Simmons
CORPORATE FINANCE

Pulse Utilities New Zealand Limited

Independent Adviser's Report

In Respect of the Allotment of Shares to Buller Electricity Limited

July 2011

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1. Introduction

1.1 Background

Pulse Utilities New Zealand Limited (**Pulse Utilities** or the **Company**) is listed on the alternative market (**NZAX**) operated by NZX Limited (**NZX**) with a market capitalisation of $4.6 million as at 28 July 2011 and audited total equity of negative $6.3 million as at 31 March 2011.

Pulse Utilities is an independent electricity retailer with over 26,000 customers nationwide. The Company also provides metering and meter data services to residential and commercial customers.

A profile of the Company is set out in section 4.

1.2 Buller Electricity Limited

Buller Electricity Limited (**BEL**) is an electricity lines distribution business (**EDB**) in the Buller region and a contracting business that performs electrical maintenance and capital works.

BEL currently holds 2,624,091 ordinary shares in Pulse Utilities, representing 8.48% of the total shares on issue. BEL subscribed for 2,400,000 shares under the Company's capital raising on 22 December 2009. BEL was also granted 1,000,000 options as part of the capital raising.

BEL currently provides a significant level of financial support to Pulse Utilities:

- it has provided short term loans totalling $3.07 million between 20 January 2011 and 20 July 2011, of which approximately $3.0 million was still owing as at 29 July 2011 (the **BEL Loans**)
- it has provided a guarantee and indemnity for a maximum amount of $4.5 million to Westpac New Zealand Limited and Westpac Banking Corporation (**Westpac**) in respect of a letter of credit facility established by the Company with Westpac under which Westpac provides a guarantee to the Clearing Manager for the Company's electricity trading obligations (the **BEL Guarantee**).

The obligations and indebtedness of the Company to BEL in respect of the provision of this financial support are secured to BEL under a General Security Deed dated 30 September 2010, as varied by a Deed of Variation dated 17 December 2010 (the **General Security Deed**).

A profile of BEL is set out in section 5.

1.3 Recapitalisation Proposal

In order to secure the future of Pulse Utilities and fully fund its business, the Company entered into a conditional heads of agreement with BEL on 20 June 2011 (the **BEL HoA**).

BEL has agreed to provide additional capital and other financial support to Pulse Utilities which involves a restructuring of the Company's debt, new bank facilities and a capital raising (the **Recapitalisation Proposal**). If the Recapitalisation Proposal is implemented, BEL will increase its shareholding in the Company to between 65.11% and 73.08%.

The Recapitalisation Proposal involves:

- the restructure of the Company's convertible notes (the **Convertible Notes**)
- a placement of $1.5 million of new ordinary shares to qualified investors (the **Private Placements**)
- an increase in the Westpac facilities, guaranteed by BEL
- capitalisation of part of the BEL Loans
- a placement of $5.0 million of new ordinary shares to BEL (the **BEL Cash Subscription**).

Restruct+ure of Convertible Notes

Pulse Utilities has approximately $4.2 million of Convertible Notes on issue to certain qualified investors. The Convertible Notes have a face value of $1.00 each and are convertible into ordinary shares upon maturity at the option of the holder. The Convertible Notes do not (of themselves) confer voting rights.

On 20 July 2011, the holders of the Convertible Notes agreed to a restructure proposal (the **CN Restructure**) whereby:

- 40% of the face value of the Convertible Notes (approximately $1.7 million) will convert into an interest-free loan that is repayable on 20 July 2016
- the balance of the Convertible Notes (approximately $2.5 million) will convert to ordinary shares at a conversion rate of 3 shares for each dollar of Convertible Notes held. This will result in 7,622,100 new ordinary shares being issued (the **CN Allotment**).

Private Placements

A condition of the BEL HoA is that Pulse Utilities must obtain a commitment from parties to invest additional equity capital of no less than $1.5 million by way of separate share placements at a price per share no less than the issue price for the BEL Cash Subscription.

On 20 July 2011, Pulse Utilities announced that it had entered into conditional subscription agreements with various qualified investors to secure the $1.5 million of new funding. This will involve the issue of 30,000,000 new ordinary shares at an issue price of $0.05 per share, subject to shareholder approval.

Guarantee of Westpac Facilities

Under the HoA, BEL will guarantee Pulse Utilities' obligations to Westpac for a 2 year term in respect of $9 million of banking facilities:

- an $8 million letter of credit facility which Pulse Utilities will be able to use to meet security requirements for the wholesale electricity market and EDBs and to secure electricity hedging contracts
- a $1 million overdraft facility.

In consideration for the BEL Guarantee, Pulse Utilities will pay BEL a guarantee fee of $2.7 million satisfied by way of the issue of 54,000,000 ordinary shares at an issue price of $0.05 per share (representing a 15% per annum payment on the aggregate value of the guarantee) (the **BEL Guarantee Fee**).

Part Capitalisation of the BEL Loans

BEL will capitalise $1.12 million of the BEL Loans, receiving 22,400,000 ordinary shares at an issue price of $0.05 per share (the **BEL Loan Capitalisation**).

BEL Cash Subscription

Under the BEL Cash Subscription, BEL will invest $5.0 million in cash to subscribe for 100,000,000 new ordinary shares at an issue price of $0.05 per share.

BEL Allotment

We refer to the allotment of 176,400,000 new ordinary shares to BEL under the BEL Guarantee Fee, the BEL Loan Capitalisation and the BEL Cash Subscription collectively as the **BEL Allotment**.

1.4 Share Purchase Plan

If the Recapitalisation Proposal is approved by shareholders, Pulse Utilities intends to offer a new share purchase plan to shareholders in September 2011 (the **SPP**). The SPP will seek to raise a maximum of $1.5 million through the issue of up to 30,000,000 new ordinary shares at an issue price of $0.05 per share, thus giving shareholders an opportunity to subscribe for shares at this price. It is intended that if any shortfall arises from the SPP, these shares will be placed to qualified investors within 3 months of the SPP closing.

1.5 Impact of the BEL Allotment on Shareholding Levels

The BEL Allotment will result in BEL holding between 65.11% and 73.08% of the shares in Pulse Utilities, depending on the level of entitlements taken up by the Non-associated Shareholders under the SPP.

BEL's Potential Shareholding Levels

	Low	High
Current	8.48%	8.48%
Post the Recapitalisation Proposal	73,08%	73,08%
Post the SPP	65.11% [1]	73.08% [2]

1 Assumes the Non-associated Shareholders take up all of their entitlements under the SPP
2 Assumes the Non-associated Shareholders take up none of their entitlements under the SPP

1.6 Annual Meeting

The Company's shareholders other than BEL and its associates (the **Non-associated Shareholders**) will vote on an ordinary resolution (resolution 3) in respect of matters associated with the Recapitalisation Proposal at the Company's annual meeting on 18 August 2011 that cover the BEL Allotment, the Private Placements and the CN Allotment. The subscribers under the Private Placement and the recipients of the CN Allotment (together the **Disqualified Shareholders**) are not permitted to vote on resolution 3.

Resolution 3 is required under the Takeovers Code (the **Code**) and the NZAX Listing Rules.

Resolution 4 separately approves the Recapitalisation Proposal as a whole as a major transaction as required under section 129 of the Companies Act 1993 (the **Companies Act**). This resolution is a special resolution and all shareholders, including BEL, may vote in respect of resolution 4.

Resolution 5 approves the transactions envisaged under the BEL HoA as related party transactions as required under NZAX Listing Rule 9.2.1. This resolution is an ordinary resolution. BEL and its associated parties and Dene Biddlecombe and his associated parties are prohibited from voting on the resolution.

Resolution 3, resolution 4 and resolution 5 are interdependent and all 3 resolutions must be passed in order for each resolution to be effective.

Shareholders will also vote on ordinary resolutions in respect of:

- the re-election of Richard Burcher as a director of the Company (resolution 1)
- authorising the Company's board of directors (the **Board**) to fix the auditor's remuneration (resolution 2).

1.7 Regulatory Requirements

Rule 6 of the Code prohibits:

- a person who holds or controls less than 20% of the voting rights in a code company from increasing its holding or control of voting rights beyond 20%
- a person holding or controlling 20% or more of the voting rights in a code company from increasing its holding or control of voting rights

unless the person and that person's associates comply with exceptions to this fundamental rule.

One of the exceptions, set out in Rule 7(d) of the Code, enables a person and its associates to increase their holding or control of voting rights by an allotment of shares if the allotment is approved by an ordinary resolution of the code company.

The BEL Allotment will result in BEL increasing its control of the voting rights in Pulse Utilities from 8.48% to between 65.11% and 73.08%.

Accordingly, the Non-associated Shareholders (excluding the Disqualified Shareholders) will vote at the Company's annual meeting on an ordinary resolution in respect of the Recapitalisation Proposal that includes approving the BEL Allotment in accordance with the Code.

Rule 18 of the Code requires the directors of a code company to obtain an Independent Adviser's Report on the merits of an allotment under Rule 7(d).

This Independent Adviser’s Report is to be included in the notice of meeting pursuant to Rule 16(h).

1.8 Purpose of the Report

The directors of Pulse Utilities have engaged Simmons Corporate Finance Limited (**Simmons Corporate Finance**) to prepare an Independent Adviser’s Report on the merits of the allotment of shares under the BEL Allotment in accordance with Rule 18 of the Code.

Simmons Corporate Finance was approved by the Takeovers Panel on 5 July 2011 to prepare the Independent Adviser’s Report.

Simmons Corporate Finance issues this Independent Adviser’s Report to the directors of Pulse Utilities for the benefit of the Non-associated Shareholders to assist them in forming their own opinion on whether to vote for or against the resolutions in respect of the Recapitalisation Proposal (which includes the BEL Allotment).

We note that each shareholder’s circumstances and objectives are unique. Accordingly, it is not possible to report on the merits of the allotment of shares under the BEL Allotment. This report on the merits of the allotment of shares under the BEL Allotment is therefore necessarily general in nature.

This Independent Adviser’s Report is not to be used for any other purpose without our prior written consent.

2. Evaluation of the Merits of the Allotment of Shares to BEL

2.1 Basis of Evaluation

Rule 18 of the Code requires an evaluation of the merits of the allotment of shares to BEL under the BEL Allotment.

There is no legal definition of the term *merits* in New Zealand in either the Code or in any statute dealing with securities or commercial law.

In the absence of an explicit definition of *merits*, guidance can be taken from:

- the Takeovers Panel guidance note on the role of independent advisers dated August 2007
- definitions designed to address similar issues within New Zealand regulations which are relevant to the proposed transaction
- overseas precedents
- the ordinary meaning of the term *merits*.

We are of the view that an assessment of the merits of the allotment of shares to BEL under the BEL Allotment should focus on:

- the requirement for the Recapitalisation Proposal
- the prospects for Pulse Utilities without the Recapitalisation Proposal
- the alternatives to the Recapitalisation Proposal
- the terms and conditions of the BEL Loan Capitalisation
- the terms and conditions of the BEL Guarantee Fee
- the terms and conditions of the Cash Subscription
- the impact of the Recapitalisation Proposal on Pulse Utilities' financial position
- the impact of the Recapitalisation Proposal on the control of the Company
- the impact of the Recapitalisation Proposal on Pulse Utilities' share price
- other benefits and disadvantages to BEL of the Recapitalisation Proposal
- the benefits and disadvantages to the Non-associated Shareholders of the Recapitalisation Proposal
- the implications if the 2 resolutions in respect of the Recapitalisation Proposal are not approved.

Our opinion should be considered as a whole. Selecting portions of the evaluation without considering all the factors and analyses together could create a misleading view of the process underlying the opinion.

2.2 Summary of the Evaluation of the Merits of the Allotment of Shares to BEL

In our opinion, after having regard to all relevant factors, the positive aspects of the Recapitalisation Proposal (which the BEL Allotment forms part of) outweigh the negative aspects from the perspective of the Non-associated Shareholders.

