of this report, such conditions can change significantly over a relatively short period of time.

## 4. Profile of PTO Limited

### 4.1 Company Overview

PTO was initially listed on the ASX in June 2007.

The principal activity of PTO is the provision, installation and maintenance of vending machine technology in Australia together with the identification and subsequent commercial exploitation of new opportunities with other vending machine technologies. PTO has 3 main areas of business, which are photo booths, internet kiosks and PC Connect.

- **Photo Booths**  
PTO is Australia's biggest operator of digital photo booths and is part of the world wide Photo-Me International network which operates more than 38,000 photo booths around the world. As at 30 June 2009, PTO owned and managed 292 photo booths in shopping centres and other sites around Australia.
- **Internet kiosks**  
During the 2009 financial year, PTO expanded its business operations through the acquisition of the internet vending kiosk business, Escape Internet. PTO has 21 Escape Internet locations with a total of 456 screens for customers. The company is looking at expanding its Escape Internet kiosks to Western Australia.
- **PC Connect**  
PC Connect supplies internet vending services to the hotel accommodation industry. PTO currently has 93 customers around Australia

On 1 September 2008, PTO acquired Globalinc Technology Pty Ltd, which is an Australian based company specialising in the installation and management of internet vending services.

On 30 October 2009, PTO expanded its service division through an agreement to outsource the servicing of network Digital Print Kiosks operated by QFL Photographics Pty Ltd in various pharmacies and retail locations in Victoria.

On 14 September 2009, the company agreed to acquire the PATLOC business and assets owned by Ultimate Transactions Pty Ltd, a wholly owned subsidiary of ETT Limited for a total consideration of \$200,000. PATLOC's core business comprises of public access internet kiosks located principally in hotel foyers and in-house business centres accessed via prepaid cards. The acquisition was approved by ETT Shareholders on 2 March 2010.

## 4.2 Share Capital

The company currently has 198,034,048 fully paid ordinary shares. Full details of shares issued by the Company over the previous 2 years are contained in the 2009 financial report.

A reconciliation of the movement in capital between the 30 June 2009 financial report and 30 April 2010 is set out below.

- the issue of 91,476,898 shares on or around 24 December 2009, at a price of \$0.005 per share under a 2:1 rights issue.
- the issue 14,900,000 shares on 23 March 2010, at a price of \$0.005 per share, under a private placement of part of the shortfall to the 2:1 rights issue.

	No.	\$
Audited Balances - 30 June 2009	91,657,150	7,207,454
Rights Issue - Dec 2009	91,476,898	457,384
Rights issue shortfall - March 2010	14,900,000	74,500
<b>Unaudited Balances – 30 April 2010</b>	<b>198,034,048</b>	<b>7,664,838</b>

The share capital of the Company is closely held with the top 20 shareholders owning approximately 82.28% of issued capital, with 2 shareholders holding 46.5%. The top 20 are set out in table 3 below.

Table 3: - Top 20 Shareholders – 1 April 2010

Shareholder	No. of Shares	% Issued Capital
1. Ocean Side Securities Pty Ltd	52,500,000	26.51%
2. Serec Pty Ltd	39,553,050	19.97%
3. Photo-Me International PLC	13,825,000	6.98%
4. Nunzio Di Iorio	11,700,000	5.91%
6. Thomsen and Associates Pty Ltd	9,000,000,	4.54%
7. State Equity Group Pty Ltd	6,600,000	3.33%
8. GR Whiteman and CA Acton	4,400,000	2.22%

9. VA Enterprise Technology	4,027,833	2.03%
10. Nicolas Karamouzis	4,000,000	2.02%
11. Angus Michael Edgar	3,468,375	1.75%
12. Leon Eugene Pretorius	3,000,000	1.51%
13. J Yavern Creek Holdings Pty Ltd	2,854,125	1.44%
14. Alexander Michael Todd	2,358,000	1.19%
15. Enn Tohver	1,500,000	0.76%]
15. Phillip James Tijan	1,300,000	0.66%
17. Elinora Investments Pty Ltd	1,200,000	0.61%
18. Trevor Neil Hay	1,150,000	0.58%
19. Chifley Portfolios Pty Ltd	1,050,000	0.53%
20. Ezi Grow Garden Products	1,000,000	0.50%

In total there are 323 Existing Shareholders in the Company and at 1 April 2010 the spread of shareholders was as follows: -

Ranges	No. of holders	% of total
1 – 1000	4	1.2%
1001 – 5000	3	0.9%
5001 – 10000	70	21.8%
10001 – 100000	160	49.5%
100001 and Over	86	26.6%
<b>Total</b>	<b>323</b>	<b>100%</b>

Table 4 summarises the effect on shareholders if the Proposed Transactions are implemented:

Table 4 – Share Movement

Shareholder(s)	Pre Conversion		Post Conversion	
	No. of Shares on Issue	% of total	No. of Shares on Issue	% of total
Oceanside Securities Pty Ltd	52,500,000	26.51%	208,270,400	54.30%
Serec/Mungala	43,021,425	21.72%	72,755,225	18.97%
Non-associated Shareholders	102,512,623	51.77%	102,512,623	26.73%
	<b>198,034,048</b>		<b>383,538,248</b>	

Oceanside and its associates will not be able to vote on Resolution 1 and both Serec and Mungala and their associates will not be entitled to vote on Resolution 2 or Resolution 3.

The Explanatory Statement, at Section 1.13, sets out each of the Director's recommendations to existing non-associated shareholders.

Options issued over shares in the company and outstanding at the date of this Report are as follows:-

Type	No.	Last Exercise Date	Exercise Price
Listed options (code: PTOO)	80,858,800	31 July 2011	\$0.06

As these options are deeply out of the money, the analysis in this Report is not presented on a fully diluted basis.

