

Appendix 4E

Summary Financial Report

	2014	2013	Variance to prior year	
	\$'000	\$'000	\$'000	%
Operating revenue	11,859	12,370	(511)	(4)
Profit from continuing operations after tax	1,311	1,024	287	28
Attributable profit after tax	1,311	1,024	287	28
Net margin (%)	11%	8%	-	3
Basic earnings per share (cents)	1.3	1.0	0.3	33
Net operating cash inflows	714	1,259	(545)	(43)
Dividends per share	-	-	-	-
Net tangible assets / (liabilities) per security (cents)	0.4	(0.5)	0.9	n/a

Additional Appendix 4E disclosure requirements can be found in the notes to the 2014 Pacific Environment Limited Consolidated Financial Statements included in the Annual Report.

This report is based on the consolidated financial statements that have been audited by WPIAS Pty Ltd with the Independent Auditor's Report included in the financial statements.

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2014 **ANNUAL REPORT**



Consulting



Technologies



Monitoring

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ON THE COVER:

Traffic on the Pacific Highway. Transport emissions and noise are a major focus of our work.

PHOTO: ALEX ORMEROD PHOTOGRAPHY



Pacific Environment Limited

ABN: 42 122 919 948

CORPORATE DIRECTORY

DIRECTORS

Murray d'Almeida
(Chairman)

David Johnstone
(Director)

Adam Gallagher
(Director)

COMPANY SECRETARY

Adam Gallagher

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 1, 146 Arthur Street
North Sydney, New South Wales 2060
Phone: 02 9870 0900

SHARE REGISTRY

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney, New South Wales 2000
Phone: 02 9290 9600

AUDITOR

WPIAS Pty Ltd
4 Helensvale Road
Helensvale, Queensland 4212
Phone: 07 5580 4700

STOCK EXCHANGE LISTING

Pacific Environment Limited shares are listed on the Australian Securities Exchange (Code PEH)

WEBSITE ADDRESS

www.pacific-environment.com

EXECUTIVE TEAM



PETER WHITE

CHIEF EXECUTIVE
OFFICER

Peter White, CEO of Pacific Environment is responsible for leading the turnaround in the company's performance, delivering profit for the second year in a row. His focus is to grow Pacific Environment through strengthening the consulting business, expanding its technology offerings, and acquiring companies aligned with the Company's growth strategy.

Peter's previous experience within the technology sector in Australia, Asia, and Europe brings a unique capability to integrate technology with high quality environmental services, a defining feature of Pacific Environment.



ROSS HAWKEY

CHIEF FINANCIAL
OFFICER

Ross Hawkey, Pacific Environment's CFO provides financial and operational support to the organisation. He advises the CEO on all strategic and tactical matters as they relate to accounting and finance and is responsible for the organisation's human resources, IT infrastructure, insurances and facilities.

Ross is a commercially astute management professional with extensive business experience in the Information Technology & Telecommunications (IT&T), Manufacturing, Security, Financial Services and Not-for-Profit industries both in Australia and internationally.



BILL HAYLOCK

GENERAL MANAGER
Business Development &
Victoria

Bill was appointed in February 2014 to help build our business in the Consulting area. He is focused on improving our business development capabilities, broadening our consulting offerings to our clients and identifying acquisition opportunities. His initial focus is on cross business unit integration and upgrading consulting practice systems and procedures.

Bill is the former President of the Environment Institute of Australia and New Zealand (EIANZ), the peak professional body for environmental practitioners.



DAMON RODDIS

GENERAL MANAGER
New South Wales

Damon Roddis, the General Manager of our New South Wales office brings over 17 years of consulting and regulatory experience to Pacific Environment's Sydney based office. He manages a staff of experienced consultants servicing clients across a range of sectors including mining, oil and gas and infrastructure.

In support of the growing requirements from several of his large infrastructure and mining projects, Damon recently founded a monitoring group that works in tandem with the consultants, providing ambient and fugitive monitoring services to meet their clients' regulatory requirements.



MATT SCHOLL
GENERAL MANAGER
Technologies

Matt was appointed to lead the Technologies business unit of Pacific Environment at its inception, after over a decade of project management and leadership positions within the company.

Matt is responsible for all aspects of the business unit, including sales, support and implementation.

His ability to understand business requirements and how best to meet them has directly led to the significant growth in the number of businesses adopting our products.



DAVID ARBUCKLE
GENERAL MANAGER
Queensland &
South Australia

As founder of the air emissions monitoring unit within Pacific Environment, David brings 15+ years of management and business development experience to the integration of the consulting and monitoring groups as his role as General Manager of the Queensland operations. David is also responsible for our South Australian operations based in Adelaide.

David works with a wide range of sectors throughout Australia, and offshore. He has received specialist training and regularly updates his skills via continuing training in testing methods in the US and Europe.



PAUL SMITH
GENERAL MANAGER
Waste Solutions
Australia

As founder of Waste Solutions Australia (WSA,) Paul Smith has 35+ years of experience in groundwater, contaminated land, solid waste and landfill gas investigations. Paul has pioneered the development and implementation of state-of-the-science technologies for use in chemical characterisation and remedial site clean-up.

He and his team have assisted numerous clients from a broad range of private sector clients including mining, resource, industrial and public sector at all levels of government in Australia and South East Asia.



JON HARPER
MANAGER
Western Australia

Jon is a Principal Consultant and Manager of our WA office. He is an internationally recognised environmental consultant with more than 20 years' experience in the resource sector. He is a leading expert in the field of dust modelling and abatement and has developed an excellent reputation in designing and managing complex environmental and scientific studies and providing expert advice to mine managers, engineers and other core environmental staff.

Jon pioneered the development of innovative emission estimation techniques and predictive models to assist in pro-active emission management.

CHAIRMAN'S STATEMENT



Dear Shareholder

I am pleased to present the Annual Report of Pacific Environment Limited and its controlled entities (the Group) for the 2014 Financial Year. Last year it gave me great pleasure to congratulate our staff on their efforts to produce the first ever operating profit for the company and it is very pleasing to announce an increased EBIT for 2014.

	2014 \$'000	2013 \$'000 Restated	Variance
Revenue from continuing operations	11,859	12,370	(511)
Other income	1,090	654	436
Employee benefits expense	(7,003)	(7,219)	216
Consultants expense	(277)	(716)	439
Other operating expenses	(3,526)	(3,312)	(214)
EBITDA	2,143	1,777	366
EBIT	1,593	1,247	346
NPAT	1,311	1,024	287

The business has consolidated, focusing on margin growth through operational improvements that have built a strong platform for future growth. CEO Peter White supported by our CFO Ross Hawkey and the General Managers of each business unit have worked tirelessly to undertake significant changes in our operating platform to streamline operational processes to improve margins and profit.

Our team of dedicated professionals continue to service organisations across a broad range of sectors and industries providing innovative solutions to manage their environmental challenges and fulfil their legislative and corporate responsibilities. I thank all the staff for their efforts and congratulate them on another successful year.

A significant investment has been made over the past two years in establishing a strong, scalable platform to accommodate the growth that the board and executive are seeking over the coming months and years. The implementation of this investment continues into the 2015 financial year and delivers an operating platform that will provide for the step changes in the scale of the group's business that we see occurring through acquisition and the rollout of our technology during the 2015 year. Our three-pillar growth strategy is progressing as follows:

1) Acquisitions

In April this year we welcomed the Waste Solutions Australia business into Pacific Environment that has broadened our service offering and presented new clients and projects for our existing business units.

Through the course of the calendar year to date we have reviewed a large number of opportunities and remain highly selective in our approach to ensure only the best quality companies that represent potential step changes in shareholder value are considered for acquisition. We are currently in advanced discussions with a number of parties and we look forward to making announcements concerning these activities in the near future.

2) Technology

The rebuild program of our software products collectively known as 'EnviroSuite' began in June 2014 and the first commercial ready modules are scheduled for October 2014. From then on a regular release of saleable modules is expected through to early 2015 when we will have a full suite of world-class products available for global distribution. Over the past two years we have invested heavily in R&D and the monetary investment has been partially offset through R&D tax incentives.

We are very excited about the prospects for EnviroSuite with the first generation having been successfully sold to major resources, power generation, infrastructure and healthcare companies. The leap forward in operational capacity, user interface, implementation time and scalability is such that EnviroSuite will be a world-class software product with the potential to add significantly to shareholder value.

3) Organic Growth

Following through on last year's strong result the team has demonstrated consistency and improvement in our ability to sustain and grow the value of our existing businesses. Continued operational improvements as well as marketing and business development activities have helped to sustain top-line revenues and improve margins. We intend to make a significant investment in staff development in the new financial year to develop our technology and acquisition opportunities. Our team have market leading technical skills in their various disciplines and this is will be complemented by an up-skilling in commercial knowledge and application.

Shareholder Value

While there has been little turnover in the stock through the year the team has been very busy with the activities outlined above which in the coming year we believe will begin to have a positive impact on the share price. We thank our existing shareholders for their support and look forward to rewarding their patience in the coming months through announcements on both our acquisition and technology strategies.

We welcome any comments or questions and again we thank you for your interest in the Group.

Sincerely



MURRAY d'ALMEIDA

CHAIRMAN
Sydney
29 August 2014



FOUNDER'S MESSAGE

The future of Pacific Environment holds great promise, based on solid achievements that have prepared the company for a new phase. To draw on a mountaineering analogy, we are now ready to set out from Base Camp, having done a thorough job of preparing for the challenges and rewards of the ascent.

Our current position speaks volumes for the skills, dedication and loyalty of the Company's staff, management and Board. All have worked hard to bring the Company to a better position. The Business Units are working together in a cohesive structure that takes advantage of the Group's talents and strengths. There is a new corporate strategy and vision, good management and an outstanding foundation of skills to take us forward. The past two years has seen a sustained turnaround in the company's performance, which gives confidence about the future.

Our business is science-based and people-focused. Of particular importance, we are building an effective partnership between the environmental consulting that founded the company, and our environmental technology business. This is a point of difference in the market.

Although Pacific Environment was established as an entity in 2006 and listed in 2008, its current status as a consulting and technology provider can be attributed to decisions taken 10 years ago to commence a dedicated R&D program, which has led to today's EnviroSuite product. The intellectual heritage of the Company reaches further back to the early days of the consultancies that joined in the roll-up for ASX listing. Hence, the opportunities of today are based on a strong and enduring foundation.

ROBIN ORMEROD
FOUNDER





SCIENCE & INNOVATION

Science and innovation are fundamental drivers of our business. This has been recognised by the creation of an Office of Science and Innovation (OSI). The OSI is briefed with working to guide, develop and promote our core strengths in science and innovation. These attributes support our strengthening position in the environmental market.

Working with me in the OSI is Dr Peter D'Abreton, who since 2001 has played a key role in our R&D activities. Read more about Peter on the next page.

The world is at a critical historical point. The pressures of human demands on resources mean that science and technology are essential to managing our impacts. The goal of sustainability is now utterly dependent on science and innovation directed to cleaner production, resource efficiency and remediation of environmental problems.

Pacific Environment is contributing to better environmental outcomes. A talented team is working hard to provide effective solutions to the immediate and longer term needs of clients. Innovation is a major driver of economic growth, just as much for us as it is for the whole economy.

The Group employs many highly qualified people: 50% of our consultants have a higher degree (Ph.D., Masters or

equivalent). In coming years, this environmental intelligence will continue to drive us forward.

Despite short-term variations in economic and policy conditions, there is a long-term trend in the global environmental space where the growing demand for services and solutions will increase pressure on the supply of qualified professionals. To effectively meet demand, the pressure must be alleviated by technologies and more efficient consulting practices. This is the opportunity space in which we are positioned.

On the next page is a small sample of the talented people in Pacific Environment who are playing an active role in science and innovation. I trust these brief examples help to illustrate why I am confident about our future.

ROBIN ORMEROD

FOUNDER
HEAD OF SCIENCE & INNOVATION





JUDITH COX Sydney - Principal Consultant - Air Quality

A key member of our Sydney team, Judith has led the development and deployment of our innovative REX (Road Emissions Expert) system. REX is used on mine sites to gather data on dust generated by haul truck movements. At most open-cut mines, this is the largest source of dust but it is not easy to estimate. Judith's work with REX improves the accuracy of dust estimates for haul roads, which leads to better impact assessment and more efficient dust control. The end result: a cleaner environment.



DR PETER D'ABRETON Brisbane - Principal Atmospheric Scientist

Peter is a Ph.D. meteorologist who joined us in 2001. He is a member of the Science & Innovation Office and plays a leading role in our atmospheric sciences capability. He came up with the suggestion that has now evolved into our EnviroSuite technology. Peter has played a crucial role in weather forecasting, air quality modelling and data analysis across the Company. He plays a leading role in our R&D program, helping create improvements in the quality and competitiveness of Pacific Environment's scientific output.