Our evaluation of the merits of the allotment of shares to BEL under the BEL Allotment and of the Recapitalisation Proposal overall is set out in detail in sections 2.4 to 2.17. In summary, the key factors leading to our opinion are:

- the rationale for the Recapitalisation Proposal is sound. The Company's financial position is perilous. It requires an immediate injection of capital to fund its working capital requirements and to relieve its debt burden
- there are no realistic alternative capital raising options available to the Company in the near term
- the issue price of the shares under the BEL Allotment is $0.05 per share. We are of the view that the value of the Company's shares in the absence of the Recapitalisation Proposal is negligible. Alternatively, the indicative value of 100% of the shares in Pulse Utilities could potentially be in the range of $0.05 to $0.14 per share following the Recapitalisation Proposal, based on the Company's financial projections
- the Recapitalisation Proposal will have a positive impact on the Company's financial position, increasing equity by approximately $10.0 million
- the BEL Allotment will significantly increase BEL's ability to influence the outcome of shareholding voting as it will hold between 65.11% and 73.08% of the voting rights in the Company
- the BEL Allotment will most likely increase BEL's influence over the Board and operations as we would expect BEL to seek Board representation proportionate to its shareholding level
- the Recapitalisation Proposal will see Non-associated Shareholders' interests in the Company diluted by approximately 71%
- the BEL Allotment will likely have a material negative impact on the Company's share price. The shares last traded on 28 June 2011 at $0.15. The BEL Allotment, the Private Placements and the SPP issue price is $0.05 per share
- the BEL Allotment is unlikely to have any material impact on the liquidity of Pulse Utilities' shares
- the BEL Allotment will likely reduce the attraction of Pulse Utilities as a takeover target
- the implications of the Recapitalisation Proposal not being approved by the Non-associated Shareholders are significant. We consider it most likely that the Company would be placed into receivership and there is unlikely to be any return to shareholders.

In our view, the financial position of the Company is so dire that there is little option for the Non-associated Shareholders but to vote in favour of the 3 Recapitalisation Proposal resolutions.

While there are a number of negative features associated with the Recapitalisation Proposal, the reality for the Non-associated Shareholders is that if the 3 Recapitalisation Proposal resolutions are not approved, then the Company will most likely be placed into receivership and there is unlikely to be any return to shareholders.

The Recapitalisation Proposal appears to be the only realistic option available to the Non-associated Shareholders to preserve some value in their investment in Pulse Utilities. In such circumstances, we can see no compelling reason for the Non-associated Shareholders to vote against the 3 Recapitalisation Proposal resolutions.

2.3 Rationale for the Recapitalisation Proposal

Since its incorporation in 2004, Pulse Utilities has issued 30,942,516 ordinary shares, raising over $24 million of equity capital. Over the same period, the Company has accumulated losses in excess of $31 million. Approximately $20 million of these losses have been incurred in the last 3 years, following the Company's transformation from a smart meter developer to an electricity retailer.

In order to operate and grow as an electricity retailer, Pulse Utilities requires a significant level of capital. Each new customer that the Company acquires represents more ongoing income for its retailing operations and potentially improves its future business prospects. However, each new customer also incurs upfront customer acquisition costs and regulatory costs that the Company needs to fund. The regulatory costs are significant as they increase the amount of security that the Company needs:

- to buy electricity on the wholesale market
- to lodge with EDBs to secure use of their electricity lines
- to secure electricity hedging contracts which the Company buys to manage electricity price risk.

While Pulse Utilities has grown its customer base significantly in the last year, it has not been able to raise sufficient capital to fund its business. The Company has made numerous attempts in recent times to raise capital. However, these have not been sufficiently successful of late. A share purchase plan offered to shareholders in September and October 2010 attracted limited support. The Company sought to raise approximately $3.6 million under the share purchase plan but only raised approximately $0.7 million. It was subsequently able to place approximately $0.7 million of the shortfall with investors.

Since then, the Company has had discussions with a number of potential investors (including private equity firms and high net worth individuals) but has found that factors such as an adverse environment for raising capital and uncertainty in the electricity industry has resulted in it not being able to raise the capital it needs to fund its current operations, let alone its growth plans.

The combination of funding customer growth and servicing debt obligations (including the redemption of Convertible Notes) has placed considerable financial strain on the Company. It has only been able to continue operating in recent months due to the support it has received from a few major shareholders, most notably BEL, and to a lesser extent, interests associated with the Company's managing director, Dene Biddlecombe.

BEL has provided $3.07 million of BEL Loans between 20 January 2011 and 20 July 2011 (including the provision of $0.9 million on 20 July 2011) and the BEL Guarantee to support the Company's obligations under its Westpac letter of credit facility. This facility is used by the Company to draw letters of credit as security for purchasing electricity on the New Zealand wholesale market. The level of the BEL Guarantee was increased from $2.8 million to $4.5 million in July 2011.

We are advised by the Company's directors that they view the current position of the Company as being unsustainable. In their view, the Company needs to be recapitalised or else it must cease trading. If the Company were to cease trading, then a receiver would be appointed and Pulse Utilities would most likely be subsequently liquidated.

BEL holds a first ranking general security over the Company's assets and undertakings. Should Pulse Utilities enter liquidation, the Company's directors believe that following the repayment of secured creditors and after realisation and liquidation costs, it is unlikely that there would be any funds available to return to shareholders. We concur with this view.

We are advised by the Company's directors that they are of the view that the Recapitalisation Proposal represents the only credible alternative to a receivership scenario. They are of the view that Pulse Utilities has a positive future if, and only if, the Company's balance sheet is strengthened through the conversion of debt to equity via the CN Restructure and the BEL Loan Capitalisation and the raising of additional capital that the Company needs to finance its ongoing activities and growth initiatives through the Private Placements, the BEL Cash Subscription and the SPP.

2.4 Alternatives to the Recapitalisation Proposal

In theory, Pulse Utilities could potentially pursue alternative forms of raising capital including:

- seeking alternate debt funding
- seeking another strategic investor
- making a series of share placements
- asset sales.

Given the Company's current levels of earnings, its negative equity position and its current need for a guarantor of its Westpac facilities, we consider it highly unlikely that Pulse Utilities could access alternate debt funding on commercially viable terms to replace the Westpac facility and provide sufficient additional capital for its operations.

We are advised by the Company's directors that they had engaged in discussions with various parties in respect of share placements in recent times. However, none of the parties were prepared to invest in the Company.

Given the Company's financial position and its reliance on BEL for financial support, we consider it unlikely that any new investor would be prepared to make a substantial equity investment in Pulse Utilities at this point in time.

Over half of the Company's assets consist of trade receivables and accrued income. Approximately 18% of trade receivables as at 31 March 2011 were considered impaired. Other major asset categories are fixed assets (mainly plant and equipment) and intangible assets (mainly software and development costs). It is unlikely that the Company would be able to raise sufficient funds from asset sales as the assets could not be monetised in a relatively short period of time. Furthermore, given the nature of the assets, there would be some uncertainty as to whether they could be realised for their carrying amounts.

In summary, we are of the view that other potential funding sources are not realistic alternatives at this point in time:

- the current economic environment is challenging for capital raising
- replacement debt funding at current levels is unlikely to be accessible on commercially viable terms
- the likelihood of Pulse Utilities securing a substantial investment from an institutional investor or a strategic investor in the near term appears limited
- assets sales are unlikely to generate the level of funds required within the required timeframes.

2.5 The Prospects for Pulse Utilities Without the Recapitalisation Proposal

The prospects for Pulse Utilities without the Recapitalisation Proposal are dire. The Company recorded a loss of $7.6 million for the year ended 31 March 2011, a loss of $1.4 million for the 3 months to 30 June 2011 and had negative total equity of $7.7 million as at 30 June 2011. The Company is reliant on BEL's support in the form of the BEL Loans and BEL Guarantee to finance its operations.

In the event that the Recapitalisation Proposal does not proceed, we see no incentive for BEL to continue to fund the Company. BEL holds a first ranking general security over the Company's assets and undertakings. Assuming that the Company cannot meet its debt servicing obligations to BEL, then we consider it most likely that BEL would place the Company in receivership. The Company's directors also consider this to be the most likely outcome if the Recapitalisation Proposal is not approved.

Given the Company's negative equity position and the nature of its assets, we consider that if the Company were to be placed in receivership and then subsequently liquidated, there is unlikely to be any return to shareholders.

2.6 Structure of the BEL Guarantee Fee

The key terms of the BEL Guarantee Fee are:

- BEL will guarantee Pulse Utilities' obligations to Westpac for a 2 year term in respect of $9 million of banking facilities
- Pulse Utilities will issue BEL 54,000,000 new ordinary shares at an issue price of $0.05 per share in consideration for the guarantee
- new ordinary shares will rank equally in all respects with the existing ordinary shares.

Guarantee Fee Level

The BEL Guarantee Fee is set at 15% per annum of the maximum amount that BEL has guaranteed. This equates to $1.35 million per annum and totals $2.7 million over the 2 years that BEL has agreed to provide the guarantee.

There is limited data available to determine what a market rate would be for a guarantee of this nature. In theory, the maximum rate that an entity would be prepared to pay by way of a guarantee fee would be the interest rate differential (or spread) that it would face between borrowing with the benefit of the guarantee versus borrowing without the guarantee. The interest rate differential would be driven by the lender's perception of the additional risk it faces through lending to the entity without the security of the guarantee. Arm's length parties would generally look to share the economic benefit of the interest rate reduction according to their relative contributions.

The difficulty in this instance is that it is highly unlikely that Pulse Utilities would be able to access the level of finance facilities that it currently has without a guarantee. The Company's negative total equity position and its history of operating losses would most likely prevent any lender from providing any significant finance facilities to the Company. Therefore it is not possible to assess an interest rate differential in this instance.

While on the face of it a 15% guarantee fee may appear to be high, the reality for Pulse Utilities is that it would not be able to access the finance facilities from Westpac without the BEL Guarantee (or a similar guarantee). Accordingly, the Company has little choice in being able to negotiate a more advantageous guarantee fee level.

Issue Price of Shares

Pulse Utilities will issue BEL 54,000,000 new ordinary shares at an issue price of $0.05 per share as consideration for the BEL Guarantee Fee of $2.7 million.

The issue price is at a significant discount to the Company's share price. The issue price of $0.05 per share is at a 67% discount to the Company's 3 month volume weighted average share price (**VWAP**) of $0.15. However, the analysis of Pulse Utilities' share price history in section 4.11 shows that trading in the Company's shares is extremely thin. The shares have only traded on 19 days in the past year. Accordingly, we do not consider the observed shares prices necessarily represent a strong indication of the market value of the Company's shares.

We have undertaken an assessment of the indicative value of Pulse Utilities' shares in section 6:

- at this point in time, the Company's shares have negligible value. The Company's total equity as at 30 June 2011 was approximately negative $7.7 million and without the Recapitalisation Proposal, the Company is likely to cease trading and be placed into receivership
- the indicative fair market value of 100% of the shares in Pulse Utilities could potentially be in the range of $0.05 to $0.14 per share following the Recapitalisation Proposal, based on the Company's financial projections.

The 2 valuation scenarios indicate that the value of the shares potentially ranges from nil to up to $0.14 per share, depending on whether the Recapitalisation Proposal is approved. The issue price of $0.05 per share under the BEL Allotment sits between the indicative valuation range and as such, could be considered to be reasonable.

However, the issue of value is somewhat circular as we consider that given the Recapitalisation Proposal involves the Company issuing 214,022,100 new ordinary shares, representing an increase of 692% over the number of shares currently on issue, the issue price of the new shares will most likely be the prime determinant of the price at which the Company's shares will trade at immediately after the Recapitalisation Proposal.

2.7 Structure of the BEL Loan Capitalisation

The key terms of the BEL Loan Capitalisation are:

- BEL will capitalise $1.12 million of the BEL Loans
- Pulse Utilities will issue BEL 22,400,000 new ordinary shares at an issue price of $0.05 per share
- new ordinary shares will rank equally in all respects with the existing ordinary shares.

The conversion of debt to equity is positive for the Company as it strengthens its financial position (as shown in section 2.9) as well as relieving the cash flow requirement to service the debt though interest payments and principal repayments.

The issue price of $0.05 per share for the 22,400,000 new ordinary shares is the same as the issue price for the BEL Guarantee Fee, the BEL Cash Subscription and the Private Placements.

2.8 Structure of the BEL Cash Subscription

The key terms of the BEL Cash Subscription are:

- BEL will subscribe for 100,000,000 new ordinary shares
- an issue price of $0.05 per share
- new ordinary shares will rank equally in all respects with the existing ordinary shares.

The BEL Cash Subscription is of a significant size, requiring BEL to invest a further $5 million of cash into the Company. This will significantly strengthen the Company's financial position.

The issue price of $0.05 per share for the 100,000,000 new ordinary shares is the same as the issue price for the BEL Guarantee Fee, the BEL Loan Capitalisation and the Private Placements.

2.9 Impact on Financial Position

Pulse Utilities' total equity as at 30 June 2011 was negative $7.7 million. Its net tangible assets (**NTA**) at that date was negative $8.5 million. NTA per share equated to negative $0.27 per share.

The Recapitalisation Proposal will significantly strengthen the Company's financial position by:

- increasing the Company's equity by approximately $10.0 million
- injecting $6.5 million of cash into the Company
- capitalising approximately $3.6 million of debt into equity via the CN Allotment (approximately $2.5 million) and the BEL Loan Capitalisation ($1.12 million)
- converting approximately $1.7 million of Convertible Notes into a 5 year interest free loan
- increasing the Westpac facilities available to the Company through the BEL Guarantee to $9 million (including an overdraft facility of $1 million), which in turn will release cash security bonds in excess of $1.9 million back to the Company.