### 4.3 Financial Position

Table 5 below summarises the consolidated financial position of the Company as of the last reviewed half year report (31 December 2009) and unaudited proforma financial position as at 30 April 2010, taking account of only the following transactions:

- settlement of Photo-Me International loan ;
- further loan advances from Oceanside;
- the PATLOC acquisition; and
- the Proposed Transactions.

We note that the Company at December 2009 had a significant deficiency in working capital and liquidity and point out that whilst the Directors prepared the the June 2009 Annual Report and the December 2009 half year report on the basis that the Company was a going concern, those financial reports also contained a matter for the attention of members in relation to the material uncertainty regarding the going concern.

The directors noted that: *“...if the Company is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amount different to those stated in the financial statements. The financial statements do not include adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern and meet its debts as and when they fall due.”*

Table 5 – Consolidated Balance Sheet

	Reviewed 31 Dec 2009 \$000's	Adjusted 31 Dec 2009 pre Proposed Transactions \$000's	Note	Unaudited Pro- forma April 2010 \$000's	Note
<b>Current Assets</b>					
Cash & Cash Equivalents	238	263	1	263	
Trade & Other Receivables	281	181		181	
Inventory	139	139		139	
<b>Total Current Assets</b>	<b>658</b>	<b>583</b>		<b>583</b>	
<b>Non-Current Assets</b>					
Trade & Other Receivables	116	116		116	
Intangible Assets		200	2	200	
Property Plant & equipment	2,858	2,858		2,858	
<b>Total Non-Current Assets</b>	<b>2,974</b>	<b>3,174</b>		<b>3,174</b>	
<b>TOTAL ASSETS</b>	<b>3,633</b>	<b>3,757</b>		<b>3,757</b>	
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade & Other Payables	556	555		555	
Interest bearing liabilities	1,522	1,013	3	185	3
Provisions	17	17		17	
<b>Total Current Liabilities</b>	<b>2,094</b>	<b>1,585</b>		<b>757</b>	
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	108	108		8	4
<b>Total Non-Current Liabilities</b>	<b>108</b>	<b>108</b>		<b>8</b>	
<b>TOTAL LIABILITIES</b>	<b>2,202</b>	<b>1,693</b>		<b>765</b>	
<b>NET ASSETS</b>	<b>1,430</b>	<b>2,064</b>		<b>2,992</b>	
<b>EQUITY</b>					
Issued Capital	7,636	7,710	5	8,638	5
Equity contribution	-	560	6	560	
Accumulated Losses	(6,915)	(6,915)		(6,915)	
Reserves	709	709		709	
<b>NET ASSETS</b>	<b>1,430</b>	<b>2,064</b>		<b>2,992</b>	

**Notes:**

**1. Cash and Cash Equivalents**

	<b>\$000</b>
Reviewed balance at 31 December 2009	239
Settlement of PMI Loan	(100)
Oceanside advances	50
Shortfall proceeds	74
<b>Adjusted and proforma balance</b>	<b>263</b>

**2. Intangible Assets**

	<b>\$000</b>
Reviewed balance at 31 December 2009	-
PATLOC acquisition	200
<b>Adjusted and proforma balance</b>	<b>200</b>

**3. Interest bearing liabilities - Current**

	<b>\$000</b>
Reviewed balance at 31 December 2009	1,522
Settlement of PMI Loan	(660)
Oceanside advances	50
PATLOC acquisition	100
<b>Adjusted balance</b>	<b>1,013</b>
Conversion of Oceanside and Serec loans/ convertible notes	(828)
<b>Proforma balance</b>	<b>185</b>

**4. Interest bearing liabilities – Non Current**

	<b>\$000</b>
Reviewed and adjusted balance at 31 December 2009	108
Conversion of Mungala loan	(100)
<b>Proforma balance</b>	<b>8</b>

**5. Issued Capital**

	<b>\$000</b>
Reviewed balance at 31 December 2009	7,636
Rights issue shortfall	74
<b>Adjusted balance</b>	<b>7,710</b>
Conversion of Oceanside, Mungala and Serec loans/ convertible notes	928
<b>Proforma balance</b>	<b>8,638</b>

## 6. Equity Contribution

	<b>\$000</b>
Reviewed balance at 31 December 2009	-
Settlement of PMI Loan	560
<b>Adjusted and proforma balance</b>	<b>560</b>

## 4.4 Financial Performance

A summary of PTO's historical financial performance for the last 2 financial years and the 6 months to December 2009 is set out below.

Table 6 - Consolidated Income Statements

	CONSOLIDATED		
	Audited Year to 30 June 2008	Audited Year to 30 June 2009	Reviewed 6 months to 31 December 2009
	\$000's	\$000's	\$000's
<b>Continuing Operations</b>			
Revenue	2,203	2,944	1,552
Gain on acquisition		101	-
Other income	353	35	-
<b>Total Revenue</b>	<b>2,556</b>	<b>3,080</b>	<b>1,552</b>
Materials and consumables used	(1,996)	(2,735)	(1,241)
Employee costs	(26)	(199)	(281)
Administrative expense	(1,009)	(1,345)	(343)
Finance Costs	(263)	(170)	(81)
Impairment of goodwill	(280)	-	-
Depreciation	(491)	(720)	(408)
	(4,065)	(5,169)	(2,354)
<b>Profit / (loss) before income tax</b>	<b>(1,509)</b>	<b>(2,089)</b>	<b>(802)</b>
Income tax benefit / (expense)	-	-	-
<b>Profit / (loss) after income tax</b>	<b>(1,509)</b>	<b>(2,089)</b>	<b>(802)</b>

As can be seen from Table 6, the Company has incurred substantial losses over the past 2<sup>1</sup>/<sub>2</sub> financial years.