DR LYN DENISON Melbourne - Principal Consultant - Toxicology

Based in Melbourne, Lyn joined Pacific Environment with high-level scientific and policy experience from EPA Victoria. She has been integrally involved in shaping and implementing Victorian and Federal environmental policies as a scientific expert. Lyn is sought after to provide expert advice and direction to research and consulting projects involving the effects of environmental pollution on human health. For example, she was consulted by the Victorian Health Department on the 2014 Morwell coal mine fires.



AIDAN MARSH Brisbane - Principal Consultant - Landfill gas specialist

With a background in consultancy, waste management and the power generation industry, Aidan can appreciate different perspectives. He excels at dealing with multiple stake-holders to balance conflicting priorities. He has been developing a methodology under the Carbon Farming Initiative for landfill phytocaps, on behalf of the Department of Environment. This innovation holds the prospect of simultaneously achieving multiple benefits for landfill operators and the environment.



DR BETHANY WARREN Brisbane - Principal Environmental Engineer

With a Ph.D. from the world-leading air pollution research centre at University of California (Riverside), Bethany has been with us in Brisbane since 2009. She has expertise in the chemistry of air pollution, which is important in understanding complex problems in industrial, urban and regional air pollution. She has applied her technical and project management skills to some highly sensitive projects throughout Australia, including high-level advice to international corporations on environmental policy trends.



DR PAUL BOULTER Sydney - Principal Consultant - Emissions & Air Quality

Paul specialises in transport emissions and air quality. He joined Pacific Environment in February 2012, after 17 years of research and consulting experience in the UK and Europe. With expertise in emission models, emission inventories, impact assessment, air pollution in road tunnels and air pollution control, he was instrumental in helping the Company to win the air quality work for the WestConnex road and tunnel project in Sydney. Paul introduced new methods to Australia, raising the technical standards for this high-profile project.



DR SEAN LAM Perth - Environmental Engineer

Sean gained his Ph.D. working on industrial air pollution. His experience includes developing and applying a photochemical model to pinpoint the major sources of smog in Hong Kong and South China. Based in Perth, he applies his skills to solving clients' compliance and operational issues. Environmental monitoring systems can generate masses of data that have to be analysed. Sean employs state-of-the-art data mining techniques and complex statistical analysis to extract meaning out of large datasets, leading to better air quality management methods.



I am pleased to report on the activities of the Company for the 2013–14 financial year, and of our plans for the coming year. For the financial year 2013-14 the Company recorded a profit of \$1.3 million. This result was achieved despite a small decrease in revenue resulting from market contraction in key industry sectors. This decline was countered by a greater focus on providing our core and most profitable offerings.

The Company has now established a solid platform on which to execute the next stage of strategy. The intended strategy is one of step growth, by expanding the technology and implementing an acquisition strategy, at the same time as driving organic growth in the consulting and monitoring business streams. Given the need to stay ahead of competitors in a knowledge-based industry, Research and Development is a fundamental part of the Company's operations. This year's net profit after tax includes R&D tax incentives from the government for the financial years of 2012-13 and 2013-14, totalling \$1.083 million as compared to \$0.328 million in the previous year relating to financial year 2011-12.

The Company offers its services and solutions to clients from offices based in all of the mainland capitals. It does this through one of the established practice areas within the environmental space. These practice areas are as follows:

- Technologies
- Air Quality & Meteorology
- Carbon Management
- Acoustics
- Toxicology & Health Assessment
- Ambient & Fugitive Monitoring
- Emission Monitoring
- Landfill Gas Management
- Solid Waste Management
- Contaminated Land Assessment
- Groundwater Monitoring

These practice areas have expanded since last year due to the acquisition of the Waste Solutions Australia business, and we expect that further practice areas will be added as companies with different domain expertise are acquired in the coming year.

Year Highlights

During the year there have been some notable performance highlights:

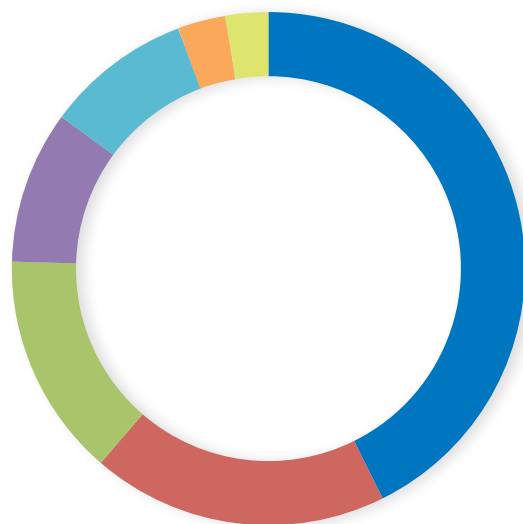
- The Company won its biggest ever contract with the NSW Roads and Maritime Services Department. The scope is to work as strategic air quality advisor for the WestConnex project, and supply associated air monitoring services (Air Quality, Monitoring).
- A contract with the Western Australian Department of Health to conduct a Health Risk Assessment in Port Hedland, a joint proposal by Pacific Environment's Victorian and Western Australian offices (Health Assessment, Air Quality).
- Contracts with two Brisbane hospitals to supply the EnviroSuite monitoring module for managing dust and associated risk of infection during hospital refurbishment projects (Technologies, Monitoring).
- Monitoring of air quality during the demolition of the Mobil oil refinery in Adelaide (Air Quality, Technology).
- Further expansion into the international market with projects including provision of air quality and toxicology expertise for a proposed mine in Greenland (Air Quality, Toxicology).
- Our most recent business acquisition, Waste Solutions Australia, has been developing a methodology under the Carbon Farming Initiative for landfill phytocaps, on behalf of the Department of Environment. This innovation holds the prospect of simultaneously achieving multiple benefits for landfill operators and the environment (Landfill Gas, Waste Management).
- Our Sydney office was engaged by the National Environment Protection Council to provide technical input, including health and economic analysis and impact assessments, dealing with proposed changes to National Environment Protection Measure for Ambient Air (Air Quality, Toxicology).
- New EnviroSuite forecasting and real-time air quality and noise management systems were installed at ports and mines in Western Australia, Victoria and New South Wales across iron ore, gold and coal. The systems help to streamline operations and environmental compliance (Technologies).
- Two research projects for the Australian Coal Association Research Program (ACARP) related to the effect of particulate emissions from haul road and mine equipment (Ambient Monitoring).
- We assisted the BHP Cannington Townsville Port operations with air quality modelling for the facility's proposed expansion, liaison with regulatory authorities on monitoring and licensing, and validating technical methods (Air Quality).

Performance Overview

The Company has had major success across a wide range of practice areas and regions. There has been a sustained push to keep broadening and diversifying the group activities so as not to become overexposed to one industry sector or geography.

Practices

The main practice areas this year were Air Quality, Monitoring and Technologies. The first two reflect the nature of the founding companies, and the Technologies practice continues to be a focus growth area. It was pleasing to see this year that the major projects implemented during the year were all projects across two or more practices. This indicates that the Company's push to provide a more diverse offering to our client base is beginning to pay dividends.



- Air Quality & Meteorology
- Emissions Monitoring
- Ambient & Fugitive Monitoring
- Technologies
- Toxicology & Risk Assessment
- Carbon Management
- Acoustics

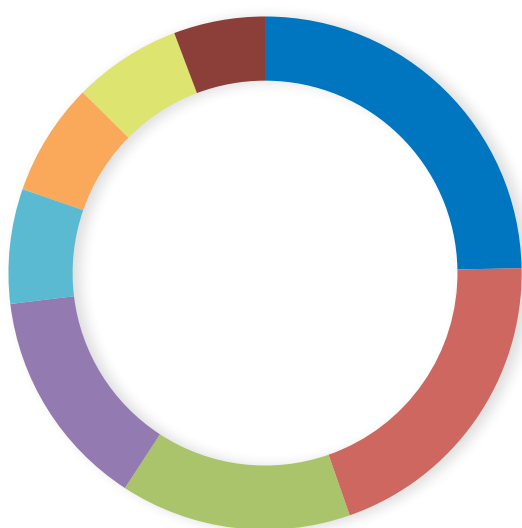
In FY14 the top 10 sectors generated 74% of revenue compared to 84% in FY13, showing a diversifying trend. Revenue from the infrastructure sector (roads, ports) increased substantially and declined in the resources sector.

Industry Sectors

The mix of client industry sectors is broadening as we move into new areas. The revenue split by sector is more balanced than last year (see graph below).

A main new focus sector in the past year was infrastructure, especially the transport sector. There is a major push by various states and the federal government to invest in Infrastructure. We are well positioned to take advantage of this shift in the market.

Whilst maintaining a significant market share in our traditional mining areas we have further expanded into the ports sector, and there is now sustained focus on the oil and gas industry. The focus on these sectors reflects the market demand shifts that have occurred in the recent past.



- Coal Mining
- Metal Ore Mining
- Road & Bridge Construction
- Ports
- Oil & Gas
- Chemical
- Electricity
- Metals Refining & Smelting

Acquisitions

As we indicated last year, an acquisition strategy was identified as a key initiative for the Company in the coming years. It was therefore very pleasing to be able to announce that we successfully completed the first acquisition in nearly five years with the highly respected Brisbane-based environmental services business, Waste Solutions Australia (WSA). The integration has gone remarkably smoothly, and WSA has contributed to the last two months of financial results. Their technical team has been working closely with our consulting and monitoring groups, allowing the Company to offer a more comprehensive service to existing and potential clients.

Operations

The consulting business units have active operations across all of the Group's locations, with the teams actively working together to complete projects not only within Australia but around the globe. These practices still form a majority of the Group's revenues. Focus within these units is to maintain and increase utilisation, to work more closely across offices, and to increase the skills applied to driving business development.

The Technologies Business Units has grown and restructured with additional staff in sales, client support and product management. This is providing a structure that will enable delivery of a better product to market, with proactive support staff and capabilities to deliver rapid sales. These changes are already showing us benefits.

A major initiative during the year was the implementation of the Company's Quality and WHS system. A substantial project was carried out and resulted in the Company implementing the new quality system across all offices. We are in the process now of gaining accreditation under ISO 9001.

During quarter one there was a major consolidation of the corporate services, bringing all financial functions into one group based at the Head Office in Sydney. This caused a one-off restructuring charge of over \$400,000. The change has resulted in greater operational efficiencies across the group and will be reflected in cost savings in future years.

Coming Year

The Board and Management believe that to maximise shareholder return, the Company must accelerate its growth. Being a relatively small company, it incurs a disproportionate set of corporate costs associated with being listed. This of course has a direct effect on the bottom line financial result that the Company can generate.

Now that a strong platform of corporate services (financial services, quality, marketing and business development, IT and telecommunications infrastructure) has been established, it is Management's belief that the Group could increase revenues by a factor of several times current levels without a proportionate increase in overhead costs.

To achieve this growth the Company has adopted a three-pillared approach to growth:

- Acquisition
- Technologies expansion
- Organic growth of the existing business streams

Growth through Acquisitions

The Company will target acquisitions of services and technology companies within the environmental sector. This will include broadening of the current domain area of expertise, as well as other companies that will provide diversification of client industry sectors and revenue models.

Other key attributes of acquisition targets will be:

- Alignment of corporate culture between the Company and the acquisition targets
- Profitability of the acquisition target
- Realistic asking price valuation, that includes a vendor earn-out arrangement

The Board has created an Acquisitions sub-committee which follows a set process to assess companies for overall potential. An extensive due diligence process is performed before finalisation of contracts. The Committee has been very active and further acquisitions are expected to be announced in the coming months.

Technologies Expansion

Pacific Environment's Technologies division was developed from the philosophies of innovation and continuous improvement in our environmental consulting practices.

The solution is known collectively as EnviroSuite 1.0, and has evolved from a series of bespoke installations to a generalized solution servicing clients such as Rio Tinto, BHP Billiton, Anglo American, Pacific Aluminium, Origin Energy and many others.



Most EnviroSuite sales involve three-year annuity contracts, and this is an area of targeted growth for the Company. To speed up growth in this area the Company has embarked upon a commercialisation project to produce the EnviroSuite 2.0 solution. The aim of this project is to make the current world class product a more scalable and secure solution that can be used to solve the environmental requirements of a diverse range of client companies across the globe.

Other benefits from the commercialisation project will be a solution that is modular with improved workflow, presentation, ease of implementation and support so that the full potential in the market can be realised. During this project we will maintain the influence and input of our leading environmental experts. This will provide a key differentiator in the marketplace for environmental management products.

The product will use the power of the Amazon Web Services cloud technology. Not only will this provide large scale computing, it will allow EnviroSuite 2.0 to be supplied to clients anywhere in the world by using the Amazon computing centre based on their continent. The lead time for supply will be reduced to days instead of weeks or months. The second half of this year should see the beginning of the push into export markets, which will remain a key focus for the coming years.