For illustrative purposes, if the Recapitalisation Proposal were to have been completed on 30 June 2011, Pulse Utilities' equity would increase by $10.0 million to $2.3 million and NTA per share would increase to $0.01.

Illustrative Effect of the Recapitalisation Proposal

	Equity ($000)	No. of Shares (000)	Equity $ / Share	NTA $ / Share
30 June 2011	(7,680)	30,943	($0.25)	($0.27)
CN Conversion	2,541	7,622	$0.33	$0.33
Private Placements	1,500	30,000	$0.05	$0.05
BEL Guarantee Fee	- [1]	54,000	- [1]	- [1]
BEL Loan Capitalisation	1,120	22,400	$0.05	$0.05
BEL Cash Subscription	5,000	100,000	$0.05	$0.05
Recapitalisation Proposal costs	(200)	-	($0.00)	($0.00)
Post the Recapitalisation Proposal	2,281	244,965	$0.01	$0.01

1 Notionally assumes the BEL Guarantee Fee is immediately expensed

Furthermore, up to $1.5 million may be raised from the SPP following the Recapitalisation Proposal.

2.10 Impact on Control

Share Capital and Shareholders

Pulse Utilities currently has 30,942,516 ordinary fully paid shares on issue. The names, number of shares and percentage holding of the Company's 10 largest shareholders as at 22 July 2011 are set out in section 4.7.

Pulse Utilities currently has 3 substantial security holders:

- Robert Famularo as trustee of the Famularo Family Trust – holding 12.20% of the Company's shares
- BEL – 8.48%
- Dene Biddlecombe and Peter Hine as trustees of the Biddlecombe Family Trust – 6.38%. Mr Biddlecombe is the Company's managing director.

The 3 shareholders collectively control 27.06% of the voting rights in the Company at present.

BEL's Potential Shareholding Levels

The allotment of shares under the BEL Allotment will enable BEL to increase its shareholdings in Pulse Utilities without having to make a formal offer to all shareholders in accordance with Rules 7(a) or 7(b) of the Code. This is the principal reason why the Non-associated Shareholders have the opportunity to vote for or against the BEL Allotment under resolution 3.

The percentage of voting rights that BEL will hold at the end of the Recapitalisation Proposal will vary according to the level of subscriptions by the Non-associated Shareholders under the SPP:

- if the Non-associated Shareholders subscribe for all of their entitlements, then BEL will hold 65.11% of the voting rights after the Recapitalisation Proposal
- if the Non-associated Shareholders do not subscribe up any of their entitlements, then BEL will hold 73.08% of the voting rights after the Recapitalisation Proposal.

We consider the maximum level of 73.08% is unlikely to eventuate as it is based on none of the Non-associated Shareholders subscribing for their entitlements under the SPP.

Shareholding Voting

Following the BEL Allotment, BEL will have the ability to influence the outcome of all shareholder voting (where it is entitled to vote) as it will be able to pass or block ordinary resolutions (which require the approval of more than 50% of the votes cast by shareholders) and block special resolutions (which require the approval of 75% of the votes cast by shareholders).

While an interest of between 65.11% to 73.08% will technically not be sufficient to singlehandedly pass special resolutions, in reality, it most likely will be in a listed company with more than 600 shareholders (as Pulse Utilities currently has). This is because a number of shareholders in listed companies tend not to vote on resolutions and hence the relative weight of the 65.11% to 73.08% interest increases.

The ability for any shareholder to influence the outcome of voting on the Company's ordinary resolutions or special resolutions may be reduced by external factors such as the Company's constitution, the NZAX Listing Rules and the Companies Act.

We are of the view that the allotment of shares to BEL under the BEL Allotment will significantly increase its ability to exert shareholder control over Pulse Utilities as BEL will, at a minimum, be able to block special resolutions and pass or block ordinary resolutions and it may be able to pass special resolutions.

Board Control

We are advised by the Company's directors that at this point in time, no agreements have been made with BEL as to future Board representation following the BEL Allotment. However, BEL will be invited to nominate representatives onto the Board immediately after the Recapitalisation Proposal is completed.

We expect that BEL will seek Board representation following the Recapitalisation Proposal at a level proportionate to its increased shareholding.

Operations

We are advised by the Company's directors that BEL currently does not have any influence over the operations of the Company other than through the provision of financial support. However, following the completion of the Restructuring Proposal, BEL will play a greater role in the Company's operational matters by working alongside the Company to:

- improve the Company's hedging strategy in order to minimise exposure to adverse price outcomes in the spot electricity market
- develop a new retail strategy for the Company, including customer acquisition rates and the location of these customers to minimise Pulse Utilities' risk exposure
- improve the Company's credit screening process and debtor management.

2.11 Dilutionary Impact

The Recapitalisation Proposal will result in the Non-associated Shareholders' proportionate shareholdings in the Company being significantly diluted by approximately 71%. However, the level of dilution can be reduced, albeit to a small extent of approximately 9%, if Non-associated Shareholders subscribe for their full entitlements under the SPP.

Dilutionary Impact of the Recapitalisation Proposal

	Current		Post Recapitalisation Proposal	
	No. of Shares	%	No. of Shares	%
BEL	2,624,091	8.48%	179,024,091	73.08%
Non-associated Shareholders	28,318,425	91.52%	65,940,525	26.92%
Total	30,942,516	100.00%	244,964,616	100.00%
Dilutionary impact				70.6%

2.12 Impact on Share Price and Liquidity

Share Price

A summary of Pulse Utilities' daily closing share price and daily volume of shares traded from 26 November 2007 is set out in section 4.11. The shares have traded at a VWAP of $0.40 over the past year.

Details of the Recapitalisation Proposal were announced on 20 June 2011. Pulse Utilities' closing share price immediately prior to that date was $0.38 (based on a last trade on 3 March 2011). Since then, 11,000 shares have traded at $0.15.

We consider the Recapitalisation Proposal is likely to have a material impact on the Company's share price. Given the size of the BEL Allotment and the Private Placements, we would expect any future trading of the Company's shares to likely be around the $0.05 issue price level rather than at the higher historic price levels.

Liquidity

Trading in the Company's shares is extremely thin. Only 0.3% of the Company's shares have traded in the past year on 19 days.

The size of the pool of shares held by the Non-associated Shareholders (the **Public Pool**) will not increase under the BEL Allotment. However, the size of the Public Pool will increase as a result of the CN Allotment and the Private Placements.

In our view, the BEL Allotment on its own is unlikely to have a positive or negative effect on the liquidity of Pulse Utilities' shares. Similarly, we do not consider that the Recapitalisation Proposal will have a material impact on the liquidity of the Company's shares.

2.13 Benefits to BEL

The key benefit of the BEL Allotment is that it provides BEL with the opportunity to significantly increase its shareholding (and level of control) in Pulse Utilities at an issue price of $0.05 per share.

The shareholding level that BEL will hold will range from 65.11% to 73.08% and be dependent on the extent to which the Non-associated Shareholders subscribe for their entitlements under the SPP.

2.14 Disadvantages to BEL

Increased Exposure to the Risks of Pulse Utilities

The key issues and risks that are likely to impact upon the business operations of Pulse Utilities are set out in section 4.5.

As BEL's ownership in Pulse Utilities increases, so does its exposure to these risks. The level of ownership for BEL will increase from 8.48% to a shareholding of between 65.11% and 73.08%. BEL has little control over the subscriptions to the SPP by the Non-associated Shareholders and hence its ultimate shareholding level in Pulse Utilities.

Significant Financial Commitment

BEL currently holds 8.48% of the Company's shares, has provided $3.07 million of BEL Loans and has provided guarantees up to a maximum of $4.5 million to Westpac under the BEL Guarantee.

The Recapitalisation Proposal will require a significant increase in BEL's financial commitments to the Company:

- it will invest $5.0 million of cash into the Company via the BEL Cash Subscription
- it will convert $1.12 million of BEL Loans into equity under the BEL Loan Capitalisation
- it will increase its exposure under the BEL Guarantee up to a maximum of $9 million.

2.15 Benefits for the Non-associated Shareholders

Strengthens the Company's Financial Position

The Recapitalisation Proposal will significantly strengthen the Company's financial position and place Pulse Utilities in a much better position to execute its growth strategies. The Company will have enhanced capability to enter into electricity hedging contracts and mitigate electricity price risks. It will also be able to fund better resources in respect of critical operational functions such as credit control.

In the absence of further funding, we are of the view that the Company's financial position is in a perilous state and that it would likely cease to trade in the near future. If the Company were to be placed into receivership and subsequently liquidated, we are of the view that there is unlikely to be any return to shareholders.

Benefits to Pulse Utilities of BEL as a Cornerstone Shareholder

The Recapitalisation Proposal will enhance BEL's position as an important cornerstone investor in the Company. Pulse Utilities should be able to leverage off BEL's industry knowledge, expertise and relationships to improve its business operations and execute its growth strategies.

The Recapitalisation Proposal also signals BEL's confidence in the future prospects of Pulse Utilities.

Non-associated Shareholders Participate in the SPP

Non-associated Shareholders will each have the opportunity to subscribe for up to 300,000 new ordinary shares at $0.05 per share under the SPP, representing an investment of up to $15,000 per shareholder. Thus Non-associated Shareholders will have the opportunity to subscribe for new equity in the Company at the same issue price as that under the BEL Allotment and the Private Placements. However, a maximum of 30,000,000 shares will be issued under the SPP in aggregate. Accordingly, if the SPP is well supported, subscribers may have their applications scaled back.

In addition, as Pulse Utilities undertook an SPP within the last 12 months (the **Previous SPP**), restrictions under the Securities Act (NZX – Share and Unit Purchase Plans) Exemption Notice 2010 will apply to the SPP. In particular, subscribers under the Previous SPP will only be able to participate in the SPP to the extent that their aggregate subscription under the Previous SPP and the SPP does not exceed $15,000. Pulse Utilities has advised us that 18 shareholders subscribed for their maximum allocation of $15,000 of shares under the Previous SPP and accordingly will not be able to participate at all in the SPP.

Non-associated Shareholder Approval is Required

Pursuant to Rule 7(d) of the Code, the Non-associated Shareholders must approve by ordinary resolution the Recapitalisation Proposal.

The Recapitalisation Proposal will not proceed unless all shareholders also approve by special resolution the Recapitalisation Proposal under resolution 4.

2.16 Disadvantages to the Non-associated Shareholders

Non-associated Shareholders will be Diluted

Non-associated Shareholders' proportionate interests in the Company will be significantly diluted by approximately 71% under the Recapitalisation Proposal. This level of dilution can be reduced to a small degree if Non-associated Shareholders subscribe for their full entitlements under the SPP.

Will Reduce the Likelihood of a Takeover Offer from BEL

An increase in BEL's shareholding from 8.48% to between 65.11% and 73.08% will reduce the likelihood of a takeover offer for the Company from BEL as it may consider that it has sufficient control over the Company.

It is possible that if BEL did make a takeover offer for further shares in the Company, it may offer a control premium that is lower than would otherwise be expected as it may value its offer on the basis that it already has significant control of the Company and hence does not need to pay a control premium of any significance.

Following the BEL Allotment, BEL will not be able to increase the level of its shareholding in Pulse Utilities unless it complies with the provisions of the Code. It will only be able to acquire more shares in the Company if:

- it makes a full or partial takeover offer or
- the acquisition is approved by way of an ordinary resolution of the Non-associated Shareholders or
- the Company makes an allotment of shares which is approved by way of an ordinary resolution of the Non-associated Shareholders or
- it complies with the *creep* provisions of Rule 7(e) of the Code.

The *creep* provisions enable entities that hold between 50% and 90% of the voting securities in a code company to buy up to a further 5% of the code company's shares per annum. BEL would be able to acquire up to a further 5% of Pulse Utilities' shares commencing 12 months after the BEL Allotment is completed. BEL could use the *creep* provisions to increase its shareholding to 90%, at which point it could compulsorily acquire the remaining shares in the Company.

BEL could also increase its level of shareholding in the Company if Pulse Utilities undertook a share buyback that was approved by the Company's shareholders and BEL did not accept the offer of the buyback.

Likelihood of Other Takeover Offers Will Reduce

Following the BEL Allotment, any bidder looking to fully take over the Company would need to ensure that BEL would accept its offer.

Similarly, in the event that a bidder made a partial takeover offer for (say) 50.1% of the Company, it would need to ensure that BEL would accept its offer to ensure the success of its offer.

In our view, the increase in BEL's shareholding from 8.48% to between 65.11% and 73.08% under the BEL Allotment will reduce the attraction of Pulse Utilities as a takeover target to other parties.

Dividend Policy

Following the BEL Allotment, BEL will have the ability to control the Board and thereby influence decisions such as the Company's debt levels and its dividend policy. This may result in changes to the levels of tax paid profits earned by the Company and whether any dividends are paid to shareholders in the future.