## 4.5 Cash Flows

A summary of the cash flows derived and incurred by the Company for the last 2 financial years and the 6 months to 31 December 2009 is set out below.

Table 7 – Cash Flow Summary

	CONSOLIDATED		
	Audited Year to 30 June 2008	Audited Year to 30 June 2009	Reviewed 6 Months to 31 December 2009
	\$000's	\$000's	\$000's
<i>Cash flows from operating activities</i>			
Receipts from customers	2,352	2,919	1,337
Payments to suppliers and employees	(3,367)	(3,791)	(1,976)
Interest received	65	7	-
Borrowing cost	(95)	(52)	(34)
<b>Net cash flows used in operating activities</b>	<b>(1,045)</b>	<b>(917)</b>	<b>(674)</b>
<i>Cash flows from investing activities</i>			
Purchase of property, plant and equipment	(1,842)	(1,136)	(33)
Acquisition of business	-	(112)	-
Payment for security deposits	-	(143)	-
Proceeds from security deposits	-	27	-
Proceeds from sale of property, plant & equipment	-	-	4
<b>Net cash flows used in investing activities</b>	<b>(1,842)</b>	<b>(1,364)</b>	<b>(29)</b>
<i>Cash flows from financing activities</i>			
Proceeds from issue of shares and options	-	2,009	457
Repayments of borrowings	(1,088)	(140)	-
Proceeds from borrowings	-	419	500
Capital raising expense	(88)	(31)	(29)
<b>Net cash flows from/ (used in) financing activities</b>	<b>(1,176)</b>	<b>2,257</b>	<b>(929)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(4,063)</b>	<b>(24)</b>	<b>(226)</b>
Cash and cash equivalents at the beginning of the financial year	4,099	36	12
<b>Cash and cash equivalents at the end of the financial year</b>	<b>36</b>	<b>12</b>	<b>238</b>

The Cashflow statement above reflects the impact of the continuing operating losses and that principal funding sources of the Company have been from equity and debt raisings.

Whilst the Company continues to incur losses and generate net operating cash outflows, the Company will be required to raise funds for working capital. A reduction in gearing may assist the Company to access this funding in future periods.

#### 4.6 Share Price Information

The Company's shares have been continuously traded on the ASX over the last 12 months.

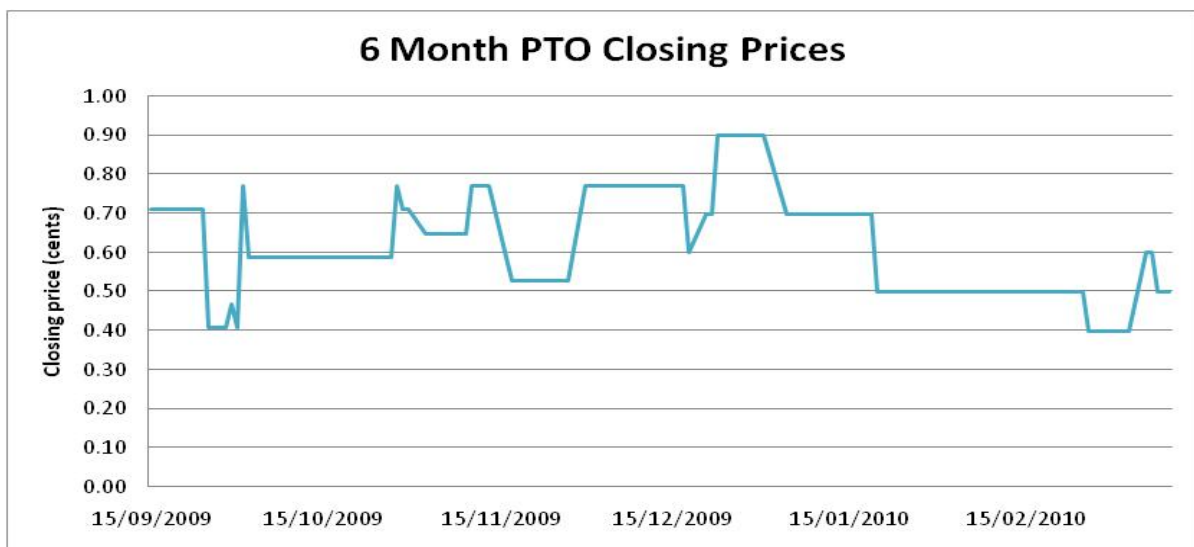
Share price movements over that period are shown in the following graph.



Source: [www.tradingroom.com.au](http://www.tradingroom.com.au)

As can be noted the trading range for the 12 months has been from a high of 1.24 cents on 12<sup>th</sup> June 2009 to a low of 0.35 cents for the period 9 – 21 July. The share price on 28 April 2010 was \$0.004.

More recent share price movements are demonstrated in the graph below which tracks the daily closing prices over the last 6 months



Source: [www.tradingroom.com.au](http://www.tradingroom.com.au)

Trading volumes of the Company's shares have not been significant and the stock may be generally described as 'thinly traded'. A summary of the Volume Weighted Average Price, Volume and Value of transactions over various periods is set out in table 8 below.