Organic Growth

The current business streams will be tasked with sustainable organic growth targets. This is expected to be achieved by the broadening of our domain expertise, and an increase in cross-selling.

Conclusion

The 2014 financial year has proven to be a successful year for the Company. During the year staff have defined one of the Company values as the desire to strive for scientific excellence and innovation. These areas will remain a major focus during the coming years.

Our people remain the key differentiator and our biggest asset for the Company in the marketplace. They are a group of dedicated and highly skilled scientists, engineers and support staff. I would like to thank all staff for their sustained efforts over the past year, and I look forward to working with them to extend the Company's success into the coming years.

PETER WHITE
CHIEF EXECUTIVE OFFICER
Sydney
29 August 2014





TECHNOLOGIES

The Technologies business unit is a highly important part of the Company's plans for growth.

In the late 1990s, Pacific Air & Environment, one of the founding companies of Pacific Environment, was known as one of Australia's most innovative environmental consulting practices. Technology was used to deliver solutions to a number of complex environmental challenges faced by our clients. Over ten years ago we recognised that technology would be essential for managing environmental issues efficiently and effectively on a day to day basis in the future, and set about designing some of the early products in the field of applied meteorology.

These products, now known collectively as EnviroSuite, have evolved from a series of bespoke installations past the proof of concept stage to the point where clients such as Rio Tinto, BHP Billiton, Anglo American, Pacific Aluminium, Origin Energy and many others are daily users of the system.

EnviroSuite has embedded the expertise of our leading environmental specialists in a modular system for efficient and effective environmental management, to address the areas of:

- Forecasting of weather, air and noise risk.
- Monitoring, analysis and management of air, noise and weather impacts
- Real-time and forecast modelling of air and noise impacts

- Forecasting of blast fume and overpressure impacts
- National Pollutant Inventory and National Greenhouse and Energy (NGER) reporting
- Analysis and management of odour and dust complaints

EnviroSuite is a system that is designed to ensure compliance, manage risk and achieve operational efficiencies. This is achieved with a set of real-time analysis and forecasting tools that have been designed so that businesses can rapidly respond to, or avoid, high-impact and high cost operating scenarios. Activities that can take hours, days or weeks of time to produce in traditional ways are automated in a clear and operationally-useful interface, with data available in real-time, enabling customers to apply mitigation measures efficiently, and only when it is needed.

The year ahead is an exciting one for the Technologies Business Unit. We have plans to increase both the depth and breadth of the product in major design as well as making step changes in the workflow and presentation so that the full potential in the market can be realised. Developing EnviroSuite in this way, while maintaining the influence and input of our leading environmental expertise, will ensure that we maintain our leading position in the marketplace for environmental management products.

**MATT SCHOLL** General Manager - Technologies

Matt was appointed to lead the Technologies business unit of Pacific Environment at its inception, after over a decade of project management and leadership positions within the company. Matt is responsible for all aspects of the business unit, including sales, support and implementation. His ability to understand business requirements and how best to meet them has directly led to the significant growth in the number of businesses adopting our products.

**BENNETT OPRYSA** Product Manager - Technologies

With over 17 years of experience, Bennett brings an important skillset to Pacific Environment's Technologies Business Unit. He possesses a deep knowledge of IT solutions including virtualisation and cloud environments, complex data storage systems, networking, security, linux and datacentre design and management. Bennett is responsible for product development and the EnviroSuite 2.0 roadmap.

**CHAIM KOLOMINSKAS** Business Development Manager - Technologies

Chaim has over a decade of experience in assisting businesses in managing their environmental issues and has managed many of Pacific Environment's high-profile projects. With a background in environmental engineering and after a variety of project management, specialist consulting and management roles, Chaim is now responsible for developing Pacific Environment's technology business in Australia. Chaim's efforts to properly understand each business's needs is critical to the ongoing success of the technologies group.

**ROBIN ORMEROD** Head of Science & Innovation

Robin co-founded Pacific Environment in 2006 and has over thirty years of experience as an environmental specialist. He was the driving technical force behind the establishment of Pacific Environment's technology suite. His experience includes specialist consulting, politics and specialist academic research in climate and meteorology at CSIRO and UNE. He is a leading expert in air quality and meteorology. Robin is a life Member of the Clean Air Society of Australia & New Zealand, currently Chair of its Modelling Special Interest Group.

**DR PETER D'ABRETON** Principal Atmospheric Scientist

EnviroSuite was first conceived by Dr Peter D'Abreton, Principal Consultant for Research & Development. Peter has decades of experience advising industry on complex environmental issues and best practice approaches to environmental modelling and consistently keeps abreast of the latest models and techniques relevant to our products. Peter is actively involved in the continuous development and refinement of the EnviroSuite system and is a key expert within the consulting group.

Testimonials

The implementation of the EnviroSuite real-time monitoring and proactive dust management system approach enables Anglo American to pro-actively manage dust impacts from day-to-day operations.

Dr Carl Grant - Regional Manager, Environment, Anglo American Metallurgical Coal

With the use of EnviroSuite's real-time alerts and automated reports we were able to deliver a comprehensive plan for best practice infection control for the project and confidently satisfy the concerns of all our staff, patients and other stakeholders.

Sonya Vargas – Assistant Director of Nursing, St Andrew's War Memorial Hospital

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the consolidated entity (referred to hereafter as the Group) consisting of Pacific Environment Limited (ABN: 42 122 919 948) (referred to hereafter as the Company) and its controlled entities, for the financial year ended 30 June 2014.

Directors

The following persons were directors of the Company at any time during, or since the end of, the financial year up to the date of this report:

Murray d'Almeida (Chairman)

Adam Gallagher

David Johnstone – appointed as a director 10 February 2014

Robin Ormerod – resigned as a director 10 February 2014

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Particulars of each director's experience and qualifications are set out later in this report.

Principal activities and significant changes in nature of activities

During the year the principal continuing activities of the Group consisted of the provision of environmental consulting and technology services. There were no significant changes in the nature of the Group's activities during the financial year.

Dividends paid or recommended

No dividends were paid by the Company to members during the financial year. No dividends were recommended or declared for payment, but not paid, to members during the financial year.

Operating results and review of operations for the year

Operating Results

Revenues for Pacific Environment Limited (the Group) for the year ended 30 June 2014 were \$11,859,000 a slight decrease compared to prior year revenue of \$12,370,000. Net profit after tax was \$1,311,000 compared to a profit in the prior year of \$1,024,000, an increase of 28% reflecting a year of company consolidation and investment.

Financial Position

The net assets of the consolidated Group have increased by \$1,391,000 from \$8,130,000 at 30 June 2013 to \$9,521,000 as at 30 June 2014. This improvement is due to the increased cash and accounts receivables balances and decreased accounts payable balances from more streamlined business as usual activities. In addition, fixed assets have increased due to strategic debt-funded asset purchases along with an increase in intangible assets associated with the acquisition of the Waste Solutions business.

Further discussion is contained in the Chairman's Letter and the Chief Executive Officer's Report of this Annual Report.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

1. Acquisition of the Waste Solutions Australia business in May 2014.
2. Total equity increased to \$9,521,000 from \$8,130,000, an increase of \$1,391,000. The movement was largely the result of the profits generated during the period as well as the increase in fixed and intangible assets.

Events after the reporting period

No matters or circumstances have arisen since the end of the financial year that significantly affected, or could significantly affect, the operations of the consolidated Group, the results of those operations, or the state of affairs of the consolidated Group in future financial years.

Likely developments and expected results of operations

There are no likely developments in the operations of the Group that were not finalised at the date of this report.

Additional comments on expected results of certain operations of the Group are included in this annual report under the Chairman's Statement and CEO Report.

Environmental regulation

The Group is not subject to any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Information on directors

Murray d'Almeida – Chairman

Experience and expertise

Mr. d'Almeida has over 35 years of diverse national and international business experience. He commenced his career in Perth with a firm of Chartered Accountants before moving into a broad range of commercial and financial reporting positions with two major USA based mining companies. He founded the Australian and international retailer, Retail Food Group and developed their presence in seven overseas countries. He has maintained operating and board positions within a range of financial services, mining, commercial, academic, government, sporting businesses and organisations.

Current Directorships

Director of Beacon Hill Resources Plc.
Chairman of Management Resource Solutions Plc.
Chairman of BPS Technology Limited
Chairman of Barrack Street Investments Limited
Chairman of Tasmania Magnesite Ltd
Director of Institute of Business Leaders

Previous Directorships

Director of Hyperion Asset Management Limited
Director of Hyperion Holdings Limited
Founder/Director of Retail Food Group (Aust.)
Chairman of Allied Brands Limited
Chairman of ECT Limited
Director of Capricorn Resources NL
Director Gold Pacific Resources Limited

Mr. d'Almeida is a member of the Gold Coast Light Rail Business Advisory Group and a Trustee of the Currumbin Wildlife Foundation. He was a board member of the Commonwealth Games Business Advisory Board, Vice President of Queensland Rugby Union, a board member of Griffith University Business Advisory Board, a director of the Franchisor Association (Aust/NZ) and has held other local and state government positions.

Special responsibilities

Chair of the Board
Member of Audit and Risk Management Committee
Member of Remuneration and Nomination Committee

Interest in shares and options

5,000,000 options in Pacific Environment Limited

Adam Gallagher – B Econ., M Com., GDip IS., GDip ACG., MAICD, ICSA – Director and Company Secretary

Experience and expertise

Mr. Gallagher began his professional career as a commercial banking graduate with the Commonwealth Bank and later ANZ before starting his own Corporate Advisory Business in 2006. He is a Director of Scintilla Strategic Investments Limited, a microcap-focused investment company. Through this role he is involved in strategy formulation and advice, market communications, and corporate transactions with investee companies. His private business DG Capital Partners assists businesses across a range of industries through transitional phases including listings, mergers, growth management and corporate governance development. He also acts as company secretary for a number of public companies.

Mr. Gallagher holds a Bachelor of Economics, Masters in Commerce and Graduate Diploma in Information Systems, as well as a Graduate Diploma in Applied Corporate Governance.

Other current directorships of listed companies

None

Former directorships of listed companies in last 3 years

None

Special responsibilities

Chairman of the Audit and Risk Management Committee
Chairman of the Remuneration and Nomination Committee
Member of Acquisition Committee

Interest in shares and options

4,500,000 options in Pacific Environment Limited

David Johnstone – Director (appointed 10 February 2014)

Experience and expertise

Mr. Johnstone is an experienced executive who has been actively involved in business for more than 30 years. He has successfully started, owned and operated a vast range of businesses. With experience gained nationally and internationally in selling, licensing, merging and acquiring businesses he has arranged significant funding for management buy outs, leveraged buyouts along with the successful placement/listing of companies on the London Stock Exchange and the Australian Stock Exchange. Mr. Johnstone, whilst consulting to ASX listed Centrepont Alliance Ltd was previously Group Head of Corporate Development and prior to that CEO of Centrepont Alliances' largest subsidiary Professional Investment Services Ltd. He was also CEO of Bartercard Ltd after he successfully sold and merged Trade Ltd, a business he founded with Bartercard Ltd. Mr. Johnstone is a past Chairman of the International Reciprocal Trade Association, a Global Industry Association, which is based in the USA. He continues to provide consulting and non-executive director services to medium to large businesses in the financial services, IT, property development, and franchising sectors.

Mr. Johnstone's specialties include: Financial Services, Funding, Investment, Corporate Development, Mergers & Acquisitions, Negotiations, Resolution of Company Disputes, Leadership Mentoring, and Non-Executive Directorships.

Other current directorships of listed companies

None

Former directorships of listed companies in last 3 years

None

Special responsibilities

Chairman of Acquisition Committee

Interest in shares and options

Nil

Robin Ormerod – B Sc (Hons) – Managing Director (resigned 10 February 2014)**Experience and expertise**

Mr. Ormerod co-founded Pacific Air & Environment (PAE), the foundation business of Pacific Environment, in 1995 and helped lead it to a successful and respected position among air quality consultancies in Australia. He directed PAE's research and development activities, which created the precursor to Pacific Environment's EnviroSuite technology. He has developed a wide national and international network of business and scientific contacts over his 32 years of environmental consulting. He was Pacific Environment Limited's Director of Innovation and R&D and the company's Air Quality & Meteorology Practice Leader.

Mr. Ormerod is the only Certified Consulting Meteorologist, accredited by the American Meteorological Society, practicing in environmental consultancy in Australia. He is well known in his profession, and in 2004 was presented with the Distinguished Service Award and Life Membership by the Clean Air Society of Australia & New Zealand for contributions over many years.

He was twice (1985 and 1988) elected to local government (Logan City Council, Qld) where he served on finance, planning, health and environment committees.