Although it will ultimately remain a decision for the Board to determine in the future, BEL has advised Convertible Note holders that it expects the Board to ensure that the Company maintains an efficient balance sheet and early repayment of the loans from Convertible Note holders should be preferred ahead of the payment of dividends.

Tax Losses and Imputation Credits

The Company had tax losses of approximately $7.6 million as at 31 March 2011. No future tax benefit is currently recorded on the Company's balance sheet. Following the BEL Allotment, Pulse Utilities would not meet the continuity test to carry forward the tax losses.

The Company held negligible imputation credits as at 31 March 2011. Following the BEL Allotment, Pulse Utilities would not meet the continuity test to carry forward the imputation credits and hence they would be forfeited.

2.17 Implications of the Resolutions not Being Approved

Resolution 3, resolution 4 and resolution 5 are interdependent and all 3 resolutions must be passed in order for each resolution to be effective. If any of resolution 3, resolution 4 or resolution 5 is not approved, then no component of the Recapitalisation Proposal can proceed.

As stated in section 2.4, we are of the view that the Company has no realistic alternative options to raise a similar level of capital in the near term. The Company's directors believe that the Company's capital raising efforts will be exhausted.

In the absence of additional capital in the near term, the Company will be unable to fund its working capital requirements for its existing business, let alone finance its growth initiatives.

The Company has been reliant on BEL for funding in recent times by way of the BEL Loans and the BEL Guarantee. In the event that the Recapitalisation Proposal is not approved, the Company will not be able to continue to trade for much longer. It had approximately $0.4 million of cash on hand as at 30 June 2011. If it cannot meet its debt servicing obligations in respect of the BEL Loans, it is highly likely that BEL will enforce its rights under the General Security Deed and place the Company in receivership. Given the nature of the Company's assets and that its total equity is in excess of negative $7 million, we are of the view that there is unlikely to be any return to shareholders.

2.18 Voting For or Against the 3 Recapitalisation Proposal Resolutions

Voting for or against the 3 Recapitalisation Proposal resolutions is a matter for individual shareholders based on their own views as to value and future market conditions, risk profile and other factors. Shareholders will need to consider these consequences and consult their own professional adviser if appropriate.

2.19 Minority Buy out Rights Under the Companies Act

If the special resolution in respect of the Recapitalisation Proposal (resolution 4) is passed, those shareholders who voted against the special resolution will be entitled to require the Company to buy their shares in accordance with the provisions of the Companies Act.

A shareholder entitled to require the Company to purchase its shares by virtue of section 110 of the Companies Act may, within 10 working days of the passing of the special resolution, give written notice to the Company requiring it to purchase the shares.

The Company's directors are then required to give notice to the shareholder of a fair and reasonable price for the shares. The Companies Act provides that the fair and reasonable price must exclude any positive or negative fluctuation in value resulting from the Recapitalisation Proposal.

Shareholders who do not agree with the nominated price can object to the price, in which case the price will be determined by arbitration.

3. Overview of the Electricity Industry

3.1 Industry Structure

The New Zealand electricity industry comprises 4 main activities:

- generation
- transmission
- distribution
- retail.

The main industry participants are set out below.

Generation	Transmission	Distribution	Retail
• Meridian Energy	• Transpower	• Vector	• Contact
• Genesis Energy		• Powerco	• Genesis Energy
• Mighty River Power		• Wellington Electricity	• Mercury Energy
• Contact		• Orion	• Meridian Energy
• TrustPower		• Unison	• TrustPower
• 8 others		• 23 others	• Pulse Utilities
			• 12 others

Generation

New Zealand's electricity is generated by hydro-electric, thermal, geothermal and wind power stations. New Zealand's current generation capacity is approximately 9,000 megawatts (**MW**). Approximately 56% of current generation capacity is hydro-electric.

Of the main generation companies, Meridian Energy Limited (**Meridian Energy**), Genesis Power Limited (trading as **Genesis Energy**) and Mighty River Power Limited (**Mighty River Power**) are all state-owned enterprises (**SOEs**) and Contact Energy Limited (**Contact**) and TrustPower Limited (**TrustPower**) are listed on the NZSX. These 5 companies produce approximately 95% of New Zealand's electricity.

In addition to electricity generation, generation companies retail electricity to end-user consumers.

Transmission

Transpower New Zealand Limited (**Transpower**) owns and operates New Zealand's high-voltage electricity grid, comprising more than 12,000 km of lines, over 170 substations, pylons and high voltage cables. Transpower is responsible for transmitting electricity produced by generators from over 50 power stations to around 200 grid exit points (**GXPs**) around New Zealand. The GXPs are the points of supply from the national grid to local distribution networks.

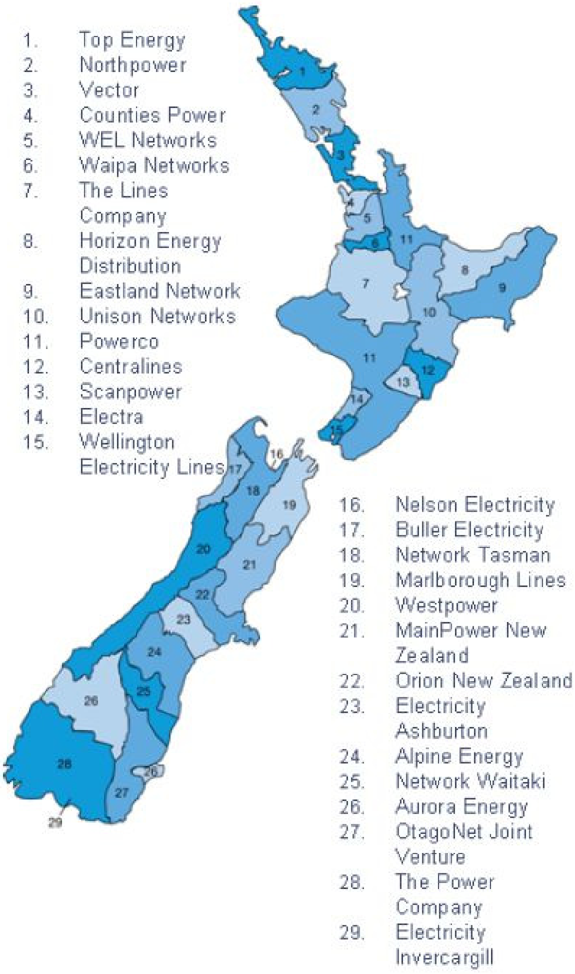
Transpower's customers are generators, EDBs and a small number of high volume consumers who take electricity directly from the national grid. Transpower's costs are passed through to end-customers through the EDB tariffs.

Distribution

Distribution is the service of transporting electricity from GXPs through to industrial, commercial and residential consumers. There are over 150,000 km of distribution lines in New Zealand. The distribution networks also include substations which convert electricity to lower voltages.

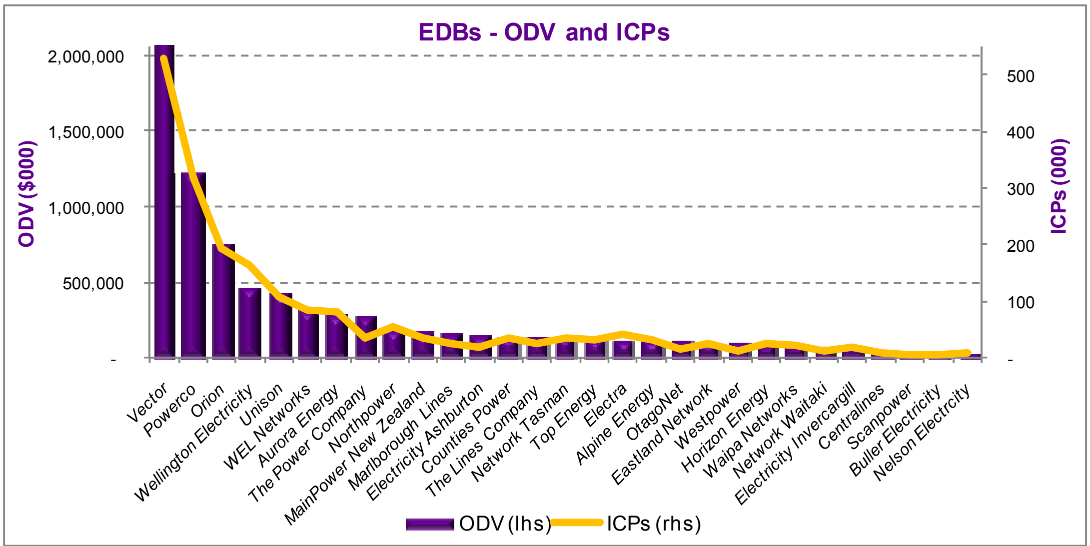
Under the Electricity Industry Reform Act 1998, EDBs were required to separate from companies that generated and retailed electricity (although limited levels of cross-ownership are permitted).

There are currently 29 EDBs operating in New Zealand.



Source: Electricity Networks Association

The 5 largest EDBs – Vector Limited (**Vector**), Powerco Limited (**Powerco**), Wellington Electricity Lines Limited (**Wellington Electricity**), Orion New Zealand Limited (**Orion**) and Unison Networks Limited (**Unison**) – account for around 65% of all connections (as measured by installation control points (**ICPs**)) and over 60% of the total value of the distribution networks fixed assets (as measured by their optimised deprival values (**ODV**)).



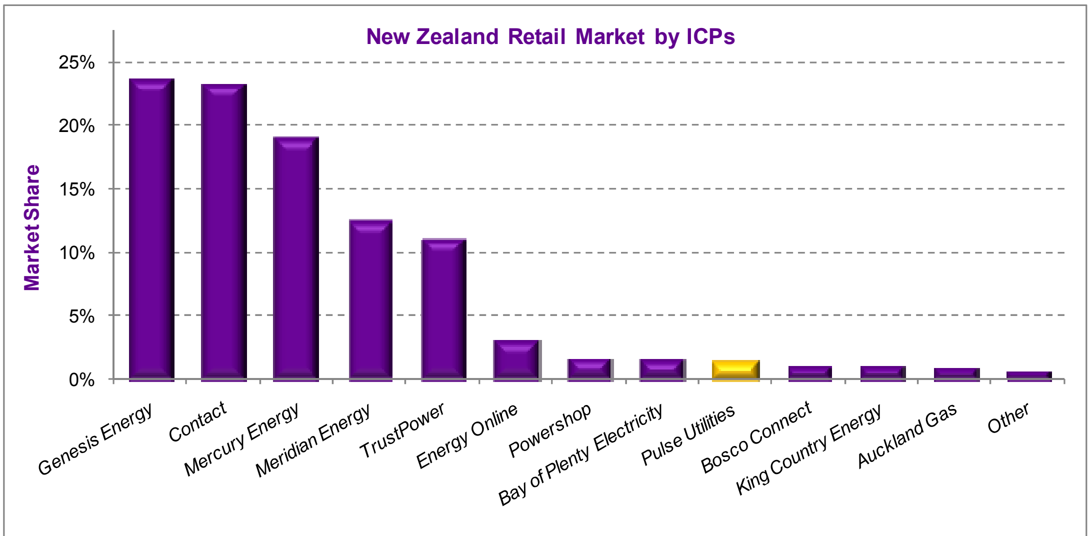
Source: PricewaterhouseCoopers Electricity Line Business 2010 Information Disclosure Compendium

21 of the EDBs have some community trust ownership with 18 having full trust ownership. 2 EDBs are listed on the NZSX – Horizon Energy Distribution Limited and Vector.

Retail

Electricity generation companies are also the main electricity retailers, principally due to the natural hedge between the 2 activities. Electricity retailing is a competitive industry and consumers are able to switch between electricity providers.

There are currently 18 electricity retailers in New Zealand. The market share of electricity retailers as at June 2011 is set out below.



Source: Electricity Authority, June 2011

3.2 Industry Development

The electricity industry has undergone extensive reform over the last 2 and a half decades. Key events in the reform process are summarised below.