Table 8 - Summary Share Price Data

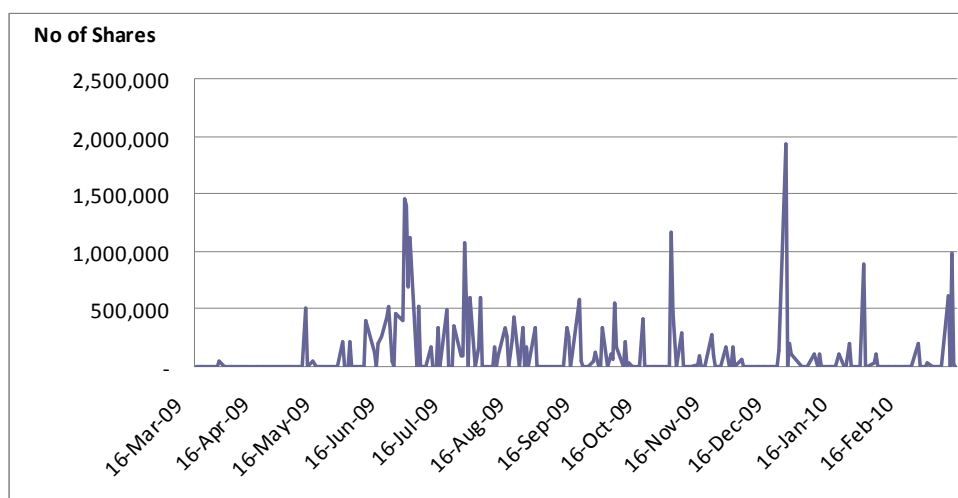
	VWAP (cents)	Volume (000's)	% of total capital	Total Value \$000's
1 week	0.54	1,611	2%	9
1 month	0.53	1,837	2%	10
3 month	0.53	3,175	3.5%	17
6 month	0.64	11,262	12%	72

Source: [www.tradingroom.com.au](http://www.tradingroom.com.au)

Since March 09, the volume of shares traded has increased from a low of approximately 42,000 on 27 March 2009 to a high of approximately 1,900,000 on 21 December 2009.

It is likely that any selling pressure in the market would dramatically impact the observed share price.

Chart 3 – PTO Volume– 1 Year



## 5. Assessment of the Proposed Transactions

### 5.1 Basis of Assessment

In assessing whether the Proposed Transactions are fair and reasonable from the perspective of the non-associates shareholders, we have had regard to the criteria set out in RG 111.

The following factors have been considered when evaluating whether the Proposed Transactions are fair and reasonable to existing PTO non-associated shareholders.

- the financial impact of the Proposed Transactions on PTO;
- the alternatives available to PTO if the Proposed Transactions does not proceed, including the availability of funding from alternative sources;
- the value of securities being issued being compared with the value of the consideration to be received and the value of the securities should non associated shareholders vote in favour of the proposal;
- the extent of any premium for control being received by PTO shareholders; and
- any other factors which may have a material impact.

### 5.2 Assessment of Fairness

#### 5.2.1 Overview

An assessment of fairness is referable to price. If the price at which the shares to be issued is greater than the underlying value of the existing shares or the value of all shares post issue, it can be considered to be fair.

We have considered various valuation approaches when estimating the fair market value of PTO shares, including:-

- net asset and net tangible asset backing
- the quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale
- net present value of projected cash flows (discounted cash flow) ("DCF")
- capitalisation of estimated future maintainable earnings ("CME")
- comparison with similar open market transactions, and

A detailed explanation of these techniques is set out in Appendix E.

#### 5.2.2 Selection of Methodology

The selection of the techniques that are appropriate to apply in any situation rests with the circumstances of the particular case. The valuation techniques are not mutually exclusive and can be applied in conjunction with each other.

In forming our opinion on whether the Proposed Transactions are fair to the Non-Associated Shareholders we considered the impact on the underlying value of the shares held by PTO shareholders.

The net asset method of valuation is appropriate where business operations incur losses or generates an insufficient return on investment. This method is appropriate for PTO.

Prices at which a company's shares have traded on the ASX can, in the absence of low liquidity or unusual circumstances, provide an objective measure of the value of the Company, excluding a premium for control. This basis of valuation is applicable for PTO as it is a listed company. Recent share issues also provide a measure of share value and the recent rights issue indicates that this method is also applicable to PTO.

We have not considered the Proposed Transactions on the basis of the DCF or CME methodologies. The Company has no history of earnings or positive cash flows and we do not consider there is adequate evidence of a reliable long-term cash flow to support a sophisticated DCF analysis.

We are not aware of any alternative offers for the acquisition of shares in PTO, nor for other business comparable to that of PTO.

### 5.2.3 Recent Capital Raising

The Company has raised approximately \$2.54 million via equity capital since 1 July 2009 as follows:

Date	Transaction	Number of shares / options	Amount Raised (\$)	Cents per share / option
24/12/09	Rights Issue	91,476,898	457,384	0.5000
22/03/10	Rights Issue shortfall	14,900,000	74,500	0.5000
			<u>531,884</u>	

The most recent issue of securities was under a 2:1 rights issue at 0.5 cents per share. The rights issue closed at the end of December 2009 with approximately 50% of shareholders taking up their entitlements. In March 2010, a further 14,900,000 shares were placed with new and existing shareholders, none of whom are associated with the Proposed Transactions.

The market share price of the Company has remained at around 0.5 cents during the rights issue and to date. This, coupled with the strong take-up of the rights issue by existing shareholders indicates that the share price is a suitable representation of the market value of an ordinary share prior to the Proposed Transactions taking place.

### 5.2.4 Theoretical Share Price

Typically the market capitalisation of a company is based on the enterprise value less net debt. The enterprise value represents the market's ascription of value to the assets of the company (which may be different to book value).

The Proposed Transactions will not alter the asset profile of the Company, but will alter the debt and equity structure. This may give rise to a change to the market valuation of the Company, driven by the effect of a slightly reduced risk profile as a result of reducing gearing levels or alternatively the concentration of shareholding by the 2 major shareholders. If the enterprise value remained unchanged as a result of the Proposed Transactions, the theoretical share price would not be affected.