Other current directorships of listed companies

None

Former directorships of listed companies in last 3 years

None

Special responsibilities

None

Interest in shares and options

Interest in 15,632,841 ordinary shares, comprising:

- (i) 2,201,787 held by R. Ormerod (both legally and beneficially)
- (ii) 13,431,054 held by Zeise Ormerod Superannuation Fund (registered holders: R. Ormerod and K. Zeise) of which R. Ormerod is beneficially entitled to 6,715,527.

Company Secretary

Mr. Gallagher is the Company Secretary and held the position at the end of the financial year.

Meetings of directors

The numbers of meetings of the Company's Board of directors and committees of the Board held during the year ended 30 June 2014, and the numbers of meetings attended by each director were:

	Full Meetings of Directors		Audit and Risk Management Committee		Remuneration and Nomination Committee		Acquisition Committee	
	A	B	A	B	A	B	A	B
Murray d'Almeida	21	21	2	2	2	2	-	-
Adam Gallagher	21	21	2	2	2	2	7	7
David Johnstone	7	7	-	-	-	-	7	7
Robin Ormerod	14	14	-	-	-	-	-	-

A Number of meetings attended.

B Number of meetings held during the time the director held office or was a member of the committee during the year (number eligible to attend).

Shares under option

Unissued ordinary shares of Pacific Environment Limited under option at the date of this report are as follows:

Expiry date	Issue price of shares (\$)	Number under option
30/09/14	0.15	1,670,000
08/05/17	0.05	500,000
08/05/17	0.03	300,000
05/02/18	1.50	100,000
05/02/18	1.25	150,000
05/02/18	1.00	150,000
05/02/18	0.75	250,000
10/02/18	1.00	100,000
10/02/18	0.75	800,000
10/02/18	0.55	100,000
19/04/18	0.06	7,200,000
12/11/18	0.03	5,000,000
31/10/18	0.08	1,000,000
31/10/18	0.10	1,000,000
31/10/18	0.12	1,500,000
31/10/18	0.15	1,500,000
31/10/18	0.16	2,000,000
31/10/18	0.20	2,000,000
09/04/20	0.06	2,000,000
12/11/20	0.05	1,000,000
Total		28,320,000

No option holder has any right under the options to participate in any other share issue of the Company or any other related entity.

Shares issued on the exercise of options

No ordinary shares of Pacific Environment Limited were issued during the year ended 30 June 2014 on the exercise of options. No further shares have been issued on the exercise of options since that date.

Indemnification and insurance of officers or auditor

During the financial year, Pacific Environment Limited paid a premium of \$32,079 (2013: \$42,675) to insure the directors and officers of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year for the auditor of the consolidated Group.

Proceedings on behalf of the Company

No person has applied for leave of the Court to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor APES110(290).
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by WPIAS Pty Ltd :

	2014	2013
	\$'000	\$'000
Other assurance services		
Internal Controls Review	-	20
Review of AGM Proxies	-	1
Total remuneration for non-audit services	-	21

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 35.

ASIC Class Order 98/100 - Rounding of amounts

The Company is an entity to which ASIC Class Order 98/100 applies and accordingly amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Remuneration report (audited)

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice for delivery of reward.

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

The Group has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives

Alignment to program participants' interests:

- rewards capability and experience
- provides recognition for contribution

(i) Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board.

Non-executive directors have received incentive share options or shares subject to certain terms and conditions determined by the Board.

Non-executive director's fees are determined within an aggregate directors' fee pool limit. The current pool limit is \$200,000 per annum. The following fees applied:

Base fees

Chair	\$60,000
Other directors	\$35,000

Directors appointed to chair a board committee are paid an additional fee of \$5,000 per committee.

(ii) Retirement allowances for directors

There are no retirement allowances for directors of the Group.

(iii) Executive pay

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation;
- short-term incentives linked to the attainment of performance targets; and
- long-term incentives through participation in various Pacific Environment Limited Employee Share and Option schemes.

The combination of these comprises an executive's total remuneration.

Base pay

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards.

There are no guaranteed base pay increases included in any executives' contracts.

Superannuation

Retirement benefits are delivered under the Australian superannuation legislation at 9.25% of base salary for the financial year ended 30 June 2014, increasing to 9.50% for the next financial year, up to the maximum superannuation contribution base.

Short-term incentives

Short-term incentives are provided to certain employees, where payment is dependent on the satisfaction of performance conditions.

Long-term incentives

Long-term incentives are provided to certain employees via various Pacific Environment Limited Employee Share and Option schemes; see page 27 for further information.

(iv) Chief Executive Officer's remuneration

Base pay

Peter White is paid a base payment of \$250,000 annually, inclusive of superannuation.

Short-term incentive

Mr. White will be paid a bonus of 2.5% of the Company's audited EBIT, and receive shares, as detailed below, if specific revenue criteria are met in a financial year.

Long-term incentive

Shares will be issued to Mr. White as follows:

- 1 million shares upon the Company reaching \$13m revenue in a financial year for the first time
- 1 million shares upon the Company reaching \$20m revenue in a financial year for the first time
- 1 million shares upon the Company reaching \$30m revenue in a financial year for the first time
- 1 million shares upon the Company reaching \$40m revenue in a financial year for the first time
- 1 million shares upon the Company reaching \$60m revenue in a financial year for the first time

Mr. White will also be issued fully paid ordinary shares based upon the Company's audited revenue each financial year as follows:

- 200,000 shares for revenue between \$13m and \$20m
- 250,000 shares for revenue between \$20m and \$30m
- 333,000 shares for revenue between \$30m and \$40m
- 500,000 shares for revenue between \$40m and \$60m

- 1,000,000 shares for revenue over \$60m

Escrow of shares

Any shares issued to Mr. White pursuant to the CEO agreement will be subject to voluntary escrow for two years from the date of issue or until a Change of Control Event (essentially (i) a takeover of the Company; (ii) sale of the Company's business; or (iii) other reorganisation of the PEL Group of companies which results in Mr. White ceasing to be CEO) occurs, whichever is the earlier.

Effect of a Change of Control Event

If a Change of Control Event occurs Mr. White will be issued ordinary shares as follows (less the number of Incentive Shares already issued to him):

- 4,000,000 shares if the event occurs after 30 June 2014 but before 30 June 2015
- 5,000,000 shares if the event occurs after 30 June 2015

Share options

In November 2012, Mr. White was granted 5,000,000 options over 5,000,000 fully paid ordinary shares in the Company, exercisable at \$0.03 (3 cents) each. The options will expire 6 years after date of grant and will vest in 1,666,667 parcels, one year, two years and three years after grant.

In April 2012, Mr. White received 2,000,000 options over 2,000,000 fully paid ordinary shares in the Company, exercisable at \$0.055 (5.5 cents) each. The options will expire 8 years after date of issue and will vest in 500,000 parcels, one year, two years, three years and four years after issue, even if Mr. White ceases to be employed as CEO by the Company before the final vesting dates.

Termination benefits

The company, should it wish to do so, must provide 3 months' written notice of termination. No other terminations benefits are applicable.

B. Details of remuneration

(i) Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) and specified executives of the Company and the Group are set out in the following tables.

The key management personnel of the Group are the directors and company secretary of Pacific Environment Limited (see page 16 above) and the Chief Executive Officer.

(ii) Changes since the end of the reporting period

No changes to the Board have been made since the end of the reporting period.

(iii) Key management personnel of the Group and other executives of the Company and the Group

2014	Short-term employee benefits				Long term benefits	Share-based payments		
	Cash salary and fees \$	Non-monetary benefits \$	Other \$	Super-annuation \$	Long service Leave \$	Shares \$	Options \$	Total \$
Directors								
Murray d'Almeida	60,000	-	-	-	-	-	7,474	67,474
David Johnstone (appointed 10 February 2014)	14,896	-	-	-	-	-	-	14,896
Managing director								
Robin Ormerod (resigned 10 February 2014)	-	-	-	-	-	-	-	-
Director & company secretary								
Adam Gallagher	60,000	-	-	-	-	-	4,729	64,729
Other key management personnel								
Peter White	243,340	-	-	17,775	-	-	14,542	275,657
Total key management personnel compensation	378,236	-	-	17,775	-	-	26,745	422,756

2013	Short-term employee benefits				Long term benefits	Share-based payments		
	Cash salary and fees \$	Non-monetary benefits \$	Other \$	Super-annuation \$	Long service Leave \$	Shares \$	Options \$	Total \$
Director								
Murray d'Almeida	60,000	-	-	-	-	-	1,394	61,394
Managing director								
Robin Ormerod	-	-	-	-	-	-	-	-
Directors & company secretary								
Adam Gallagher (appointed 20 September 2012)	41,003	-	-	-	-	-	-	41,003
John Lemon (resigned 18 October 2012)	17,119	-	-	-	-	-	3,989	21,108
Other key management personnel								
Peter White	233,704	-	-	16,296	-	-	26,851	276,851
Total key management personnel compensation	351,826	-	-	16,296	-	-	32,234	400,356

No portion of remuneration for directors is linked to performance for both the current and prior financial years. Peter White's remuneration includes short and long term incentives linked to performance as detailed above in Section A(iv) of the Remuneration Report.

C. Service Agreements

On appointment to the Board, all directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for other key management personnel are also formalised in service agreements. Each of these agreements provides for the provision of performance related cash bonuses, other benefits, and participation, when eligible, in various Pacific Environment Limited Employee Share and Option schemes.

All current appointments for key management personnel are listed below. All service agreements are reviewed annually by the Board of directors.

Name	Commencement date *	Annual base salary including superannuation **
Key management personnel		
Peter White – Chief Executive Officer ^	10 April 2012	\$250,000

* All service agreements are ongoing.

** Base salaries quoted are for the year ended 30 June 2014; they are reviewed annually.

^ Details of Peter White's remuneration are shown in section A of the remuneration report on page 24.

D. Share based compensation

(i) Options

Options over shares in the Company are granted under various Pacific Environment Limited Employee Share and Option schemes.

These plans are designed to provide long-term incentives for employees to deliver long-term shareholder returns. Participation in the Plans is at the Board's discretion and no individual has a contractual right to participate in the Plan or to receive any guaranteed benefits.

The Pacific Environment Limited Employee Share Option Plan was approved by the Board prior to the public listing of the Company. Under this plan participants are granted options which only vest if the employees are still employed by the Group at the end of the vesting period. Under the Pacific Environment Limited Executive Share Option Scheme, participants are granted options that are not forfeitable upon the employee ceasing employment with Pacific Environment Limited. Where an employee ceases employment all non-vested options immediately vest (accelerated vesting); the employee has seven days after termination to exercise the options (otherwise the options then lapse) and the exercise price upon accelerated vesting alters to the greater of the current market value and the original exercise price.

Under both plans, options granted, once converted to ordinary shares, carry standard dividend or voting rights available to ordinary shareholders. When exercisable, each option is convertible into one ordinary share either at the next Board meeting or within 15 business days of vesting, whichever is earlier.

Details of options over ordinary shares in the Company provided as remuneration to each director of Pacific Environment Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each option is convertible into one ordinary share of Pacific Environment Limited. Further information on the options is set out in note 33 to the financial statements.

2014	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Pacific Environment Limited							
Murray d'Almeida	500,000	4,500,000	-	-	5,000,000	500,000	4,500,000
Other key management personnel of the Group							
Peter White	7,050,000	-	-	-	7,050,000	2,716,667	4,333,333
Director and Company Secretary							
Adam Gallagher	-	4,500,000	-	-	4,500,000	-	4,500,000

2013	Balance at start of the year	Granted as compensation	Exercised	Forfeited	Balance at end of the year	Vested and exercisable	Unvested
Directors of Pacific Environment Limited							
Murray d'Almeida	-	500,000	-	-	500,000	-	500,000
Other key management personnel of the Group							
Peter White	2,050,000	5,000,000	-	-	7,050,000	550,000	6,500,000
Company Secretary							
John Lemon (resigned 18/10/2012)	200,000	300,000	-	-	500,000	500,000	-

All vested options are exercisable at the end of the year.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

No options granted to key management personnel were exercised during the year (2013: nil).

(ii) Shares

Shares in the Company are granted under the Pacific Environment Limited Employee Share Plan which was approved by the Board prior to the public listing of the Company and on an individual basis for the directors and Company secretary.

The Employee Share Plan is designed to provide long-term incentives for executives to deliver long-term shareholder returns. Under the Plan participants are granted shares that carry the same rights and obligations as other shares. Participation in the Plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

No shares were granted to key management personnel under the Employee Share Plan during the year.

E. Shareholdings of Key Management Personnel

The numbers of shares in the Company held during the financial year by each director of Pacific Environment Limited and other key management personnel of the Group, including their personally related parties, are set out below. Details of shares granted during the reporting period as compensation can be found in note 33.