New Zealand Electricity Reform Process

Year	Event
1986	Government generation and transmission departments are corporatised into Electricity Corporation of New Zealand (**ECNZ**)
1992	Electricity boards and municipal electricity departments are corporatised through the Energy Companies Act 1992
1993	Electricity Act 1992 comes into effect. Light handed regulation is introduced for distribution / transmission companies requiring information disclosure relating to performance and prices
1995	ECNZ's generation operations are split into 2 SOEs, ECNZ and Contact, while its transmission operations are transferred to a new SOE, Transpower
1996	Wholesale spot electricity market (the New Zealand Electricity Market) is established
1998	Electricity Industry Reform Act 1998 is enacted, requiring ownership of electricity distribution activities to be separated from supply (generation and retail) activities
1999	ECNZ is split into 3 SOEs – Genesis Energy, Mighty River Power and Meridian Energy
2000	A Ministerial Inquiry is made into the electricity industry, focusing on distribution, transmission, retail and the wholesale market. Government response to the Ministerial Inquiry requires further evolution of industry self-regulation arrangements and targeted price control of electricity distribution and transmission businesses
2001	Government introduces a new Electricity Industry Reform Act in response to the Ministerial Inquiry
2002	Commerce Commission develops a more stringent regulatory regime for distribution and transmission businesses, based on price path and quality thresholds
2003	Government establishes the Electricity Commission to act as the chief regulatory agency for the electricity sector, in response to the perceived ineffectiveness of industry self-governance
2006	Draft Energy Strategy is released identifying Government objectives of reliance and resilience, environmental responsibility and fair and efficient prices
2007	Draft review of the Commerce Act includes introduction of lighter handed forms of incentive based regulation as an alternative to price controls for consumer owned entities
2008	Commerce Amendment Act 2008 and Electricity Industry Reform Amendment Act 2008 are enacted
2010	Electricity Industry Act 2010 is enacted with the objective of improving competition, reliable supply and efficient operation of the electricity sector. The Electricity Authority is established to replace the Electricity Commission

Source: Electricity Authority, media coverage, independent adviser's reports, brokers' reports

3.3 Regulatory Environment

Electricity Authority

The Electricity Authority is an independent Crown entity responsible for the efficient operation of the New Zealand electricity market.

The Electricity Authority succeeded the Electricity Commission on 1 November 2010 as one of a number of sector changes introduced under the Electricity Industry Act 2010.

The objective of the Electricity Authority is to promote competition in, reliable supply by and the efficient operation of the electricity industry for the long-term benefit of consumers.

In pursuing this objective, the key functions performed by the Electricity Authority are:

- registering industry participants
- developing and administering the Electricity Industry Participation Code 2010 (the **Participation Code**)
- monitoring and enforcing compliance
- facilitating market performance through information, best-practice guidelines and related services
- undertaking sector reviews
- acting as Market Administrator and contracting market operation service providers
- promoting consumer switching
- monitoring sector performance against the Electricity Authority's statutory objective.

Although operating as an independent regulator, the Electricity Authority is required to give regard to Government policy statements presented in Parliament by the Minister of Energy and Resources. It also undertakes reviews of specific electricity industry issues at the request of the Minister.

Market Administration

The Electricity Authority contracts out most of the services required to operate the retail and wholesale electricity markets, apart from the market administration function which it performs itself.

The Market Administrator functions are of an oversight nature rather than active processing of market data or provision of real-time market services as performed by most other service providers. Examples include appointing auditors of test houses and metering installations, maintaining a register of incumbent retailers, collating System Operator and Pricing Manager reports and specifying back-up procedures for use in the event of a failure of the market systems.

In the retail market, the key services of registration and reconciliation are contracted to Jade Direct NZ Limited (**Jade Direct**) and the NZX respectively.

The Registry is a national database containing information on nearly two million ICPs and is managed by Jade Direct.

NZX, as the contracted Reconciliation Manager, receives and processes approximately 50 million metering data points on a monthly basis, reconciles them against a register of contracts and passes the data to participants. Reconciliation information is used in the electricity market settlement function performed by the Clearing Manager.

Competition

The Participation Code promotes retail competition by specifying efficient switching processes and by allowing any party to be an electricity retailer provided minimum standards are met.

Although the extent of retail competition varies across the country, all customers have a choice of retailers. In some parts of New Zealand there are 5 or more competing retailers. By improving the flow of information through the system, switching has become faster and now generally can be done conveniently over the phone with a new retailer.

3.4 Wholesale Electricity Market

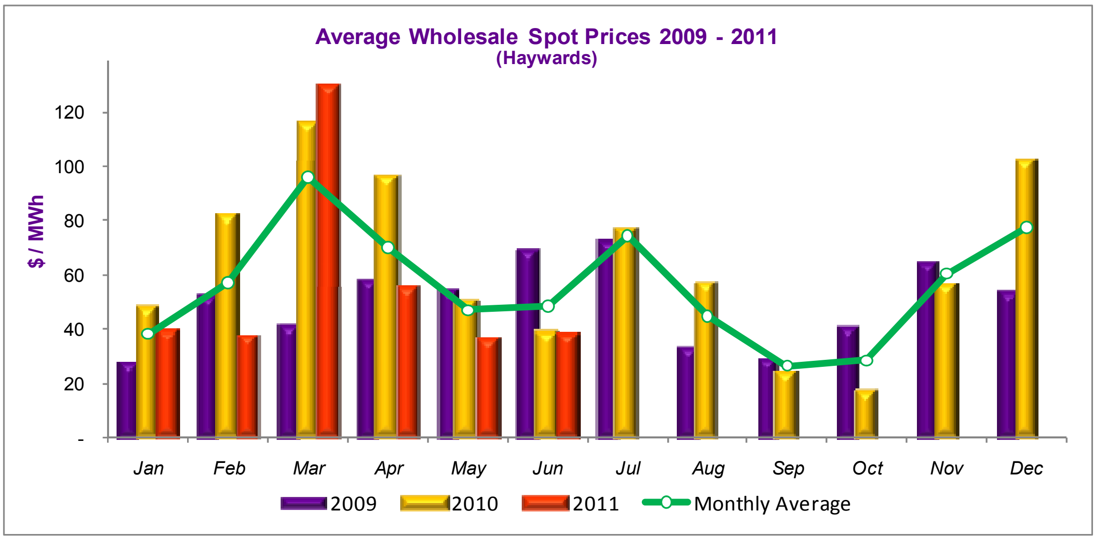
Spot Market

Retailers and a small number of large industrial users buy electricity directly from the spot market. These parties will typically also enter into financial contracts (hedges) which smooth out some or all of the volatility in spot prices. Jointly, the spot and hedge markets are the major components of the wholesale electricity market, which also includes the instantaneous reserves market and the ancillary services market.

Generators that are bigger than 30 MW or are grid-connected compete in the electricity spot market for the right to generate electricity to satisfy demand, subject to transmission capacity. They do this by submitting offers through the Wholesale Information and Trading System (**WITS**).

The System Operator (Transpower) ranks the offers in order of price and selects the lowest cost combination of resources to satisfy demand. The highest priced generator actually required for a given half hour sets the spot price for that trading period.

Electricity spot prices can vary significantly across trading periods, reflecting factors such as changing demand (e.g. lower prices in summer when demand is subdued) and supply (e.g. higher prices when hydro lakes and inflows are below average). Spot prices can also vary significantly across locations, reflecting electrical losses and constraints on the transmission system (e.g. higher prices in locations further from generating stations).



Source: Energy Link

Hedge Market

The wholesale hedge market allows parties to agree contracts to partially or fully offset prices paid on the spot market.

Traditionally, the hedge market in New Zealand has operated through over-the-counter (**OTC**) contracts, where buyers negotiate directly with sellers to agree on a price. These contracts can be customised and offer flexibility for both parties.

Energy Hedge was established in 2004 and is used by the 5 large generators as a trading platform for more standardised OTCs.

Recently, buyers and sellers of electricity have been able to contract on the New Zealand Electricity Futures & Options market operated by the ASX.

Market Administration

The Electricity Authority undertakes the function of Market Administrator and contracts. NZX is contracted to provide 3 services:

- Pricing Manager - calculating and publishing the spot prices at which electricity market transactions are settled
- Clearing Manager – ensuring that wholesale market participants are paid, or pay, the correct amount for the electricity they generated or consumed during the previous month. The Clearing Manager also has the role of administering prudential requirements in the form of acceptable credit ratings or securities for the purpose of ensuring purchasers of electricity or ancillary services can meet their payment obligations
- WITS Manager – operating the electricity market wholesale information and trading platform used by electricity market participants to upload their bids and offers.

Settlement and Prudentials

Settlement of wholesale market transactions for a calendar month occurs on the 20th day of the following month. Wholesale electricity purchasers must pay the Clearing Manager for those purchases in cleared funds by 2pm on settlement day. The Clearing Manager then pays generators in cleared funds by 4:30pm on the same day.

The Clearing Manager determines the required level of prudential security that each participant must provide. The Clearing Manager determines that level by estimating its net exposure to a participant over a period of 55 to 60 days. If the Clearing Manager determines that its exposure to a participant is more than the amount of security the participant has already provided, the Clearing Manager will issue a call for additional security, which must be satisfied within 3 business days.

Prudential security may take the form of a cash deposit, a bank guarantee, a third party guarantee from a party with an acceptable credit rating, a bond from a surety with an acceptable credit rating and / or a hedge contract lodged with and settled by the Clearing Manager. Parties with an acceptable credit rating (A- Standard & Poors or equivalent) do not need to provide prudential security.

4. Profile of Pulse Utilities

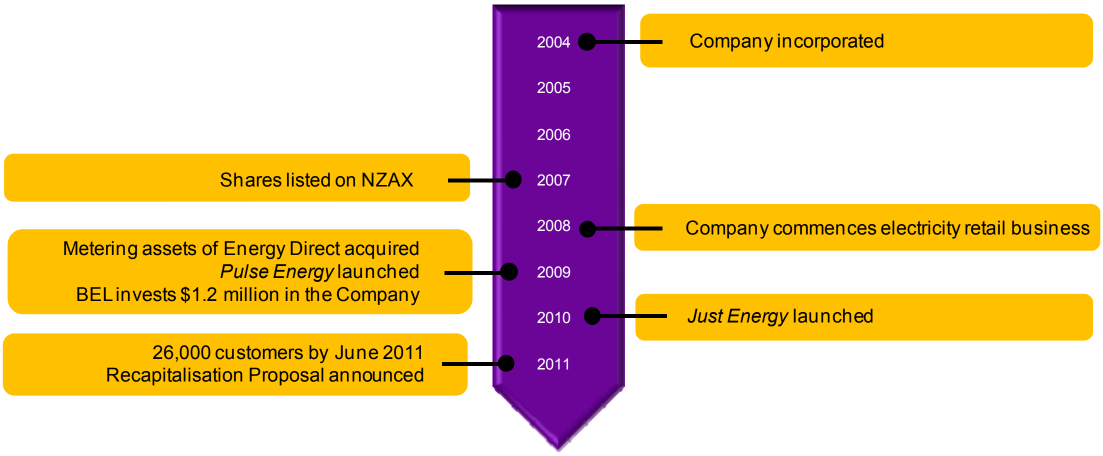
4.1 Background

Pulse Utilities was incorporated on 25 February 2004 as Pulse Utilities NZ 2 Limited. It changed its name to Pulse Utilities New Zealand Limited on 23 March 2004.

The Company's initial business plan in 2004 revolved around developing smart metering technology. It developed a key technology in its data logger that allowed it to communicate information from basic digital meters via a range of communications media. This adaptive route capability is unique to Pulse Utilities and is protected by a range of patents.

A key constraint for the Company in getting its meter technology adopted in the market was that most meters in New Zealand are owned by existing electricity retailers that are either pursuing their own smart meter conversion or are continuing to use "dumb" or non-time of use meters. This constraint led Pulse Utilities to launch as an electricity retailer in 2008, which enabled the Company to acquire its own customer relationship and thereby install its own metering solution for customers.

Key events in the Company's history are set out below.



4.2 Nature of Operations

Pulse Utilities is an established independent electricity retailer specialising in smart metering technology. It operates 3 business units:

Electricity Retailing

The Company currently has over 26,000 customers through its 2 brands – *Pulse Energy* (smart meters) and *Just Energy* (no frills brand without smart meters).

Since its launch as an electricity retailer in 2008, Pulse Utilities has been successful in acquiring customers through offering lower pricing for electricity and targeting provincial electricity markets where it can provide a competitive offering compared with incumbent retailers.

Pulse Energy's time-of-use metering system has been packaged to target a range of customers including multi-tenanted apartment and office blocks, small businesses and residential homes. Customers are offered the choice of 2 competitive pricing plans incorporating discounted rates during off-peak times. *Pulse Energy* has recently enhanced its product range with the introduction of the new generation Pulse X5 logger.

Just Energy was launched in July 2010. It focuses on supplying electricity at a low price to residential and small business customers. The *Just Energy* business offering is based on:

- lower prices
- price guarantees
- prompt payment discounts
- monthly meter reads
- its call centre being based in New Zealand.

White Label

The Company provides a subcontracted retail service to generators and lines companies, thereby allowing them to retail electricity directly to their customers. *White Label* provides all metering, data collection, reconciliation, customer relationship management, billing, reporting and industry compliance for that client to launch an electricity retail business. *White Label* is not a current focus of the business but is seen as having potential in growing the Company's service revenue as well as economy of scale.

Pulse Metering

Pulse Metering provides metering and meter data services to residential and commercial customers offering time of use and non-time of use metering.