However, we point out that we are not in a position to speculate on the effect of the Proposed Transactions on the actual share price. We note however no substantial movements in share prices following the announcement of the restructure.

### 5.2.5 Net Asset Assessment

In the circumstances we consider that the net asset backing of the shares at the date hereof is also an applicable measure for assessing the price at which the shares are to be issued and the impact on the value of existing shares if the Proposed Transactions proceed.

The impact of the Proposed Transactions on the net tangible assets (“NTA”) and net asset backing (“NAB”) is summarised in table 8 below. We note that the price at which the shares are to be issued under the Proposed Transactions (0.5 cents) is less than both the NTA and NAB both before the Proposed Transactions and after. In addition, the Proposed Transactions will result in deterioration in the NTA and NAB of shares.

Table 8 - NTA and NAB Comparison

	Pro Forma Adjusted Net Assets	Shares on issue Pre Proposed Transactions	Issued under Proposed Transactions	Total Shares on Issue	NTA* per share	NAB per share
	(\$)				(cents)	(cents)
<b>Pre Proposed Transactions</b>	<b>2,064,329</b>	198,034,048	-	<b>198,034,048</b>	<b>0.94</b>	<b>1.04</b>
<b>Post Proposed Transactions:</b>						
If Resolutions 1 and 2 passed	<b>2,991,850</b>	198,034,048	185,504,200	<b>383,538,248</b>	<b>0.73</b>	<b>0.78</b>
If Resolutions 1 passed but Resolution 2 not passed	<b>2,843,181</b>	198,034,048	155,770,400	<b>353,804,448</b>	<b>0.75</b>	<b>0.80</b>
If Resolution 1 not passed and Resolution 2 passed	<b>2,212,998</b>	198,034,048	29,733,800	<b>227,767,848</b>	<b>0.88</b>	<b>0.97</b>
If Resolution 1 and 2 not passed but Resolution 3 passed	<b>2,112,998</b>	198,034,048	9,733,800	<b>207,767,848</b>	<b>0.92</b>	<b>1.02</b>

\* NTA includes Cash, Receivables, Inventories and Property Plant & Equipment less Payables, Interest Bearing Liabilities and Provisions

For the purposes of this Report we have accepted the book values of the tangible assets and tangible liabilities but with regard to Property, Plant and Equipment (which has a book value as at 31 December 2009 of \$2.86 million), we make the following observations:

- Approximately 90% of Property Plant and Equipment represents the net book value of the Company's photo booth vending machines which are used to generate income for the Company;
- The market capitalisation of the company based on the number of shares currently on issue is \$0.99 million indicating an enterprise value of \$1.85 million;
- The booths are being depreciated over a 7 year period with the majority of machines being acquired in the 2008 and 2009 financial years;

- The Company has incurred trading losses since listing and losses for the most recent half year demonstrate a continuing trend for losses exceeding the depreciation charge for each of those periods;
- The Company has generated net operating cash outflows since listing with a continuing trend shown in the most recent half year results.
- Management expects an improvement in performance and cashflow over the coming period through
  - the relocation of assets to sites where performance is expected to improve,
  - the PATLOC acquisition, which is expected to generate immediate cashflow, and
  - a reduction in overheads (including debt servicing costs through the Proposed Transactions).
- We are not aware of any offers to acquire the assets

There is an indication that the market value of the assets of the Company may be less than the book value. The closer the value of assets to that implied by the share price, the lesser the dilutive impact of the Proposed Transactions.

#### **5.2.6 Control Premium**

ASIC guidelines require the Independent Expert to assess whether a premium for control is included in the conversion price for the shares subject to the Proposed Transactions.

Oceanside is currently the largest shareholder with 26.51% of shares on issue. Under the Proposed Transactions, Oceanside will hold 54.30% of voting power of the Company if Resolution 1 is passed, and if both Resolutions 1 and 2 are passed, Oceanside will hold 58.87% of voting power. In either of those two scenarios, outright control of the Company will pass to Oceanside. In those circumstances, a control premium over and above the price of shares based on recent share issues of trading is warranted.

We are of the view that no control premium is being paid under the Proposed Transactions as the proposed conversion price of the shares is equivalent to the current quoted price on ASX as well as recent issues by the Company.

#### **5.2.7 Conclusion on Fairness**

Whilst the conversion price is equal to that of recent share issues and share trading, we note that this price is significantly below the value of shares on a NAB/NTA basis.

In relation to Resolution 1, we consider the Proposed Transaction is **not fair**. The assessed value of the consideration is lower than the value of PTO shares (including allowance for a control premium) subject of the Proposed Transactions.

In relation to Resolution 2, although the consideration is equal to recent share issues and trading prices, it is below existing NTA and NAB and further dilutes those indicators and we are of the view that the Proposed Transaction is **not fair**.

Similarly, in relation to Resolution 3, although the consideration is on par with recent share issues and trading prices, it is below existing NTA and NAB and further dilutes those indicators, albeit by a smaller margin than under the Proposed Transactions in their entirety. We are of the view that Resolution 3 is **not fair**.

### 5.3 Assessment of Reasonableness

We have considered the advantages and disadvantages of the Proposed Transactions for the Shareholders of PTO. Our analysis considers these separately for Resolution 1, Resolution 2, and Resolution 3.

#### 5.3.1 Key Advantages – Resolution 1

The following are what we consider are the key advantages for the non associated shareholders if Resolution 1 is approved:

- ❑ *Reduction of debt servicing costs*  
The Company will not be subject to any further interest charges on the portion the loan principal being converted by Oceanside.
- ❑ *No requirement to source alternative funding*  
There will not be any requirement to seek alternative funding to repay the portion of the loan principal being converted by Oceanside now or in the future.
- ❑ *Allows for further debt / equity raising activities in the future*  
The conversion of the Oceanside loan to equity represents a significant reduction in balance sheet gearing. If approved, Resolution 1 will improve the Company's balance sheet and should result in easier access to further capital from future debt and / or equity raising.