2014	Balance at the start of the year	Granted as compensation	Other changes during the year	Balance at the end of the year
Directors of Pacific Environment Limited				
Murray d'Almeida	-	-	-	-
Robin Ormerod (resigned 10/04/2014)	15,007,841	-	625,000	15,632,841
Other key management personnel of the Group				
Peter White	220,447	-	-	220,447
Director and Company Secretary				
Adam Gallagher	-	-	-	-
2013				
	Balance at the start of the year	Granted as compensation	Other changes during the year	Balance at the end of the year
Directors of Pacific Environment Limited				
Murray d'Almeida	-	-	-	-
Robin Ormerod	12,560,814	-	2,447,027	15,007,841
Adam Gallagher	-	-	-	-
Other key management personnel of the Group				
Peter White	71,161	-	149,286	220,447
Company Secretary				
John Lemon (resigned 18/10/2012)	204,000	-	-	204,000

F. Loans to key management personnel

There were no loans to key management personnel during the reporting period.

G. Other transactions with key management personnel

A former director, Robin Ormerod, and a former employee, Kristin Zeise, are directors and shareholders of ROKZair Pty Ltd. This entity has provided the Group with environmental consultancy services during the reporting period.

Adam Gallagher is a director and the company secretary of the Company. His fees are paid to DG Capital Partners Pty Ltd, an associate of Adam Gallagher. During the year to 30 June 2014, DG Capital Partners provided additional services to the Company in relation to the research and qualification of potential company acquisitions (2013: nil).

Aggregate amounts of each of the above types of other transactions with key management personnel of Pacific Environment Limited:

	2014 \$	2013 \$
Amounts recognised as expense		
Consultancy fees - ROKZair Pty Ltd*	276,293	369,000
Consultancy fees - DG Capital Partners Pty Ltd	80,000	-
	<u>356,293</u>	<u>369,000</u>

* 2014 amount disclosed relates to the period for which Robin Ormerod was a director (1 July 2013 to 10 February 2014). The entity continues to provide the group with environmental consultancy services.

This Director's report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



Murray d'Almeida
Chairman

29 August 2014

CORPORATE GOVERNANCE STATEMENT

The ASX Listing Rules require that the Company's annual report contain a statement disclosing the extent to which the Company has followed the corporate governance "recommendations" ("Recommendations") of the ASX Corporate Governance Council during the financial year. There are 30 recommendations contained within 8 "Principles of Good Corporate Governance", and all are addressed in this statement.

Pacific Environment Limited (the Company) and its board of directors (the Board) are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as "the Group" in this statement.

Principle 1

Lay solid foundations for management and oversight

The Company's Board of Directors ("the Board") has adopted a Corporate Governance Charter ("the Corporate Governance Charter") which details the functions reserved to the Board. A copy of the Corporate Governance Charter is published on the Group's website.

The Board's broad functions are to:

- chart strategy and set financial targets for the Group;
- monitor the implementation and execution of strategy and performance against financial targets;
- appoint and oversee the performance of executive management; and
- generally take an effective leadership role in relation to the Group.

The Company's senior executives are charged with the day to day management of the Company.

The Company's process for evaluating the performance of its senior executives is set out in Section 2.8 of the Corporate Governance Charter.

A formal performance evaluation of senior executives in accordance with the procedure provided for in the Corporate Governance Charter took place during the reporting period. In addition, ongoing informal evaluation is undertaken by the Company's Chairman and Chief Executive Officer.

Principle 2

Structure the Board to add value

A majority of the Board were independent directors (as defined in the guidance notes to the Recommendations) for the last five months of the reporting period following the appointment of David Johnstone and the resignation of Robin Ormerod in February 2014. The Board believes the number of directors and composition of the Board is appropriate given the size of the Company and the nature of the Company's operations.

During the reporting period:

- the Company's chair was an independent director; and
- the roles of chair and chief executive officer were not exercised by the same individual.

The Company's process for evaluating the performance of the Board, its committees and individual directors is set out in Section 2.8 of the Corporate Governance Charter.

The relevant skills, experience and expertise possessed by each of the Company's directors are set out in the Directors' Report. The Board considers that during the reporting period Murray d'Almeida and David Johnstone were independent directors. The Board has adopted the definition of "Independent

Director" in Section 2.6 of the Corporate Governance Charter. The Board considers that Adam Gallagher is not an independent director because he is a material supplier of company secretarial and advisory services to the Company. Robin Ormerod was not considered an independent director as he is a substantial shareholder and is employed in an executive capacity.

The period of office held by each director is set out in the Directors' Report.

Informal performance evaluations of the board, its committees and directors took place during the reporting period. These performance evaluation processes are currently being reviewed and formalised. The nature and appropriateness of the performance evaluation processes will be reviewed in line with the growth of the Group.

The procedure for the selection and appointment of new directors and the re-election of incumbent directors, and the Board's policy for the nomination and appointment of directors, is contained in Section 2.7 of the Corporate Governance Charter.

Principle 3

Promote ethical and responsible decision-making

A code of conduct for the Company's directors is contained in Section 3 of the Corporate Governance Charter. The stated objective of the Code is to give the Company's directors mandatory directions to follow when performing their duties, to enable them to achieve the highest possible standards in meeting their obligations, and to give them a clear understanding of best practice in corporate governance.

The Company does not yet have a general code of conduct for employees. It was looking to formulate one, however other matters took priority. The matter will be re-considered in due course.

The Company has a Diversity Policy which is contained in Section 5 of the Corporate Governance Charter. The Diversity Policy does not include requirements for the Board to establish measurable objectives for achieving gender diversity or for the Board to assess annually both the objectives and progress in achieving them. The Diversity Policy states however that:

- the Group is committed to employing and retaining the best technical and non-technical staff based on their capacity to perform well for the Group;
- all employment decisions within the Group will be based upon choosing the best person for the position irrespective of race, religion, gender, age, or any other irrelevant point of difference; and
- all advancement and reward decisions within the Group will be based upon what is best for each individual person taking into account the needs of the Company, irrespective of race, religion, gender, age, or any other irrelevant point of difference.

The Diversity Policy further states that:

- The Board has resolved that:
 - (i) it is satisfied that current employment, advancement and reward decisions regarding staff within the Group are made irrespective of race, religion, gender, age, etc., therefore no measureable objectives have been put in place at this time to specifically change or increase staff diversity, and;
 - (ii) since gender is one of the twelve key attributes that the Board considers when appointing new Directors and with a small Board at present no measureable objectives are to be put in place at this time to specifically change or increase gender diversity on the Board.

The Board has also resolved that it will review the matter regularly, and:

- (i) if there is any noticeable decrease in diversity of staff at any level across the Company, or;
- (ii) the size of the Board increases to five or more members, then;
measureable diversity objectives will be put in place.

There are no women on the Board. The proportion of women employees in the Group is 49% and in senior executive positions is 24%. In addition to gender diversity, the Group also employs staff from a number of ethnic backgrounds and different age groups.

As mentioned above, a copy of the Corporate Governance Charter is published on the Group's website.

Principle 4

Safeguard integrity in financial reporting

The Board had an Audit and Risk Management Committee and a charter for that committee during the period. A copy of that charter is published on the Group's website. The Audit and Risk Management Committee:

- consisted of one independent director and one non-independent director;
- was chaired by a non-independent chair who nevertheless is not chair of the Board; and
- had two members.

To the extent that the composition of the Audit and Risk Management Committee did not comply with the Recommendations the Board believes this is justified due to the small size of the Company and the Board.

The Board appointed the auditor (Williams Partners Independent Audit Specialists) at the 2012 AGM. The firm became a corporate entity and now operates as WPIAS Pty Ltd ("WPIAS"). WPIAS's policy is to rotate the audit engagement partner and quality control reviewer at least every five years for a period of at least two years.

Principle 5

Make timely and balanced disclosure

Requirements relating to ASX continuous disclosure are contained in paragraph 2.16(a) of the Corporate Governance Charter. The Company's directors have each entered into a contract with the Company pursuant to which they have undertaken to advise the Company of all dealings by them in the Company's securities and of interests in contracts relating to the Company's securities.

Principle 6

Respect the rights of shareholders

The Company has a policy regarding informing shareholders of all major activities affecting the Company. That policy is contained in Section 2.16 of the Corporate Governance Charter. Essentially Section 2.16 covers continuous disclosure, preparation and dissemination of the annual report to shareholders, and conduct of the Company's annual general meeting.

Principle 7

Recognise and manage risk

The Board's policy in relation to risk management is set out in Section 2.15 of the Corporate Governance Charter.

Specifically Section 2.15 provides that:

- the Audit and Risk Management Committee reports to the Board on material business risks and mitigation strategies;
- the Board reviews the Audit and Risk Management Committee's reports;
- the Company's management is charged with implementing any risk mitigation strategies identified; and

- the Group's Chief Executive Officer and Chief Financial Officer are charged with ensuring the Group's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects, and must report to the Board on any matters incidental to the preparation of the Group's annual financial accounts.

The Group's Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have provided a declaration to the Board in accordance with section 295A Corporations Act.

Principle 8

Remunerate fairly and responsibly

The Board re-established the Remuneration and Nomination Committee in the third quarter of the financial year. A copy of the Remuneration and Nomination Committee charter is published on the Company's website.

The Committee's responsibilities include making recommendations to the Board on appropriate remuneration, both the amount and its composition, for executive and non-executive directors, the Chairman, and the Chief Executive Officer, as well as reviewing the recommendations of the Chief Executive Officer in relation to appropriate remuneration for direct reports to the Chief Executive Officer.

The Group's senior executives are remunerated by a combination of salary and performance-based incentive options.

The company's directors have each been issued, or are to be issued, with incentive options, subject to shareholder approval as required. The Board recognises that the grant of options to directors is contrary to the guidelines in Recommendation 8.3 of the ASX Corporate Governance Council's Principles and Recommendations. However:

- the issue of options as part of the remuneration packages of directors is an established practice of junior public listed companies, and provides those companies with a means of conserving cash whilst attracting and properly rewarding directors; and
- the exercise prices for the options issued to directors are designed to align any return to those directors with enhanced shareholder value in the form of an increased price of the Company's shares.

Details of the Group's remuneration policies are set out in the Remuneration Report contained in the Directors' Report.

No schemes exist for retirement benefits for non-executive directors, other than statutory superannuation.

The Company has a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes. This is contained in section 4.14 of the Corporate Governance Charter.

**PACIFIC ENVIRONMENT LIMITED ABN 42 122 919 948
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER
SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PACIFIC ENVIRONMENT LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

WPIAS Pty Ltd
Authorised Audit Company No. 440306



LEE-ANN DIPPENAAR BCom CA RCA
DIRECTOR

Dated this 29th day of August 2014

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WPIAS a Limited Partnership

WPIAS Pty Ltd ABN 99 163 915 482 an Authorised Audit Company



Liability limited by a scheme approved under
Professional Standards Legislation



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Consolidated Statement of Profit and Other Comprehensive Income

For the financial year ended 30 June 2014

Continuing Operations	Notes	Consolidated Group	
		2014 \$'000	2013 \$'000
Revenue	4	11,859	12,370
Other income	5	1,090	654
Changes in inventories of finished goods and work in progress		(9)	135
Client and project related costs		(807)	(600)
Employee benefits expense		(7,003)	(7,219)
Consultants expense	6	(277)	(716)
Travel expense		(308)	(386)
Rental expense	6	(522)	(456)
Directors' expense		(115)	(87)
Laboratory expense		(741)	(630)
Depreciation and amortisation expense	6	(550)	(530)
Finance costs	6	(282)	(223)
Other expenses		(1,024)	(1,288)
Profit before income tax		1,311	1,024
Income tax benefit / (expense)	7	-	-
Net profit for the year		1,311	1,024
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		1,311	1,024
Net profit attributable to:			
Members of Pacific Environment Limited	21	1,311	1,024
Total comprehensive income attributable to:			
Members of Pacific Environment Limited	21	1,311	1,024
Earnings per share from continuing and discontinued operations attributable to the members of Pacific Environment Limited		Cents	Cents
Basic earnings per share	32	1.3	1.0
Diluted earnings per share	32	1.3	1.0

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2014

		Consolidated Group	
	Notes	2014 \$'000	2013 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	8	1,283	777
Trade and other receivables	9	3,121	2,513
Inventories	10	229	239
Total current assets		4,633	3,529
Non-current Assets			
Available-for-sale financial assets	11	-	2
Property, plant and equipment	12	1,473	608
Intangible assets	13	9,141	8,636
Total non-current assets		10,614	9,246
Total Assets		15,247	12,775
LIABILITIES			
Current Liabilities			
Trade and other payables	14	2,008	2,251
Borrowings	15	650	266
Provisions	16	105	140
Total current liabilities		2,763	2,657
Non-current Liabilities			
Trade and other payables	17	161	-
Borrowings	18	2,678	1,876
Provisions	19	124	112
Total non-current liabilities		2,963	1,988
Total liabilities		5,726	4,645
Net assets		9,521	8,130
EQUITY			
Issued capital	20(b)	17,772	17,732
Reserves	21(a)	343	303
Retained losses	21(b)	(8,594)	(9,905)
Total equity		9,521	8,130