The potential benefits of a smart metering solution include:

- smart tariffs including off peak and weekend discounts
- remote access and control of meters and relays
- accurate and reliable half hour consumption data
- scheduled and unscheduled meter read capability
- remote reconnect / disconnect
- anti-tamper functionality
- data analysis and profiling.

Pulse Metering Limited was incorporated on 11 October 2007 and is wholly owned by Pulse Utilities. It is a non-trading company with no net assets.

4.3 Corporate Strategy

Pulse Utilities has evolved from a technology developer in 2004 to a start-up electricity retail business in 2008 and is now an established electricity retail and metering business.

The Company's business model is to:

- offer electricity to its customers at a modest margin to ensure that there is a value proposition for its customers
- retain for itself the fixed charge of between $0.15 to $0.90 per day charged to its customers to cover its operating costs (which are largely fixed) and generate profits.

The Company's key strategies revolve around:

- ensuring the best possible electricity supply prices for customers
- growing the *Just Energy* and *Pulse Energy* brands
- improving operational efficiency
- fully funding its capital requirements.

The Company is targeting to reach 42,000 customers by March 2012 and 62,000 customers by March 2013, representing a 3% share of the retail electricity market.

4.4 Competition

Pulse Utilities' major competitors are primarily (but not exclusively) the large electricity generators and retailers. Given its different business model, the Company is able to compete on price and technology, aiming to carve out a small niche in the market.

There are a number of other smart metering businesses operating in New Zealand. These businesses are tied to the major electricity retailers and include:

- Advanced Metering Services – owned by Vector, focused on the Waitakere and North Shore markets in Auckland
- Metrix – a division of Mighty River Power, operating throughout the North Island
- Arc Innovations – a business unit of Meridian Energy, focused on the Christchurch market.

Each of these businesses has time-of-use meters and utilise some form of GPRS and / or radio frequency communication. The major difference between these entities and Pulse Utilities is that the parent companies generally use the technology to achieve only back office savings with no direct benefit being passed on to the customer.

4.5 Key Issues Affecting Pulse Utilities

The main industry and specific business factors and risks that Pulse Utilities faces include:

- the retail electricity market price that the Company may offer could be above what other electricity retailers are offering
- the Company can be exposed to spot price fluctuations on the wholesale electricity market
- the Company faces competition as an electricity retailer and as a provider of smart meters. A number of its competitors are significant sized businesses
- the Company may be adversely affected by regulatory changes
- the loss of key staff
- the inability to adequately finance the Company's operations.

4.6 Directors and Senior Management

The directors of Pulse Utilities are:

- Joseph van Wijk, acting chairman
- Richard Burcher, independent director
- Dene Biddlecombe, managing director and substantial security holder.

We are advised that none of the directors are deemed to be associates of BEL, as defined in the Code.

The Company's senior management team comprises:

- Dene Biddlecombe, managing director
- John Cilliers, chief financial officer and company secretary
- Robert Copeland, technology manager
- Jason Davis, sales and marketing manager
- Craig Parker, special projects manager
- Daniel Pinny, operations manager.

4.7 Capital Structure and Shareholders

Ordinary Shares

Pulse Utilities currently has 30,942,516 ordinary shares on issue held by 658 shareholders.

The names, number of shares and percentage holding of the 10 largest shareholders as at 22 July 2011 are set out below.

Pulse Utilities' 10 Largest Shareholders

Shareholder	No. of Shares Held	%
Robert Famularo [1]	3,774,074	12.20%
BEL	2,624,091	8.48%
Dene Biddlecombe and Peter Hine [2]	1,973,578	6.38%
Malcolm Dick and Adrian Dick	1,000,000	3.23%
Stephen Frewen	972,202	3.14%
James Martin, Donna Martin and Beca Trustee Services Limited	942,241	3.05%
Andrew Robinson and Caroline Hansen	933,439	3.02%
John Philpott	918,131	2.97%
Russell Maloney	654,546	2.12%
Mark Gray and Quantum Trustee Company 1013 Limited	619,181	2.00%
Subtotal	14,411,483	46.58%
Others (648 shareholders)	16,531,033	53.42%
Total	30,942,516	100.00%

1 Trustee for the Robert Famularo Family Trust
2 Trustees for the Dene Biddlecombe Family Trust

Source: NZX Data

Options

The Company currently has 667,000 options on issue granted to BEL and 675,500 options on issue granted under an employee share option plan. The options are all out of the money with exercise prices ranging from $0.60 to $0.70.

4.8 Financial Performance

A summary of Pulse Utilities' recent financial performance and budget for the current financial year is set out below.

Summary of Pulse Utilities Financial Performance

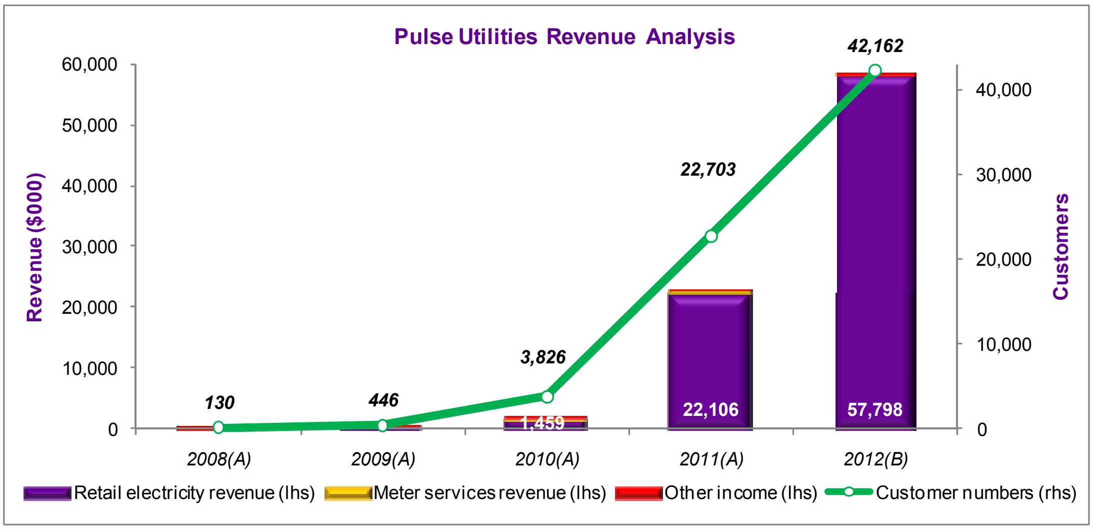
	As at 31 Mar 09 (Audited) $000	As at 31 Mar 10 (Audited) $000	As at 31 Mar 11 (Audited) $000	As at 31 Mar 12 (Budget) $000
Operating revenue	252	1,954	22,561	57,798
EBITDAF	(1,582)	(2,889)	(3,897)	934
EBITDA	(1,582)	(5,442)	(6,487)	934
EBIT	(4,049)	(6,538)	(6,959)	333
Loss for the year	(5,312)	(7,049)	(7,559)	(171)
EPS	($0.37)	($0.31)	($0.27)	($0.01) [1]

EBITDAF: Earnings before interest, tax, depreciation, amortisation and financial instruments
EBITDA: Earnings before interest, tax, depreciation and amortisation
EBIT: Earnings before interest and tax
EPS: Earnings per share

1 Based on 30,942,516 shares currently on issue

Source: Pulse Utilities audited financial statements and 2012 budget

The Company's financial performance changed significantly in the 2011 financial year following the launch of *Just Energy* in July 2010. Customer numbers increased by almost 500% from 3,826 as at 31 March 2010 to 22,703 as at 31 March 2011. Retail electricity revenue increased by 1,415% from $1.5 million to $22.1 million. Retail electricity revenue represented 98% of the Company's 2011 revenue, compared with 75% in 2010.



While revenue increased significantly in the 2011 financial year, the Company continued to record operating losses. The dramatic growth in customer numbers required significant investment in customer service infrastructure (people, training, customer service and call centre and back office systems). Profitability was also impacted by exposure to supply fluctuation, the knock-on effects on hedging costs (the fair value losses on electricity hedging amounted to $2.6 million), higher than expected operating costs and an increase in the provision for bad debts.

Earnings in the 2010 financial year were impacted by $2.5 million of impairment write downs in respect of the Company's Australian intellectual property.

The 2012 budget is for revenue growth of 156% to $57.8 million and EBITDA of $0.9 million. The budget is based on the following key assumptions:

- approximately 42,000 customers by March 2012
- variable prices increase by 12.5% in April 2011 for *Pulse Energy* customers and August 2011 for *Just Energy* customers
- supply prices are based on current confirmed hedges and future wholesale spot rates based on 2009 inflation adjusted wholesale prices
- overheads increase by 14%
- the Company has sufficient finance facilities to fund its operations.

4.9 Financial Position

A summary of Pulse Utilities' recent financial position is set out below.

Summary of Pulse Utilities Financial Position				
	As at 31 Mar 09 (Audited) $000	As at 31 Mar 10 (Audited) $000	As at 31 Mar 11 (Audited) $000	As at 30 Jun 11 (Unaudited) $000
Current assets	118	2,195	5,818	8,014
Non current assets	3,708	1,576	3,626	4,052
Total assets	3,826	3,771	9,444	12,066
Current liabilities	(2,978)	(3,925)	(13,445)	(17,451)
Non current liabilities	(55)	(1,255)	(2,307)	(2,295)
Total liabilities	(3,033)	(5,180)	(15,752)	(19,746)
Total equity	793	(1,409)	(6,308)	(7,680)

Source: Pulse Utilities audited financial statements and 30 June 2011 balance sheet

The Company's main current assets are trade receivables and accrued income, representing over 90% of current assets. Gross trade receivables and accrued income were $6.2 million as at 31 March 2011, against which a provision for impairment of $1.1 million (18%) was made. Pulse Utilities had $0.4 million cash on hand as at 31 March 2011 and 30 June 2011.

Non current assets consist of:

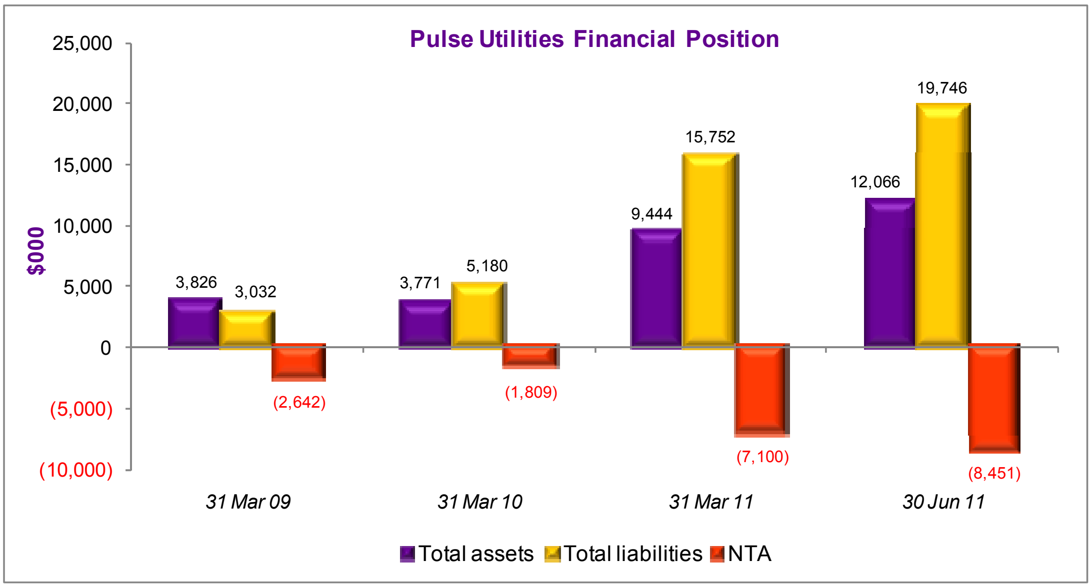
- fixed assets - predominantly plant and equipment
- security bonds - in the form of cash deposit's with NZX in its capacity as Clearing Manager in accordance with the Participation Code and security deposits with electricity lines businesses in accordance with electricity network use of systems agreements
- intangible assets - intellectual property, software, development costs and patents.

The Company's main non-interest bearing liabilities are trade and other payables.

Total borrowings amounted to $6.9 million as at 30 June 2011:

- $4.7 million of Convertible Notes
- $2.1 million of BEL Loans
- $0.1 million owing on finance leases.

Prior to the CN Restructure, each Convertible Note had a face value of $1.00 and a maturity term of a minimum of one year to a maximum of 3 years (at the noteholder's election) from the commencement date. Interest of 10% to 12% per annum was payable monthly in arrears. The Convertible Notes converted to ordinary shares on maturity, unless the noteholder elected to receive redemption in cash or extend the maturity date for a further year. The Series (1) Convertible Notes converted to ordinary shares at either $0.50 or $0.60 per share. The Series (2) Convertible Notes converted to ordinary shares on the basis of their face value divided by 90% of 20 day VWAP.