#### 5.3.2 Key Disadvantages – Resolution 1

The following are what we consider are the key disadvantages for the non associated shareholders if Resolution 1 is approved:

- ❑ *Price is not fair*  
The price at which securities are issued under Resolution 1 is not fair. This assessment includes our assessment that no control premium is being paid (refer to Section 5.2).
- ❑ *Control will be passed to Oceanside*  
Under the Proposed Transactions, non-associated shareholders' interest in the capital of PTO will be significantly diluted. Non-associated shareholders currently hold 51.77% of the issued capital. If the Proposed Transactions are approved their total holdings will represent only 26.73% of the issued capital, with Oceanside holding 54.30%

Based on the current spread of shareholders of PTO it is our view that effective control of the Company will be able to be exercised by Oceanside.

- ❑ *Potential further dilution*  
There could be potential for further dilution in the event of a rights issue where Oceanside decides to take up its rights entitlement and other shareholders do not.
- ❑ *Potential dilution (to non-associated shareholders) of future profits*  
Approval of the Proposed Transactions will mean that non-associated shareholders will have a smaller (or diluted) interest in any future profits than what they presently have.

#### 5.3.3 Key Advantages – Resolution 2

The following are what we consider are the key advantages for the non associated shareholders if Resolution 2 is approved:

- ❑ *Reduction of debt servicing costs*  
The Company will not be subject to any further interest charges on the Mungala loan and the Convertible Note
- ❑ *No requirement to source alternative funding*  
There will not be any requirement to seek alternative funding to repay the Mungala loan now or in the future
- ❑ *Allows for further debt / equity raising activities in the future*  
Whilst the Mungala loan and Serec's Convertible Note are not as substantial as the Oceanside loan, they still represent approximately 13% of total debt of the Company, and can be considered significant. If approved, Resolution 2 will improve the Company's balance sheet to that extent. This should result in easier access to further capital from future debt and / or equity raising.

#### **5.3.4 Key Disadvantages – Resolution 2**

The following are what we consider are the key disadvantages for the non associated shareholders if Resolution 2 is approved:

- ❑ *Price is not fair*  
The price at which securities are issued under Resolution 2 is not fair (refer to section 5.2).
- ❑ *Potential further dilution*  
There could be potential for further dilution in the event of a rights issue where Serec and/or Mungala decide to take up their rights entitlement and other shareholders do not.
- ❑ *Potential dilution (to non-associated shareholders) of future profits*  
Approval of the Proposed Transactions will mean that non-associated shareholders will have a smaller (or diluted) interests in any future profits than what they presently have.

#### **5.3.5 Key Advantages – Resolution 3**

In the event that Resolution 3 is put to shareholders, the following are what we consider are the key advantages for the non associated shareholders if Resolution 3 is approved:

- ❑ *Reduction of debt servicing costs*  
The Company will not be subject to any further interest charges on the the Convertible Note
- ❑ *Allows for further debt / equity raising activities in the future*  
If approved, Resolution 3 will improve the Company's balance sheet to the extent of the outstanding Convertible Notes. Whilst this balance is not necessarily significant, this should result in a "cleaner" balance sheet and equity structure and might improve access to further capital from future debt and / or equity raising.

#### **5.3.6 Key Disadvantages – Resolution 3**

In the event that Resolution 3 is put to shareholders, we consider the key disadvantages for the non associated shareholders if Resolution 3 is approved are the same as those of

Resolution 2 as listed at section 5.3.4. However, we note the dilution in this instance is comparatively low.

### **5.3.7 Implications if the Proposed Transactions are Not Implemented**

In forming our opinion we have also considered the implications if the Proposed Transactions are not approved by PTO shareholders. Whilst the failure of the Proposed Transactions may mean that there is not a dilution of the non associated shareholders' interests in the Company, such lack of approval would mean that PTO shareholders would not benefit from the advantages of the Proposed Transactions as noted under section 5.3.

In addition the failure of the Proposed Transactions to proceed would mean that:-

- ❑ the Company will continue to incur interest charges and be liable to repay the loans, and any interest capitalised, when the loans are called;
- ❑ the Company is likely to still require working capital funding. This will potentially be more difficult to procure with a secured lender in place

In the event that Resolution 3 is put to shareholders, if it were not approved, the Company would not benefit from the advantages as noted at section 5.3.5. In addition, the failure of Resolution 3 would mean that :

- ❑ Serec may choose to convert the loan at a later date, with a resultant dilution on non-associated shares on terms which may be less favourable than the existing conversion rate.

### **5.4 Conclusion on Reasonableness**

We have considered the terms of the Proposed Transactions as outlined in the body of this report. Based on our analysis outlined in the preceding sections, we have concluded that the Proposed Transactions in respect of both Resolutions 1 and 2 **are reasonable**.

Separately, based on the analysis in the preceding sections, we have concluded that Resolution 3, **is reasonable**.

## **APPENDIX A**

### **Statement of Qualifications, Independence, Declarations and Consents**

#### **Qualifications**

Nexia ASR Pty Ltd ("Nexia ASR") is a Melbourne based accounting, audit and business advisory practice and is a licensed investment adviser within the terms of the Corporations Act 2001. Senior partners at Nexia ASR specialise in and regularly perform corporate and asset valuations and advise on company restructures, acquisitions and proposals. Nexia ASR, acting through different partners also performs audit on the accounts of Australian companies.