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2014

Consolidated Group	Ordinary shares \$'000	Reserves \$'000	Retained losses \$'000	Total Equity \$'000
At 30 June 2012	17,701	263	(10,929)	7,035
Comprehensive income				
Profit for the year	-	-	1,024	1,024
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	1,024	1,024
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued to directors and employees	22	-	-	22
Adjustment to value of conversion rights, convertible notes	9	-	-	9
Employee share options – value of employee services	-	40	-	40
Total transactions with owners and other transfers	31	40	-	71
At 30 June 2013	17,732	303	(9,905)	8,130
Comprehensive income				
Profit for the year	-	-	1,311	1,311
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	1,311	1,311
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued to directors and employees	40	-	-	40
Employee share options – value of employee services	-	40	-	40
Total transactions with owners and other transfers	40	40	-	80
At 30 June 2014	17,772	343	(8,594)	9,521

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2014

		Consolidated Group	
	Notes	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers		12,765	12,426
Payments to suppliers and employees		(12,732)	(11,289)
		33	1,137
Other revenue		914	326
Interest received		21	9
Interest paid		(254)	(213)
Net cash provided by operating activities	31(a)	714	1,259
Cash flows from investing activities			
Payments for property, plant and equipment		(194)	(290)
Payments for acquisition of business	28	(201)	-
Payments for intangible assets		-	(5)
Proceeds from sale of property, plant and equipment		-	-
Net cash used in investing activities		(395)	(295)
Cash flows from financing activities			
Proceeds from borrowings		429	475
Repayment of borrowings		(242)	(637)
Net cash provided by / (used in) financing activities		187	(162)
Net increase in cash and cash equivalents		506	802
Cash and cash equivalents at the beginning of the financial year		777	(25)
Cash and cash equivalents at the end of the financial year	8(a)	1,283	777

The accompanying notes form part of these financial statements.

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NOTES TO FINANCIAL STATEMENTS

These consolidated financial statements and notes represent those of Pacific Environment Limited and controlled entities (the "Consolidated Group" or "Group").

The separate financial statements of the parent entity, Pacific Environment Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 29 August 2014 by the directors of the company.

1. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and the Corporations Act 2001. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Pacific Environment Limited) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

A list of subsidiaries is contained in note 29 to the financial statements.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases.

Intercompany transactions, balances and unrealised gains or losses on transactions between entities in the Consolidated Group are eliminated in full on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Pacific Environment Limited.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses. The acquisition method of accounting is used to account for all business combinations, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the Fair value of identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in

Notes to the Financial Statements

For the financial year ended 30 June 2014

each reporting period to fair value, with changes in fair value recognised in profit or loss, unless the change in fair value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in the profit and loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interests; and
- (iii) the acquisition date fair value of any previously held equity interest; over the acquisition date fair value of net identifiable assets acquired.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amount of goodwill.

(b) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and the board of directors. Refer Note 3 for segment information.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services; and if applicable
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its

Notes to the Financial Statements

For the financial year ended 30 June 2014

estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised when a Group entity sells a product to the customer (the transfer of risks and rewards to the customer).

(ii) Consulting

Sales of consulting services are recognised in the accounting period in which the services are rendered. For fixed price contracts, revenue is recognised under the percentage of completion method, based on the actual service provided as a proportion of the total services to be provided.

If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(d) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised as income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment and the development of IT and software capital costs are included in non-current liabilities as deferred income and are credited to income on a straight line basis over the expected lives of the related assets.

(e) Income tax

The income tax expense/(income) for the year comprises current income tax expense/(income) and deferred tax expense/(income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when a legally enforceable right of set-off exists and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the Financial Statements

For the financial year ended 30 June 2014

Pacific Environment Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements. In addition to its own current and deferred tax amounts, Pacific Environment Limited also recognises the current tax liabilities and the deferred tax amounts arising from unused tax losses and unused tax credits assumed from controlled entities in the tax Consolidated Group.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership, are classified as finance leases (note 26). Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short term and long term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is expensed over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are expensed on a straight line basis over the period of the lease.

(g) Impairment of assets

At the end of each reporting period, the Group assess whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources. If such an indication exists, an impairment test is carried out on the asset by comparing the assets carrying value to its recoverable amount being the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(i) Work in progress

Work in progress represents the sales value of unbilled labour and disbursements less provision for amounts considered non-recoverable.

(k) Investments and other financial assets

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 9) in the consolidated statement of financial position.

(ii) Recognition and de-recognition

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Subsequent measurement

Loans and receivables are carried at amortised cost using the effective interest method.

(iv) Impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

(l) Plant and equipment

Plant and equipment is measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present (refer Note 1(g) for details of impairment).

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are recognised in the profit or loss during the financial period in which they are incurred.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Notes to the Financial Statements

For the financial year ended 30 June 2014

Depreciation

Depreciation is calculated using the straight line method to allocate their cost or re-valued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- vehicles 3 - 8 years
- furniture, fittings and equipment 2 - 20 years
- leased plant and equipment 3 - 11 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(m) Intangible assets other than Goodwill

(i) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, which vary from 3 to 20 years.

(ii) IT development and software

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems.

Costs capitalised include external direct costs of materials and service and direct payroll and payroll related costs of employees' time spent on the project. Amortisation is calculated on a straight line basis over 10 years.

(iii) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight line basis over its useful life, which is currently 10 years.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the

Notes to the Financial Statements

For the financial year ended 30 June 2014

extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(p) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(q) Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(r) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(iii) Share based payments

Share based compensation benefits are provided to employees and directors via the Pacific Environment Limited Employee Share Option Plan and the Pacific Environment Limited Employee Share Plan. Information relating to these schemes is set out in note 33.

The fair value of options granted under the Pacific Environment Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Under the Pacific Environment Limited Employee Share Plan, shares issued to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

(iv) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after reporting date are discounted to present value.

(s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as the result of a share buyback, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(t) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows included in receipts from customers or payments to suppliers.

(w) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(x) Change in Accounting Policy

The Group changed its accounting policy with regards to research and development tax incentives received from the Australian Government. Research and development tax incentives received from the Australian government are now classified as other income. In the financial statements for the year ended 30 June 2013 research and development tax incentives were classified as income tax benefits.

The tables below provides a summary of the amounts of the adjustments to each line item of the Statement of Profit or Loss and other Comprehensive Income affected by the adoption of the change in accounting policy for research and development tax incentives for the annual reporting period ending 30 June 2014, as well as the comparative period ending 30 June 2013. The Statement of Financial Position and Statement of Cash Flows were unaffected by the change in accounting policy.

Notes to the Financial Statements
For the financial year ended 30 June 2014

Year ended 30 June 2014			
Continuing Operations	Under Previous Accounting Policy \$'000	Effect of Change in Accounting Policy \$'000	As Presented \$'000
Revenue	11,859	-	11,859
Other income	7	1,083	1,090
Changes in inventories of finished goods and work in progress	(9)	-	(9)
Client and project related costs	(807)	-	(807)
Employee benefits expense	(7,003)	-	(7,003)
Consultants expense	(277)	-	(277)
Travel expense	(308)	-	(308)
Rental expense	(522)	-	(522)
Directors' expense	(115)	-	(115)
Laboratory expense	(741)	-	(741)
Depreciation and amortisation expense	(550)	-	(550)
Finance costs	(282)	-	(282)
Other expenses	(1,024)	-	(1,024)
Profit before income tax	228	1,083	1,311
Income tax benefit / (expense)	1,083	(1,083)	-
Net profit for the year	1,311	-	1,311
Other comprehensive income			
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	1,311	-	1,311
Net profit attributable to:			
Members of Pacific Environment Limited	1,311	-	1,311
Total comprehensive income attributable to:			
Members of Pacific Environment Limited	1,311	-	1,311
Earnings per share from continuing and discontinued operations attributable to the members of Pacific Environment Limited	Cents	Cents	Cents
Basic earnings per share	1.3	1.3	1.3
Diluted earnings per share	1.3	1.3	1.3

Notes to the Financial Statements
For the financial year ended 30 June 2014

Year ended 30 June 2013			
Continuing Operations	Under Previous Accounting Policy \$'000	Effect of Change in Accounting Policy \$'000	As Presented \$'000
Revenue	12,370	-	12,370
Other income	326	328	654
Changes in inventories of finished goods and work in progress	135	-	135
Client and project related costs	(600)	-	(600)
Employee benefits expense	(7,219)	-	(7,219)
Consultants expense	(716)	-	(716)
Travel expense	(386)	-	(386)
Rental expense	(456)	-	(456)
Directors' expense	(87)	-	(87)
Laboratory expense	(630)	-	(630)
Depreciation and amortisation expense	(530)	-	(530)
Finance costs	(223)	-	(223)
Other expenses	(1,288)	-	(1,288)
Profit before income tax	696	328	1,024
Income tax benefit / (expense)	328	(328)	-
Net profit for the year	1,024	-	1,024
Other comprehensive income			
Other comprehensive income for the year, net of tax	-	-	-
Total comprehensive income for the year	1,024	-	1,024
Net profit attributable to:			
Members of Pacific Environment Limited	1,024	-	1,024
Total comprehensive income attributable to:			
Members of Pacific Environment Limited	1,024	-	1,024
Earnings per share from continuing and discontinued operations attributable to the members of Pacific Environment Limited	Cents	Cents	Cents
Basic earnings per share	1.0	-	1.0
Diluted earnings per share	1.0	-	1.0

(y) Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key estimates

(i) Impairment of goodwill and other intangible assets

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(g). The recoverable amounts of subsidiaries have been determined based on value in use calculations. These calculations require the use of assumptions. Refer to note 13 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Income taxes

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of comprehensive income.

(iii) Fair value of share options

In calculating the fair value of the director and employee share options, the Company has made a number of assumptions in determining the inputs for the Black-Scholes option pricing module. Refer to note 33 for details of these assumptions.

(iv) Fair value of convertible instruments

In calculating the fair value of the convertible instruments, the Company has made a number of assumptions in determining the inputs for the fair value discount model. The discount rates applied was 11%, which was assessed as being an appropriate representation of the rate at which funds would have been borrowed at had the Company been required to borrow the funds in the market, as well as the various risks and rewards associated with the convertible instruments.

After determining the fair value of the convertible instruments issued, the excess of the principal was treated as an additional equity instrument, representing the fair value of the option to convert associated with the convertible instruments. In accordance with AASB 139, the fair value of the option to convert is required to be unwound over the period on which the instruments are on offer. During the year, \$198,000 (2013: \$156,000) was recognised as an interest expense in the consolidated statement of comprehensive income of the Group.

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For the financial year ended 30 June 2014

(v) *Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences if management considers that it is probable that future taxable profits will be available to utilise those temporary differences. Sufficient management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits over the next two years together with future tax planning strategies.

Key Judgements

Provision for impairment of receivables

A provision of \$20,000 for impairment of receivables was considered necessary as at the end of the 2014 reporting period (2013:Nil).

(z) New accounting standards for application in future periods

Accounting Standards and interpretations issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable for annual reporting periods commencing on or after 1 January 2017).

The Standard will be applicable retrospectively (subject to the comment on hedge accounting below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and de-recognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes made to the Standard that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive Income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of AASB 9, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 2012-13: *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities* (applicable for annual reporting periods commencing on or after 1 January 2014).

This standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Group's financial statements.

- Interpretation 21: *Levies* (applicable for annual reporting periods commencing on or after 1 January 2014).

Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should not be recognised in full at a specific date or progressively over a period of time. This interpretation is not expected to significantly impact the Group's financial statements.

- AASB 2013-3: *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets* (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in AASD 136: *Impairment of Assets* pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Group's financial statements.

Notes to the Financial Statements

For the financial year ended 30 June 2014

- AASB 2013-4: *Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-4 makes amendments to AASB 139: *Financial Instruments: Recognition and Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. This Standard is not expected to significantly impact the Group's financial statements.

- AASB 2013-5: *Amendments to Australian Accounting Standards – Investment Entities* (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: *Consolidated Financial Statements* to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required. As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Group's financial statements.

(aa) Parent entity financial information

The financial information for the parent entity, Pacific Environment Limited, disclosed in note 34 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) *Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries are accounted for at cost in the financial statements of Pacific Environment Limited.

(iii) *Tax consolidation legislation*

Pacific Environment Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Pacific Environment Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Pacific Environment Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The wholly-owned entities fully compensate Pacific Environment Limited for any current tax payable assumed and are compensated by Pacific Environment Limited for any current tax receivable and deferred tax assets (where recognised) relating to unused tax losses or unused tax credits that are transferred to Pacific Environment Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

2. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries and other related parties, and borrowings in the form of convertible notes, bank loans and leases.