The significant increase in the Company's operations in the 2011 financial year resulted in total assets more than doubling, largely due to the increase in trade receivables and accrued income. While the Company raised an additional $2.7 million of equity during 2011, the $7.6 million net loss for the year resulted in net tangible assets (**NTA**) seriously deteriorating to negative $7.1 million as at 31 March 2011. NTA was negative $8.5 million as at 30 June 2011.

4.10 Cash Flows

A summary of Pulse Utilities' recent cash flows is set out below.

Summary of Pulse Utilities Cash Flows

	Year to 31 Mar 09 (Audited) $000	Year to 31 Mar 10 (Audited) $000	Year to 31 Mar 11 (Audited) $000	Year to 31 Mar 12 (Budget) $000
Net cash flow from / (used in) operating activities	(1,482)	(2,632)	(2,836)	(147)
Net cash from / (used in) investing activities	(403)	(1,348)	(2,440)	(3,106)
Net cash from / (used in) financing activities	1,986	5,017	4,652	(147)
Net increase / (decrease) in cash held	101	1,037	(624)	(3,400)
Opening cash balance	(69)	32	1,069	445
Closing cash balance	32	1,069	445	(2,955)

Source: Pulse Utilities audited financial statements and 2012 budget

The Company has generated negative cash flows from its operations in the past. It is budgeting that cash flows from operations will be close to breakeven in the 2012 financial year, but it will require additional capital financing to fund security deposits.

As the Company has grown, it has needed to acquire fixed assets (particularly in the 2010 and 2011 years) and to deposit security bonds (particularly in the 2011 and 2012 years), resulting in significant investing cash outflows.

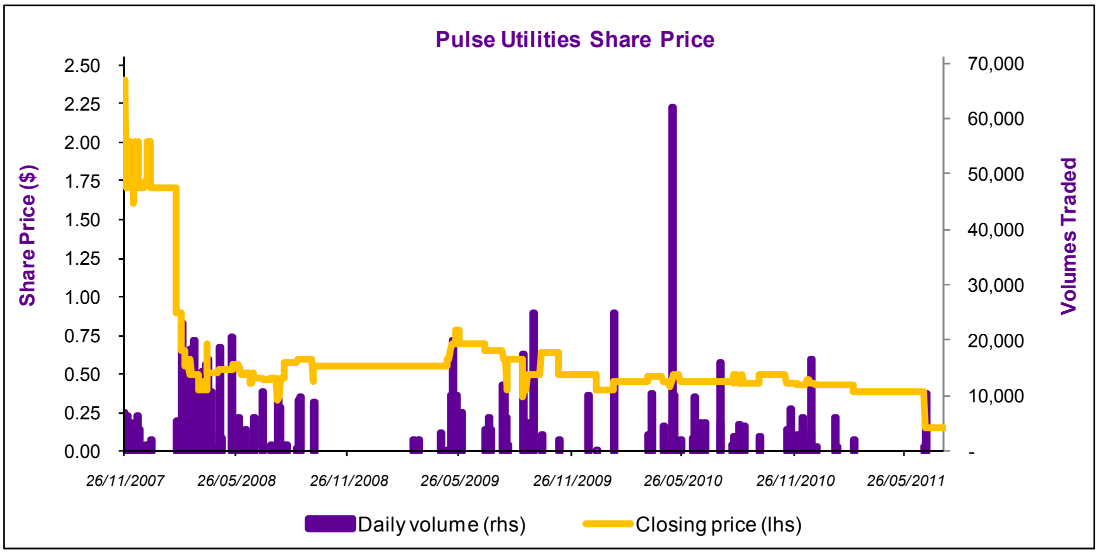
The main sources of cash from financing activities have been:

- $1.8 million raised from the issue of Convertible Notes in the 2009 financial year
- $4.0 million raised from the issue of shares and $1.5 million from the issue of Convertible Notes in the 2010 financial year
- $2.7 million raised from the issue of shares, $1.8 million from the issue of Convertible Notes and $0.6 million from BEL Loans in the 2011 financial year.

4.11 Share Price History

The Company listed its shares on the NZAX on 26 November 2007.

Set out below is a summary of Pulse Utilities' daily closing share price and daily volumes of shares traded from 26 November 2007 to 28 July 2011.



During the period, Pulse Utilities' shares have traded between $0.15 and $2.40 at a VWAP of $0.58.

The Company's shares initially traded between $1.70 and $2.40 in the 3 months after listing on the NZAX, albeit on very small volumes.

The share price dropped from $1.75 to $0.90 on 20 February 2008 (shortly before the Company's interim results were announced) and dropped to $0.65 on 29 February 2008. The shares then traded in the range of $0.33 to $0.78 until 27 June 2011, when they dropped to $0.15. The shares last traded on 28 June 2011 at $0.15 on a volume of 10,269 shares.

Trading in the Company's shares is extremely thin. An analysis of VWAP, traded volumes and liquidity (measured as traded volumes as a percentage of shares outstanding) is set out below.

Share Trading					
Period	**Low** [1]	**High** [1]	**VWAP** [1]	**Volume Traded** [1] **(000)**	**Liquidity**
1 month	n/a	n/a	n/a	-	n/a
3 months	0.15	0.15	0.15	11	0.0%
6 months	0.15	0.43	0.27	20	0.1%
12 months	0.15	0.50	0.40	79	0.3%

n/a: Not applicable as there were no trades

1 To 28 July 2011

The Company's shares have only traded on 19 days in the past year at a VWAP of $0.40.

5. Profile of BEL

5.1 Company Background

BEL was incorporated on 15 April 1993.

BEL is an EDB whose principal activity is conveying electricity in the Buller region. Approximately half of its connected consumers are domiciled within the urban Westport area.

BEL's network has provided the Buller region with electricity since 1948, originally as the Buller Electric Power Board and then as BEL in 1993.

5.2 Nature of Operations

Electricity Network

The BEL distribution network is one of the smallest in New Zealand, covering an area of 4,654 km^2 over the narrow strip of land between the Tasman Sea and the Southern Alps, from Karamea in the north almost as far as Punakaiki in the south.

The BEL network's key statistics as at 31 March 2010 are set out below.

BEL Key Network Statistics	
Regulatory value of system fixed assets	$25.0 m
Total circuit length	617 km
Circuit length underground	5.2%
Connection points	4,422 ICPs
Electricity entering system for supply	53 GWh
Maximum distribution transformer demand	9 MW
Total distribution transformer capacity	35 MVA
Load factor	67%
Loss ratio	9.7%

Source: BEL Information Disclosure 31 March 2010

BEL's assets centre around 2 GXPs - one owned by BEL at Robertson Street near Westport, the other owned by Transpower near Cape Foulwind. BEL has 2 33kV lines that head north from Robertson to the Ngakawau zone substation. A single 33kV line continues northward over the Karamea Bluff to the Kongahu zone substation.

BEL takes supply at 11kV from the Cape Foulwind GXP. Distribution is at 11kV and is almost totally radial overhead but with some underground in the Westport urban area.

Contracting

BEL operates a contracting business that performs maintenance and capital works for the EDB and external customers. BEL acquired Nelson based electrical contracting business Electro Services Limited on 31 March 2010.

5.3 Corporate Strategy

BEL's 5 year strategic plan sets out 3 key sectors of business activity over the planning period:

- distribution network – BEL's core business
- contract services – providing electrical and telecommunication contracting services to both internal and external customers
- retail and generation – taking advantage of changes in the legislation governing the electricity sector.

BEL's stated objective for investing in Pulse Utilities was to encourage retail competition on the BEL network. BEL considered that there were a number of synergies between itself and Pulse Utilities.

5.4 Directors and Senior Management

The directors of BEL are:

- Frank Dooley, chairman
- Murray Frost
- Warren McNabb
- Kevin Poynter
- Peter Young.

BEL's senior management team comprises:

- Erik Westergaard, chief executive officer
- Peter Best, chief financial officer
- Alan Hawes, operations manager
- William Green, general manager contracting.

5.5 Financial Performance

A summary of BEL's recent financial performance is set out below.

Summary of BEL Financial Performance				
	Year to 31 Mar 08 (Audited) $000	Year to 31 Mar 09 (Audited) $000	Year to 31 Mar 10 (Audited) $000	Year to 31 Mar 11 (Audited) $000
Total revenue	7,321	9,704	15,517	13,357
EBITDA	1,759	2,135	2,332	2,016
EBIT	825	1,111	1,296	961
Profit before income tax	769	1,104	1,216	830
Profit for the year	988	878	1,196	665

Source: BEL audited financial statements

Revenue from line charges is relatively steady each year. The variation in BEL's revenue is mainly due to fluctuations in contracting revenue each year.

5.6 Financial Position

A summary of BEL's recent financial position is set out below.

Summary of BEL Financial Position				
	As at 31 Mar 08 (Audited) $000	As at 31 Mar 09 (Audited) $000	As at 31 Mar 10 (Audited) $000	As at 31 Mar 11 (Audited) $000
Current assets	2,857	3,474	4,108	4,808
Non current assets	21,466	22,145	24,180	24,413
Total assets	24,323	25,619	28,288	29,221
Current liabilities	(3,010)	(3,251)	(4,922)	(5,287)
Non current liabilities	(3,156)	(3,195)	(3,141)	(3,213)
Total liabilities	(6,166)	(6,446)	(8,063)	(8,500)
Total equity	18,157	19,173	20,225	20,721

Source: BEL audited financial statements

Current assets consist mainly of cash and cash equivalents and trade receivables.

Non current assets consist mainly of property, plant and equipment ($23.4 million as at 31 March 2011) and the investment in Pulse Utilities.

Current liabilities consist mainly of trade payables and accruals, an unsecured loan from the Buller Electric Power Trust and a secured loan from Westpac.

Non current liabilities consist of deferred tax liabilities.

5.7 Cash Flows

A summary of BEL's recent cash flows is set out below.

Summary of BEL Cash Flows	Year to 31 Mar 08 (Audited) $000	Year to 31 Mar 09 (Audited) $000	Year to 31 Mar 10 (Audited) $000	Year to 31 Mar 11 (Audited) $000
Net cash flow from operating activities	1,787	1,385	2,115	1,646
Net cash used in investing activities	(821)	(1,347)	(3,333)	(1,392)
Net cash from financing activities	-	-	1,551	(106)
Net increase / (decrease) in cash held	966	38	333	148
Opening cash balance	465	1,431	1,469	1,802
Closing cash balance	1,431	1,469	1,802	1,950

Source: BEL audited financial statements

BEL's cash flows from operating activities have proxied its EBITDA each year.

Cash used in investing activities mainly represent purchases of fixed assets. BEL invested $1.2 million in Pulse Utilities in the 2010 financial year.

BEL drew down $1.6 million of borrowings from Westpac in the 2010 financial year and a further $0.4 million in the 2011 financial year.

5.8 Capital Structure and Shareholders

BEL currently has 7,550,000 ordinary shares on issue. It is wholly owned by the Buller Electric Power Trust, an energy consumer trust.

6. Indicative Valuation of Pulse Utilities

6.1 Overview

In our view, given the current dire financial position of the Company, a valuation of its shares at present is somewhat superfluous. Furthermore, given that the Recapitalisation Proposal involves the Company issuing 214,022,100 new ordinary shares, representing an increase of 692% over the number of shares currently on issue, the issue price of the new shares will significantly influence the value of the shares immediately after the Recapitalisation Proposal.

Nevertheless, we have assessed the indicative value of the Company's shares pre and post the Recapitalisation Proposal to provide the Non-associated Shareholders with some guidance of the potential value of their shares under the 2 scenarios.

6.2 Standard of Value

We have assessed the fair market value of the shares in Pulse Utilities. Fair market value is defined as the price that a willing but not anxious buyer, with access to all relevant information and acting on an arm's length basis, would be prepared to pay to a willing but not anxious seller in an open, unrestricted and stable market.

6.3 Basis of Valuation

In general terms it is recognised that the value of a share represents the present value of the net cash flows expected therefrom. Cash flows can be in the form of either dividends and share sale proceeds or a residual sum derived from the liquidation of the business.

There are a number of methodologies used in valuing shares and businesses. The most commonly applied methodologies include:

- discounted cash flow (**DCF**)
- capitalisation of earnings
- net assets or estimated proceeds from an orderly realisation of assets.

Each of these valuation methodologies is applicable in different circumstances. The appropriate methodology is determined by a number of factors including the future prospects of the business, the stage of development of the business and the valuation practice or benchmark usually adopted by purchasers of the type of business involved.

The DCF method is the fundamental valuation approach used to assess the present value of future free cash flows (**FCF**), recognising the time value of money and risk. The value of an investment is equal to the value of FCF arising from the investment, discounted at the investor's required rate of return.