The persons responsible for preparing this report on behalf of Nexia ASR are Gary Graco (Dip. Bus Studies – Accounting, ACA) and Tom Borsky (B. Ec. FCA), each of whom has a significant number of years of experience in relevant corporate advisory matters including valuations and independent expert reports.

#### **Independence**

Nexia ASR considers itself to be independent in terms of Regulatory Guide 112 issued by ASIC relating to independence of experts and has developed and issued an opinion and report on an unbiased basis.

Nexia ASR and its related entities or any of its Directors or Partners have not had within the previous two years, any shareholding in the Company, Oceanside and Serec/Mungala. Nexia ASR and its related entities have not provided any professional services to the Company, Oceanside or Serec/Mungala during the previous 2 years.

None of Nexia ASR, Gary Graco, Tom Borsky, nor any other member, director, partner or employee of any of Nexia ASR has any interest in the opinion reached by Nexia ASR except that we are entitled to receive professional fees for the completion of this Report based on time incurred at normal professional rates. With the exception of these fees no parties will receive any other benefits, whether directly or indirectly, for or in connection with issuing this report.

#### **Disclaimers**

This report should not be used or relied upon for any purpose other than as an expression of Nexia ASR opinion of the fairness and reasonableness of the Proposal. Nexia ASR expressly disclaims any liability to any person who relies on our report, or seeks to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

Appendix C identifies the sources of information upon which this Report has been based. Whilst Nexia ASR has no reason to believe that such information is not reliable and accurate, it has not caused such information to be independently verified or audited in any way. Inquiry, analysis and review have brought nothing to our attention to indicate a material misstatement, omission or lack of reasonable grounds upon which to base our opinion.

The opinions given by Nexia ASR in this Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. This Report

has been prepared with care and diligence. However, no responsibility is accepted by Nexia ASR or any of its officers or employees for errors or omissions however arising in the preparation of this Report, provided that this shall not absolve Nexia ASR from consequences related to an opinion expressed recklessly or in bad faith.

Advanced drafts of this report were provided to the Directors of the Company. Minor changes for factual content were made to this report. There was no alteration to the methodology or conclusions reached as a result of discussions related to drafts of the report.

Nexia ASR's opinion is based on prevailing conditions at the date of this report including market, economic and other relevant circumstances. These can change over relatively short time period and any subsequent changes in these conditions in the value either positively or negatively

### **Indemnity**

The Company has agreed that it will indemnify Nexia ASR and its employees and officers in respect to any or all losses, claims, damages and liabilities arising as a result of or in connection with the preparation of this report.

### **Consent**

This report has been prepared at the request of the Company and may accompany the Notice of Meeting to be given to shareholders.

Nexia ASR consents to the issuing of this report and the form and context to which it is to be included with the Notice of Meeting. Other than the report, Nexia ASR has not been involved in the preparation of the documents or other aspects of the Proposed Transactions or the Notice of Meeting to which this report may be attached. Accordingly, we take no responsibility for the content of the Notice of Meeting or the Proposed Transactions as a whole. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without prior written consent of Nexia ASR as to the form and context to which it appears.

## **APPENDIX B**

### **Nexia ASR Pty Ltd Financial Services Guide**

This Financial Services Guide is dated 30 April 2010.

#### **1. About us**

Nexia ASR Pty Ltd (ABN 25 825 209 842, Australian Financial Services Licence no 247262) ("Nexia ASR") has been engaged by Photo-Me Australia Limited ("PTO") to provide a report in the form of an Independent Experts Report (the "Report") for inclusion with the Notice of Meeting of Shareholders to be held on or about 30 June 2010 to consider resolutions associated with the proposed the issue of approximately 155.8 million shares to Oceanside Securities Limited ("Oceanside") and 29.7 million shares to Mungala Investments Pty Ltd ("Mungala") and Serec Pty Ltd ("Serec").

You have not engaged us directly but have been provided with a copy of the Report as a shareholder because of your connection to the matters set out in the Report.

#### **2. This Financial Services Guide**

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about Nexia ASR generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

#### **3. Financial services we are licensed to provide**

Our Australian Financial Services Licence allows us to provide general financial product advice in relation to various financial products such as securities, interests in managed investment schemes, and superannuation to retail and wholesale clients.

#### **4. General financial product advice**

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

#### **5. Fees, commissions and other benefits we may receive**

Nexia ASR charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity that engages Nexia ASR to provide a report. Fees are charged on an hourly basis or as a fixed amount, having regard to the time and expertise likely to be engaged in preparation of the Report.

Nexia ASR will receive a fee in the range of approximately \$12,000 to \$14,000 (plus GST) for the preparation of this Report. Directors or employees of Nexia ASR or other associated entities may receive partnership distributions, salary or wages from Nexia ASR.

#### **6. Associations with issuers of financial products**

Nexia ASR and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, Nexia ASR may be the auditor of, or provide financial services to, the issuer of a financial product in the ordinary course of its business.

### **7. Compensation**

Nexia ASR has professional indemnity insurance cover for reports of this nature under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act 2001.

### **8. Complaints**

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavor to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

### **9. Contact Details**

Nexia ASR can be contacted by sending a letter to the following address:

Kevin Mullen

Nexia ASR Pty Ltd

Level 14, 440 Collins St, Melbourne, Vic, 3000

## **APPENDIX C**

### **Sources of Information & Recent PTO Announcements**

1. PTO June 2009 Annual Report
2. PTO December 2009 Half year report
3. PTO pro-forma accounts, FY 2010 profit and loss forecast, and Minutes of Director Meetings
4. Draft Notice of Meeting and Explanatory Statement
5. Oceanside and Mungala Loan Agreements
6. Serec Convertible Note
7. Various websites including ASX, Commsec, Tradingroom, Yahoo Finance, and other information in the public domain
8. ASX Announcements: 1 Jan 2009 – 30 April 2010

## APPENDIX D

### Overview of valuation methodologies

#### *Discounted Cash Flow Based Analysis*

This methodology recognises the present value of the net cash flows which are expected to be derived from future activities. These future cash flows are discounted to current values by recognising both the risk of their receipt and the time value of money using a suitable discount rate. This methodology is normally considered to be the most appropriate method in the calculation of the value where there is adequate information about likely future cash flows, usually over a finite term.