The totals for each category of financial instruments, measured in accordance with AASB139 as detailed in the accounting policies to these financial statements, are as follows:

		Consolidated Group	
	Note	2014 \$'000	2013 \$'000
Financial assets			
Cash and cash equivalents	8	1,283	777
Trade and other receivables	9(f)	2,981	2,376
Loans receivable	9(f)	20	27
Total financial assets		4,284	3,180
Financial liabilities			
Trade and other payables	14(d)	2,169	2,251
Current borrowings	15	650	266
Non-current borrowings	18	2,678	1,876
Total financial liabilities		5,497	4,393

Financial risk management policies

The Chief Executive Officer and Chief Financial Officer are responsible for managing financial risk exposures of the Group.

Specific financial risk exposures and management

The Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, and ageing analysis for credit risk and liquidity risk.

(a) Market risk

(i) Foreign exchange risk

The Group does not operate internationally and is therefore not exposed to foreign exchange risk.

(ii) Price risk

The Group is not exposed to equity securities price risk. The Group is not exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from bank deposits, bank overdrafts and long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk if the borrowings are carried at fair value. The Group has a finance facility at variable interest rates and long-term borrowings in the form of convertible notes at fixed interest rates, thus exposing the Group to cash flow interest rate risk and fair value interest rate risk.

Notes to the Financial Statements

For the financial year ended 30 June 2014

As at the reporting date, the Group had the following variable rate borrowings and fixed interest rate borrowings outstanding:

	2014		2013	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	2%	1,283	2%	777
Bank loans	4%	(229)	-	-
Convertible instruments (interest bearing) – face value	11%	(1,800)	11%	(1,800)
Other loans – current	7%	(146)	7%	(124)
Other loans – non-current	-	-	-	-
Lease liabilities	6%	(1,203)	5%	(285)
Net exposure to cash flow interest rate risk		(2,095)		(1,432)

The Group manages its interest rate risk by analysing 'what if' scenarios simulated where the Group calculates the impact on profit and loss of a defined interest rate shift. The scenarios are run only for liabilities that represent the major interest bearing positions. The simulation is done half yearly to verify that the maximum loss potential is within the limit given by management.

Group sensitivity

At 30 June 2014, if interest rates had decreased by 2% or increased by 2% from the year end rates with all other variables held constant, post tax profit for the year would have been \$14,566 higher / \$14,566 lower (2013: changes of -2% / +2%: \$10,878 higher / \$10,878 lower), mainly as a result of higher / lower interest income from cash and cash equivalents.

Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk:

	Carrying amount \$'000	Interest rate risk			
		-2% Profit \$'000	Other Equity \$'000	+2% Profit \$'000	Other Equity \$'000
At 30 June 2014					
Financial assets					
Cash and cash equivalents	1,283	(18)	-	18	-
Trade and other receivables		-	-	-	-
Financial liabilities					
Trade and other payables	2,169	-	-	-	-
Borrowings	3,328	3	-	(3)	-
Total (increase) / decrease		(15)	-	15	-

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from credit exposures to customers, including outstanding receivables and committed transactions. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, credit control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Currently there are no individual credit limits set, however going forward this will be considered by the Audit and Risk Committee and the Board to improve controls over credit risk.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as summarised above. For some trade receivables, given that the customers are generally without external credit ratings, the Group obtains comfort in the form of executed proposal agreements and quotations detailing fees and billing schedules.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about payment history and any default rates.

	Consolidated Group	
	2014 \$'000	2013 \$'000
Trade receivables		
<i>Counterparties without external credit rating *</i>		
➤ A customers (aged 0 – 30 days)	1,581	1,584
➤ B customers (aged 31 – 60 days)	485	135
➤ C customers (aged 61 – 120 days)	311	158
➤ D customers (aged 120+ days)	76	130
Total trade receivables	2,453	2,007

**Existing customers (more than 6 months) with no major defaults in the past. All amounts are considered fully recoverable.*

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

	2014 \$'000	2013 \$'000
Floating rate		
Bank overdraft facility	500	-
Debtor financing facility	-	325

Notes to the Financial Statements

For the financial year ended 30 June 2014

Financial liability and financial asset maturity analysis

The table below analyses the Group's financial liabilities and assets into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Consolidated Group	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Financial liabilities due for payment								
Bank facilities and loans	83	-	146	-	-	-	229	-
Trade and other payables	2,002	2,244	161	-	-	-	2,163	2,244
Finance lease liabilities	421	142	782	143	-	-	1,203	285
Amounts payable to related parties	6	7	1,750	1,733	-	-	1,756	1,740
Other loans	146	124	-	-	-	-	146	124
Total expected outflows	2,658	2,517	2,839	1,876	-	-	5,497	4,393
Financial assets – cash flows realisable								
Cash and cash equivalents	1,283	777	-	-	-	-	1,283	777
Trade and other receivables	2,981	2,376	-	-	-	-	2,981	2,376
Other investments	-	-	-	-	-	-	-	-
Amounts receivable from related parties	20	27	-	-	-	-	20	27
Total anticipated inflows	4,284	3,180	-	-	-	-	4,284	3,180
Net inflow/(outflow) on financial instruments	1,626	663	(2,839)	(1,876)	-	-	(1,213)	(1,213)

(d) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

3. Segment information

The Group provides superior environmental consulting, advice, solutions and services to help clients comply with environmental regulations, meet corporate responsibilities and improve operations and planning.

Management has determined that the consulting services are comprehensive, and complement each other. The structure of the operations views the services offerings as unified and therefore the requirement for segment reporting does not apply. This has been based on the reports reviewed by the Board of Directors (chief operating decision makers) that are used to make strategic decisions.

4. Revenue

		Consolidated Group	
	Notes	2014 \$'000	2013 \$'000
From continuing operations			
Sales revenue		11,838	12,361
Other revenue:			
Interest		21	9
Total revenue		11,859	12,370

5. Other income

		2014 \$'000	2013 \$'000
Government Grants:			
Research & Development Tax Incentives	5(a)	1,083	328
Other revenue		7	326
Total other revenue		1,090	654

(a) Research and Development Tax Incentives

Research and Development Tax Incentives includes the FY2012-13 claim of \$577,000 received as cash payment in December 2013 and the FY2013-14 claim of \$506,000. The FY2013-14 research and development activities have not yet been registered with AusIndustry and the claim has not yet been lodged, however the amount has been calculated in accordance with processes followed in previous years which is based on external advice received. The receivable amount has been included in other receivables, refer Note 9.

6. Expenses

Profit before income tax from continuing operations includes the following specific expenses:

		Consolidated Group	
	Notes	2014 \$'000	2013 \$'000
Consultants expense			
Audit and accounting		57	157
Corporate support and company secretarial		20	84
Information Technology		3	7
Legal		22	55
Strategic consultancy		175	413
<u>Total consultants expense</u>		<u>277</u>	<u>716</u>
Depreciation			
Plant and equipment		202	205
Plant and equipment under finance leases		84	81
<i>Total depreciation</i>	12	<u>286</u>	<u>286</u>
Amortisation			
Software		262	242
Other		2	2
<i>Total amortisation</i>	13	<u>264</u>	<u>244</u>
<u>Total depreciation and amortisation expense</u>		<u>550</u>	<u>530</u>
Finance costs			
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss		282	223
Rental expense relating to operating leases			
<u>Minimum lease payments</u>		<u>522</u>	<u>456</u>
Impairment losses			
Impairment of intangible assets – Goodwill	13	-	-
<u>Total impairment losses</u>		<u>-</u>	<u>-</u>
<u>Defined contribution superannuation expense</u>		<u>499</u>	<u>518</u>
<u>Share based payment expenses</u>		<u>40</u>	<u>47</u>

7. Income tax expense

	Consolidated Group	
	2014	2013
	\$'000	\$'000
(a) The components of income tax (benefit)/expense comprise:		
Current tax	-	-
Deferred tax	-	-
<u>Income tax (benefit)/expense</u>	<u>-</u>	<u>-</u>
 (b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	1,311	1,024
Tax at the Australian tax rate of 30% (2013:30%)	393	307
Tax effect of amount which are not deductible/(taxable) in calculating taxable loss		
Employee share options expense	12	14
Entertainment	8	1
Amortisation expense	84	70
Accounting expenditure subject to R&D expenditure	258	-
Research and Expenditure income non-assessable	(325)	(98)
Sundry items	1	-
Movement on deferred tax assets/(liabilities) not recognised	32	(35)
Losses not recognised/(unrecognised losses utilised)	(464)	(259)
<u>Income tax (benefit)/expense</u>	<u>-</u>	<u>-</u>
 (c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised		
Revenue losses	3,989	6,682
Capital losses	962	962
	4,951	7,644
<u>Potential tax benefit at 30%</u>	<u>1,485</u>	<u>2,293</u>

8. Current assets – Cash and cash equivalents

	Consolidated Group	
	2014 \$'000	2013 \$'000
Cash at bank and in hand	1,283	777

(a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of financial year as shown in the statement of cash flows as follows:

	Note	2014 \$'000	2013 \$'000
Balances as above		1,283	777
Bank overdraft	15	-	-
Balance per statement of cash flows		1,283	777

(b) Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

9. Current assets – Trade and other receivables

	2014 \$'000	2013 \$'000
Trade receivables	2,472	2,007
Provision for impairment of receivables (note (a))	(20)	-
	2,452	2,007
Research and Development Tax Incentive receivable	506	328
Other receivables (note (c))	22	41
Accrued income	-	19
Prepayments	121	91
Loans to related parties (note (d))	20	27
Trade and other receivables	3,121	2,513

(a) Impaired trade receivables

During the year ended 30 June 2014 no net impaired current trade receivables of the Group were recovered (2013: \$nil impaired). The amount of the provision was \$20,000 (2013: \$nil) after \$3,000 of impaired receivables were written off in 2013.

The ageing of these receivables was as follows:

	Consolidated Group	
	2014 \$'000	2013 \$'000
Over 6 months	20	-

Movements in the provision for impairment of receivables are as follows:

	2014 \$'000	2013 \$'000
At 1 July 2013	-	3
Provision for impairment recognised during the year	20	-
Receivables written off during the year as uncollectible	-	(3)
At 30 June 2014	20	-

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(b) Past due

As of 30 June 2014, trade receivables of \$872,000 (2013: \$423,000) were past due. These relate to a number of independent customers for which there are no recent histories of defaults. The aging analysis of these trade receivables is as follows:

	2014 \$'000	2013 \$'000
1 to 2 months	485	135
3 to 4 months	311	158
Over 4 months and impaired	76	130
	872	423

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(c) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the group.

(d) Loans to related parties

The loans to related parties relate to amounts owing by the original founders of the subsidiaries acquired during prior periods (refer to note 27).

(e) Fair value and credit risk

Due to the short term nature of these receivables, the carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivable is insignificant as is the fair value of any collateral sold or re-pledged. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the Group's trade receivables.

(f) Financial assets classified as loans and receivables

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Trade and other receivables		2,981	2,376
Loans receivable		20	27
Financial Assets		3,001	2,403

10. Current assets – Inventories

	2014 \$'000	2013 \$'000
Work in Progress at cost	229	239

11. Non-current assets – Available-for-sale financial assets

	2014 \$'000	2013 \$'000
Unlisted securities		
Equity securities	-	2

During the year the company, Ecovision Systems Pty Ltd, was deregistered and accordingly the investment was written off.

12. Non-current assets – Property, plant and equipment

Consolidated Group	Motor Vehicles \$'000	Furniture fittings and equipment \$'000	Leased Assets \$'000	Total \$'000
At 30 June 2012				
Cost or fair value	54	1,010	355	1,419
Accumulated depreciation	(23)	(590)	(202)	(815)
Accumulated impairment	-	-	-	-
Net book amount	31	420	153	604
Year ended 30 June 2013				
Opening net book amount	31	420	153	604
Additions	2	179	109	290
Disposals	-	-	-	-
Depreciation charge	(14)	(191)	(81)	(286)
Closing net book amount	19	408	181	608
At 30 June 2013				
Cost or fair value	56	1,189	464	1,709
Accumulated depreciation	(37)	(781)	(283)	(1,101)
Accumulated impairment	-	-	-	-
Net book amount	19	408	181	608
Year ended 30 June 2014				
Opening net book amount	19	408	181	608
Additions	57	170	941	1,168
Disposals	-	(17)	-	(17)
Depreciation charge	(14)	(188)	(84)	(286)
Closing net book amount	62	373	1,038	1,473
At 30 June 2014				
Cost or fair value	113	1,338	1,405	2,856
Accumulated depreciation	(51)	(965)	(367)	(1,383)
Accumulated impairment	-	-	-	-
Net book amount	62	373	1,038	1,473

Total impairment losses recognised in the statement of comprehensive income was nil (2013: nil).