The capitalisation of earnings method is an adaptation of the DCF method. It requires an assessment of the maintainable earnings of the business and a selection of a capitalisation rate (or earnings multiple) appropriate to that particular business for the purpose of capitalising the earnings figure.

An assets based methodology is often used in circumstances where the assets of a company have a market value independent of the profitability of the company that owns them. A valuation based on an orderly realisation of assets is normally restricted to instances where the investor holds sufficient control to effect a sale of the assets and / or there is some indication that an orderly realisation is contemplated.

6.4 Valuation Approach

Pre Recapitalisation Proposal

We have assessed the indicative value of the Company's shares prior to the Recapitalisation Proposal using the assets method as the Company has not recorded profits or generated positive operating cash flows in its past and, in the absence of the Recapitalisation Proposal, the Company's directors believe that the Company will cease trading in the near future.

Post Recapitalisation Proposal

As previously stated, given that the Recapitalisation Proposal involves the Company issuing 214,022,100 new ordinary shares, representing an increase of 692% on the number of shares currently on issue, the issue price of $0.05 per share will be the significant determinant of the value of the shares immediately after the Recapitalisation Proposal.

Nevertheless, we have assessed the indicative fair market value of the Company's shares immediately after the Recapitalisation Proposal using the DCF method. The DCF methodology assesses value in 2 stages:

- first, the FCF of the business are forecast over a given time frame and a forecast of maintainable FCF beyond then is used to determine a perpetuity value
- then the FCF are adjusted to reflect their value at a certain point in time. Present values are calculated by discounting the FCF at an appropriate discount rate.

FCF represent the surplus cash associated with the business after deducting operating expenses, tax, movements in working capital and capital expenditure. They represent the cash which is available to pay returns to providers of debt and equity capital.

The discount rate used to determine the present values of the FCF is the estimated weighted average cost of capital (**WACC**). The WACC is a blend of the cost of debt and the cost of equity, weighted in accordance with the target capital structure of an entity owning the business. The WACC represents the rate of return required by investors to compensate them for the business risks they bear by investing in the business.

The DCF method that we have applied derives an assessment of the value of the core operating business, prior to considering how the business is financed or whether it has any significant surplus assets. This ungeared business value is commonly referred to as the enterprise value and represents the market value of the operating assets (i.e. operating working capital, fixed assets and intangible assets such as brand names, software, licences, know-how and general business goodwill) that generate the operating income of the business.

To derive the indicative value of the Pulse Utilities shares, it is necessary to add the value of any surplus (or non-operating) assets and deduct the value of net interest bearing debt (**IBD**) from the assessed enterprise value.

6.5 Indicative Valuation Assessment – Pre Recapitalisation Proposal

Given the Company's total equity of approximately negative $7.7 million as at 30 June 2011 and the nature of its assets, we are of the view that the indicative value of the Company's shares prior to the Recapitalisation Proposal is negligible.

6.6 Indicative Valuation Assessment – Post Recapitalisation Proposal

Free Cash Flows

The FCF adopted in the DCF valuation are based on the Pulse Utilities financial forecasts for the 2 years to 2013.

The forecasts are predicated on the critical assumption that the Recapitalisation Proposal proceeds and that the Company has sufficient finance facilities to fund its operations. Clearly if the Company cannot secure adequate funding, then it will not be able to achieve the customer acquisition levels that it is forecasting as it will not be able to meet its prudential requirements with the Clearing Manager, lodge security deposits with EDBs or enter into sufficient electricity hedging contracts.

The Company has developed 2 FCF scenarios:

- the Consolidation Scenario – where customer growth is restrained
- the Growth Scenario – where customer acquisition continues at a high growth rate.

The key assumptions and forecast outcomes adopted in the FCF forecasts are set out below.

Key Forecast Assumptions

	Consolidation Scenario	Growth Scenario
Customer numbers 2013	44,000	62,000
Revenue CAGR (2011 – 2013)	83%	113%
Supply prices	Based on confirmed hedges and future wholesale spot prices based on 2009 inflation adjusted wholesale prices to Dec 2011 and best estimates from Jan 2012 onwards	
EBITDA margin 2013	7%	10%
Average net capital expenditure p.a. ($000)	360	360
Working capital requirements	Moves in line with revenue growth	
Corporate tax rate	28%	28%
Terminal growth	2.5%	2.5%

CAGR: Compound annual growth rate

Weighted Average Cost of Capital

The calculation of the WACC, while being derived from detailed formula, is fundamentally a matter of professional judgement.

We have assessed the WACC for Pulse Utilities to be in the vicinity of 20%. This represents our assessment of the required rate of return that a rational investor would require in respect of a relatively high risk and illiquid investment such as Pulse Utilities at this point in time.

Sensitivity Analysis

We have evaluated the sensitivity of the valuation outcomes to changes to key value drivers. The DCF assessment is particularly sensitive to the following factors:

- customer number assumptions
- EBITDA margins
- discount rate assumptions
- terminal growth assumptions.

Indicative Enterprise Value

Based on the above, the Company's indicative enterprise value post the Recapitalisation Proposal ranges from $10 million to $30 million under the 2 scenarios.

Indicative Value of 100% of the Shares

To derive the indicative value of the Pulse Utilities shares post the Recapitalisation Proposal, it is necessary to add the value of surplus assets and deduct the value of Pulse Utilities' net IBD from its indicative enterprise value.

The Company has no surplus assets of any material value.

Pulse Utilities' cash on hand immediately post the Recapitalisation Proposal would be approximately $6.2 million and its IBD would be approximately $2.8 million (based on the 30 June 2011 balance sheet).

Based on the above, we assess the indicative fair market value of 100% the shares in Pulse Utilities to be in the range of $13 million to $33 million post the Recapitalisation Proposal. This equates to $0.05 to $0.14 per share.

Indicative Value of 100% of the Shares Post the Recapitalisation Proposal

	Low $000	High $000
Indicative enterprise value	10,000	30,000
Cash	6,170	6,170
IBD	(2,750)	(2,750)
Indicative value of 100% of Pulse Utilities shares	13,420	33,420
No. of shares on issue (000)	244,965	244,965
Pro rata indicative value per share ($)	$0.05	$0.14

The Company's options that are currently on issue have been ignored in our valuation assessment as they are significantly out of the money.

The indicative values are for 100% of the shares in the Company and hence reflect a premium for control. In the normal course of events, we would expect minority parcels of shares in the Company to trade at a discount to these values. Furthermore, given the significant number of ordinary shares that will be issued under the Recapitalisation Proposal, we consider that their issue price of $0.05 per share will be the most significant determinant of the value of the shares immediately after the Recapitalisation Proposal.

6.7 Indicative Valuation Conclusions

In our view, the Company's shares have negligible value prior to the Recapitalisation Proposal.

In our view, the indicative fair market value of 100% of the shares in Pulse Utilities is in the range of $13 million to $33 million post the Recapitalisation Proposal, based on the Company's financial projections under the 2 scenarios. This equates to $0.05 to $0.14 per share. However, we consider the issue price of $0.05 per share will be the most significant determinant of the value of the shares immediately after the Recapitalisation Proposal.

7. Sources of Information, Reliance on Information, Disclaimer and Indemnity

7.1 Sources of Information

The statements and opinions expressed in this report are based on the following main sources of information:

- the draft notice of annual meeting
- the BEL HoA
- the Pulse Utilities annual reports for the years ended 31 March, 2009 to 2011
- the Pulse Utilities management accounts for the 3 months to 30 June 2011
- the Pulse Utilities budget for the year ended 31 March 2012
- the Pulse Utilities financial projections for the 2013 financial year
- the Pulse Utilities *Investment Summary* dated February 2011
- the General Security Deed
- documentation in respect of the CN Restructure
- the BEL annual reports for the years ended 31 March, 2009 to 2011
- the BEL *Asset Management Plan 1/4/2011 – 31/3/2021* dated January 2011
- the BEL *Information Disclosure* dated 31 March 2010
- publicly available information in respect of the New Zealand electricity industry
- data in respect of Pulse Utilities and comparable companies from NZX Data and Capital IQ.

During the course of preparing this report, we have had discussions with and/or received information from the directors and executive management of Pulse Utilities and Pulse Utilities' legal advisers.

The Company's directors have confirmed that we have been provided for the purpose of this Independent Adviser's Report with all information relevant to the BEL Allotment and the Recapitalisation Proposal that is known to them and that all the information is true and accurate in all material aspects and is not misleading by reason of omission or otherwise.

Including this confirmation, we have obtained all the information that we believe is desirable for the purpose of preparing this Independent Adviser's Report.

In our opinion, the information to be provided by Pulse Utilities to the Non-associated Shareholders is sufficient to enable the Company's directors and the Non-associated Shareholders to understand all the relevant factors and to make an informed decision in respect of the BEL Allotment and the Recapitalisation Proposal.

7.2 Reliance on Information

In preparing this report we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by Pulse Utilities and its advisers.

We have evaluated that information through analysis, enquiry and examination for the purposes of preparing this report but we have not verified the accuracy or completeness of any such information or conducted an appraisal of any assets. We have not carried out any form of due diligence or audit on the accounting or other records of Pulse Utilities. We do not warrant that our enquiries would reveal any matter which an audit, due diligence review or extensive examination might disclose.

7.3 Disclaimer

We have prepared this report with care and diligence and the statements in the report are given in good faith and in the belief, on reasonable grounds, that such statements are not false or misleading. However, in no way do we guarantee or otherwise warrant that any forecasts of future profits, cash flows or financial position of Pulse Utilities will be achieved. Forecasts are inherently uncertain. They are predictions of future events that cannot be assured. They are based upon assumptions, many of which are beyond the control of Pulse Utilities and its directors and management. Actual results will vary from the forecasts and these variations may be significantly more or less favourable.

We assume no responsibility arising in any way whatsoever for errors or omissions (including responsibility to any person for negligence) for the preparation of the report to the extent that such errors or omissions result from our reasonable reliance on information provided by others or assumptions disclosed in the report or assumptions reasonably taken as implicit.

Our evaluation has been arrived at based on economic, exchange rate, market and other conditions prevailing at the date of this report. Such conditions may change significantly over relatively short periods of time. We have no obligation or undertaking to advise any person of any change in circumstances which comes to our attention after the date of this report or to review, revise or update our report.

We have had no involvement in the preparation of the notice of annual meeting issued by Pulse Utilities and have not verified or approved the contents of the notice of annual meeting. We do not accept any responsibility for the contents of the notice of annual meeting except for this report.

7.4 Indemnity

Pulse Utilities has agreed that, to the extent permitted by law, it will indemnify Simmons Corporate Finance and its directors and employees in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity does not apply in respect of any negligence, wilful misconduct or breach of law. Pulse Utilities has also agreed to indemnify Simmons Corporate Finance and its directors and employees for time incurred and any costs in relation to any inquiry or proceeding initiated by any person. Where Simmons Corporate Finance or its directors and employees are found liable for or guilty of negligence, wilful misconduct or breach of law or term of reference, Simmons Corporate Finance shall reimburse such costs.

8. Qualifications and Expertise, Independence, Declarations and Consents

8.1 Qualifications and Expertise

Simmons Corporate Finance is a New Zealand owned specialist corporate finance advisory practice. It advises on mergers and acquisitions, prepares independent expert's reports and provides valuation advice.

The person in the company responsible for issuing this report is Peter Simmons, B.Com, DipBus (Finance), CFIP.

Simmons Corporate Finance and Mr Simmons have significant experience in the independent investigation of transactions and issuing opinions on the merits and fairness of the terms and financial conditions of the transactions.

8.2 Independence

Simmons Corporate Finance does not have at the date of this report, and has not had, any shareholding in or other relationship with Pulse Utilities or BEL or any conflicts of interest that could affect our ability to provide an unbiased opinion in relation to these transactions.

Simmons Corporate Finance has not had any part in the formulation of the BEL Allotment or the Recapitalisation Proposal or any aspects thereof. Our sole involvement has been the preparation of this report.

Simmons Corporate Finance will receive a fixed fee for the preparation of this report. This fee is not contingent on the conclusions of this report or the outcome of the voting in respect of the Recapitalisation Proposal. We will receive no other benefit from the preparation of this report.

8.3 Declarations

An advance draft of this report was provided to the Company's directors for their comments as to the factual accuracy of the contents of the report. Changes made to the report as a result of the circulation of the draft have not changed the methodology or our conclusions.

Our terms of reference for this engagement did not contain any term which materially restricted the scope of the report.

8.4 Consents

We consent to the issuing of this report in the form and context in which it is to be included in the notice of annual meeting to be sent to Pulse Utilities' shareholders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without our prior written consent as to the form and context in which it appears.

Peter Simmons
Director
Simmons Corporate Finance Limited
29 July 2011