#### *Capitalisation of Maintainable Earnings (CME)*

This requires consideration of the following factors:

- (a) estimation of future maintainable earnings. The maintainable level of earnings is considered to be the level below which, in the absence of unforeseen and exceptional circumstances, the income stream flowing from the assets is unlikely to fall. Maintainable earnings can be influenced by a number of factors including the trend and consistency of historical performance, the stage of development of the business sensitivity to key industry risk factors and the general economic outlook, and the extent to which one-off or non-recurring transactions are reflected in the financial records ; and
- (b) determination of an appropriate capitalisation rate which will reflect a purchaser's required rate of return from the business. It should therefore reflect among other things: -
  - the operational risks of the business;
  - the growth profile of the business
  - the working and long-term capital requirements of the business currently and requirement for funding growth;
  - the nature of the environment in which the business operates: and
  - alternative investment opportunities.
  - a separate assessment of surplus or unrelated assets and liabilities, being those items which are not essential to producing the estimated future earnings.

This methodology is generally recognised as a surrogate for a discounted cashflow analysis (DCF). It is typically employed where an entity or asset has mature operations with a history of profits and an expectation that these will be maintained at similar levels in the future. It is considered a reliable methodology particularly where capital expenditure does not constitute a large part of the cash outflows of the business or where such outflows are generally of a replacement nature.

#### *Comparable Market Transactions*

This methodology requires research to ascertain details of any comparable transactions in the same industry for a similar entity to that being valued. If such transactions exist and the entity being valued is directly comparable to that being acquired then the assets, revenue or earnings multiples, or other measures employed in the actual transaction, can be utilised in the valuation.

The difficulty with this methodology is the sourcing of sufficient information involving the sale process to accurately analyse the consideration paid and to establish the comparability of the two businesses or entities.

### ***Net Assets or Cost Based***

In the absence of positive or very poor cashflows or earnings, the net asset value of an entity can be a reasonable indication of the minimum value for that entity. This involves the determination of the net realisable value of the assets of the business or company assuming an orderly realisation of those assets. This value includes a reduction in value to allow for the reasonable costs of carrying out the sale of assets and for the time value of money. It is not a valuation on the basis of a forced sale, where the assets might be sold at values materially different from their fair market value.

This approach is appropriate where the business or entity concerned is predominately a property or liquid investment entity, is not generating adequate returns and in certain circumstances where there are surplus non-operating assets.

## PROXY FORM

**APPOINTMENT OF PROXY  
PHOTO-ME AUSTRALIA LIMITED  
ACN 110 184 355**

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

of \_\_\_\_\_

being a member/(s) of Photo-Me Australia Ltd and entitled to attend and vote,

appoint \_\_\_\_\_

(full name)

OR failing him/her, or if no person is named, the Chairperson of the meeting or the Chairperson's nominee, to vote in accordance with the following directions, if no directions have been given, as the proxy sees fit, at the Extraordinary General Meeting of the Company to be held on Wednesday, 30 June 2010 at 4.00pm. and at any adjournment of the meeting and to demand a poll.

### IMPORTANT

If the Chairman 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 a resolution, please place a mark in this box

By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of the resolutions and that votes cast by the Chairman of the meeting for those resolutions other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman will not cast your votes on the resolutions and your votes will not be counted in calculating the required majority if a poll is called on the resolution. The Chairman of the Meeting intends to vote undirected proxies in favour of each resolution.

### Instructions as to Voting

If you wish to instruct your proxy how to vote with respect to the proposed resolutions, please tick or otherwise mark the appropriate box opposite each item below.

	FOR	AGAINST	ABSTAIN
Resolution 1 – Issue of Conversion Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Issue of Conversion Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Issue of Conversion Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<b>Dated:</b>	
<b>Individuals or Joint Holders</b>	<b>Companies (affix common seal if appropriate)</b>
_____	_____
(Signature)	Director                      Director/Secretary
_____	_____
(Signature)	Sole Director and Sole Company Secretary

Note:

This proxy form must be signed personally by the member or his attorney. A corporation must sign under its Common Seal (if applicable) or under the hand of its attorney and shall be duly attested by witnessing.

**PHOTO-ME AUSTRALIA LIMITED**  
**ACN 110 184 355**

Instructions for Completing 'Appointment of Proxy' Form

1. A Shareholder entitled to attend and vote at a General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the Shareholder's voting rights. If a Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a Shareholder.
2. Where a Shareholder's holding is in one name the holder must sign. Where the holding is in more than one name, all Shareholders should sign.
3. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under a power of attorney, the power of attorney must be lodged in like manner as this Proxy Form.
4. Corporate Shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of Section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
  - 2 directors of the company;
  - a director and a company secretary of the company; or
  - for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in Section 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with Section 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of Section 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

5. Completion of a Proxy Form will not prevent individual Shareholders from attending the General Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the General Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the General Meeting.
6. To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
  - (a) post to Photo-Me Australia s Limited, Level 7, the Quadrant, 1 William St, Perth, Western Australia, 6000; or
  - (b) facsimile to the Company on facsimile number +61 (8) 9463 2499,so that it is received not later than 4.00pm (WST) on Monday 28 June 2010.

**Proxy forms received later than this time will be invalid.**