Included in disposals for the year ended 30 June 2014 is nil (2013: nil) of accumulated impairment losses.

Non-current assets pledged as security

Refer to note 18 for information on non-current assets pledged as security by the Group.

13. Non-current assets – Intangible assets

Consolidated Group	Goodwill \$'000	Software \$'000	Other \$'000	Total \$'000
At 30 June 2012				
Cost or fair value	9,012	3,693	19	12,724
Accumulated amortisation	-	(931)	(14)	(945)
Accumulated impairment	(1,039)	(2,001)	-	(3,040)
Net book amount	7,973	761	5	8,739
Year ended 30 June 2013				
Opening net book amount	7,973	761	5	8,739
Cost capitalised *	-	136	5	141
Disposals	-	-	-	-
Amortisation charge **	-	(242)	(2)	(244)
Impairment charge (note (f))	-	-	-	-
Closing net book amount	7,973	655	8	8,636
At 30 June 2013				
Cost or fair value	9,012	3,829	24	12,865
Accumulated amortisation	-	(1,173)	(16)	(1,189)
Accumulated impairment	(1,039)	(2,001)	-	(3,040)
Net book amount	7,973	655	8	8,636
Year ended 30 June 2014				
Opening net book amount	7,973	655	8	8,636
Acquisition of business	477	-	-	477
Cost capitalised *	-	290	2	292
Write-off of cost of software on deregistered entities ***	-	(1,347)	-	(1,347)
Write-off of accumulated impairment on deregistered entities ***	-	1,347	-	1,347
Amortisation charge **	-	(262)	(2)	(264)
Impairment charge (note (f))	-	-	-	-
Closing net book amount	8,450	683	8	9,141
At 30 June 2014				
Cost or fair value	9,489	2,772	26	12,287
Accumulated amortisation	-	(1,435)	(18)	(1,453)
Accumulated impairment	(1,039)	(654)	-	(1,693)
Net book amount	8,450	683	8	9,141

* Software includes capitalised development costs being an internally generated intangible asset.

** Amortisation of \$264,000 (2013: \$244,000) is included in depreciation and amortisation expense in the consolidated statement of comprehensive income.

*** Refer Note 29 for details of entities deregistered.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(a) Impairment tests for goodwill

Goodwill is allocated to the subsidiaries of the Group. A summary of the goodwill allocation is presented below.

2014	Pacific Environment Operations Pty Ltd \$'000	Pacific Environment Monitoring Pty Ltd \$'000	Toxikos Pty Ltd \$'000	Total \$'000
Goodwill	6,644	1,204	1,641	9,489
Impairment	-	(297)	(742)	(1,039)
	6,644	907	899	8,450

2013	Pacific Environment Operations Pty Ltd \$'000	Pacific Environment Monitoring Pty Ltd \$'000	Toxikos Pty Ltd \$'000	Pacific Air Environment Pty Ltd \$'000	Total \$'000
Goodwill	6,117	1,204	1,641	50	9,012
Impairment	-	(297)	(742)	-	(1,039)
	6,117	907	899	50	7,973

The recoverable amount of each subsidiary is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates. The growth rate does not exceed the long term average growth rate for the business in which the subsidiary operates.

(b) Description of the Group's Intangible Assets and Goodwill

Goodwill - After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

Software - Software is carried at cost less accumulated amortisation and accumulated impairment losses. This intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of ten years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent the recoverable amount is lower than the carrying amount.

(c) Impairment tests for software

The recoverable amount of software is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates.

(d) Key assumptions used for value-in-use calculations

CGU	Growth rate expense*		Growth rate revenue*		Discount rate **	
	2014 %	2013 %	2014 %	2013 %	2014 %	2013 %
Consulting	2.0 – 5.0	2.0 – 5.0	5.0 – 7.0	5.0 – 7.0	14.6	17.4
Monitoring	2.0 – 5.0	2.0 – 5.0	5.0 – 7.0	5.0 – 7.0	14.6	17.4
Technologies	2.0 – 5.0	2.0 – 5.0	5.0 – 7.0	5.0 – 7.0	14.6	17.4

* Weighted average growth rate used to extrapolate cash flows beyond the budget period.

** In performing the value-in-use calculations for each CGU, the Group has applied pre-tax discount rates to discount the forecast future attributable pre-tax cash flows. The pre-tax discount rates are disclosed above. The movements in the pre-tax discount rates between 2013 and 2014 reflect changes in the anticipated timing of future cash flows.

The value-in-use calculations are most sensitive to the following assumptions:

- gross margins,
- discount rates, and
- growth rates used to extrapolate cash flows beyond the budget period.

Gross margins - Gross margins are based on past performance and management's expectations for the future.

Discount rates - Discount rates reflect management's estimate of the time value of money and the risks specific to each CGU (cash generating unit) that are not already reflected in the cash flows. In determining appropriate discount rates for each CGU, regard has been given to the weighted average cost of capital of the entity as a whole and adjusted for specific risks relating to the industry in which the businesses operate.

Growth rate estimates - growth rate estimates used are based on published industry research.

(e) Impact of possible changes in key assumptions

The implications of the key assumptions on the recoverable amounts are discussed below:

Gross margins – Management considers a change in the assumptions to be possible, yet have selected the most appropriate assumptions at this time. However, the calculated fair value of the CGU's exceed the carrying amounts as follows:

- Consulting: \$17,295,000
- Monitoring: \$5,500,000
- Technologies: \$5,752,000

It is considered unlikely that any significant changes in the gross margins would cause the recoverable amounts to fall below the carrying values.

Discount rates – Management recognises that actual time value of money may vary to what they have estimated. Management notes that the discount rate applied of 14.6% would have to increase to the following percentages for each of the CGU's for the recoverable amounts to fall below the carrying values:

- Consulting: 36%
- Monitoring: 41%
- Technologies: 101%

Notes to the Financial Statements

For the financial year ended 30 June 2014

Growth rate estimates – Management recognises that the speed of technological change and the possibility of new entrants can have a significant impact on growth rate assumptions. The effect of new entrants is not expected to impact adversely on forecasts included in the budget, but could yield a reasonably possible alternative to the estimated long-term growth rates of 2%. A reduction in the long-term growth rates would not result in a fair value less than the carrying amounts.

(f) Impairment charge

During the year ended 30 June 2014 and the year ended 30 June 2013 no impairment charges were made against cash generating units.

14. Current liabilities – Trade and other payables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Trade payables	507	723
Other payables (refer note 28)	1,495	1,521
Loans from related parties	6	7
	<u>2,008</u>	<u>2,251</u>

(a) Amounts not expected to be settled within the next 12 months

Other payables include accruals for annual leave in the amount of \$404,000 (2013: \$420,000). The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group expects all employees to take 50% of the full amount of accrued leave within the next 12 months being \$202,000.

(b) Loans from related parties

The loans from related parties relate to amounts owing to the original founders (refer to note 27).

(c) Risk exposure

Information about the Group's and the parent entity's exposure to foreign exchange risk is provided in note 2.

(d) Financial liabilities at amortised cost classified as trade and other payables

		Consolidated Group	
	Note	2014 \$'000	2013 \$'000
Trade payables – current	14	507	723
Other payables – current	14	1,501	1,528
Other payables – non-current	17	161	-
Financial liabilities		<u>2,169</u>	<u>2,251</u>

15. Current liabilities – Borrowings

	Notes	2014 \$'000	2013 \$'000
Secured			
Bank overdraft	8	-	-
Bank loans		83	-
Lease liabilities	26	421	142
Other loans		146	124
		<u>650</u>	<u>266</u>

(a) Security and fair value disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 18.

(b) Risk exposures

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 2.

16. Current liabilities – Provisions

	Employee Benefits \$'000	Deferred Lease Incentive \$'000	Total \$'000
Opening balance at 1 July 2013	113	27	140
Additional provisions	17	-	17
Amounts used	(52)	-	(52)
Balance at 30 June 2014	78	27	105

Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed ten years of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2014 \$'000	2013 \$'000
Long service leave obligations expected to be settled after 12 months (refer note 19)	111	74

17. Non-current liabilities – Trade and other payables

	Consolidated Group	
	2014 \$'000	2013 \$'000
Other payables (refer note 28)	161	-
	<u>161</u>	<u>-</u>

18. Non-current liabilities – Borrowings

		Consolidated Group	
	Notes	2014 \$'000	2013 \$'000
Secured			
Bank loans		146	-
Lease liabilities		782	143
Total secured non-current borrowings		928	143
Unsecured			
Other loans		-	-
Convertible loan (note (a))		1,750	1,733
Total unsecured non-current borrowings		1,750	1,733
Total non-current borrowings		2,678	1,876

(a) Convertible loan

	Date issued	Face value \$'000	Repayment Date
Interest bearing convertible loan			
Robin Ormerod	17/11/2010	1,800	30/06/2017

In November 2010, the Group secured a loan of \$1.8 million. The loan was a fixed rate, Australian-dollar denominated loan.

On 30 December 2012 the Company entered into a new Loan agreement to replace the existing agreement that was due to expire on the 27 November 2013. The new loan expires on 30 June 2017. The loan is in the form of a convertible note arrangement with Mr Robin Ormerod.

The loan remains at \$1.8 million. The company may repay the loan earlier at its discretion. The effective interest rate of the loan is 11% including a 2% discount that applies while the loan is not in default. The Financier may convert some or all of the loan amount to shares at a share price calculated at the Volume Weighted Average Price for the three months prior to the signing of the Loan deed, subject to any necessary shareholder approval. The number of converted shares that can be traded is restricted to 10% of the issued share capital of the Company per year in each of the first four years.

The loan is determined to be a compound financial instrument under AASB132 (18), as it combines features associated with both equity instruments and financial liabilities.

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For the financial year ended 30 June 2014

The convertible instruments are presented in the consolidated statement of financial position as follows:

	Consolidated Group	
Note	2014 \$'000	2013 \$'000
Face value of notes issued	1,800	1,800
Other equity securities – value of conversion rights	(109)	(109)
	1,691	1,691
Interest expense*	552	353
Amortisation	60	44
Interest paid	(544)	(346)
	1,759	1,742
Less: Interest owing (included in other payables)	(9)	(9)
Less: Convertible note liability included in current borrowings	-	-
Total convertible note liability included in non-current borrowings	1,750	1,733

* Interest expense is calculated by applying the effective interest rate of 11% (convertible loan) to the face value of notes issued.

(b) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

	Consolidated Group	
Note	2014 \$'000	2013 \$'000
Bank overdraft	-	-
Bank loans	229	-
Lease liabilities	1,203	285
Convertible loan – face value	1,800	1,800
Total secured liabilities	3,232	2,085

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements and revert to the lessor in the event of default.

The bank overdraft and bank loans are secured by general security agreements between ANZ and Pacific Environment Limited, Pacific Environment Operations Pty Ltd, Pacific Environment Monitoring Pty Ltd and Toxikos Pty Ltd as well as an unlimited corporate guarantee and indemnity by and on account of each of the four entities listed.

Notes to the Financial Statements

For the financial year ended 30 June 2014

The current and non-current allocation of the Group's finance leases are as follows:

	Note	2014 \$'000	2013 \$'000
Current			
Finance lease			
Plant and equipment	26(b)	421	142
Non-current			
Finance lease			
Plant and equipment	26(b)	782	143
Total lease liability		1,203	285

(c) Fair value

There is no difference between the carrying amounts and fair values of borrowings at balance date.

(d) Risk exposures

Information about the Group's exposure to interest rate and foreign currency changes is provided in note 2.

19. Non-current liabilities – Provisions

	Employee Benefits \$'000	Deferred Lease Incentive \$'000	Total \$'000
Opening balance at 1 July 2013	74	38	112
Additional provisions	37	-	37
Amounts used	-	(25)	(25)
Balance at 30 June 2014	111	13	124

20. Issued Capital

	2014 Shares	2013 Shares	2014 \$'000	2013 \$'000
(a) Share capital				
Ordinary shares (notes (c) and (d))				
Fully Paid	99,129,598	98,629,598	17,501	17,461
Deferred settlement – IP acquired	-	-	134	134
	99,129,598	98,629,598	17,635	17,595
(b) Other equity securities				
Value of conversion rights, convertible loan (note (g))	-	-	109	109
Value of conversion rights, convertible notes	-	-	28	28
Total consolidated contributed equity	99,129,598	98,629,598	17,772	17,732

(c) Movements in ordinary shares

Date	Details	Number of shares	Issue price	\$'000
30/06/2012	Balance	98,029,598		17,573
22/11/2012	Shares issued to employee – value of services	500,000	0.03	15
22/04/2013	Shares issued to employee – value of services	100,000	0.07	7
30/06/2013	Balance	98,629,598		17,595
9/10/2013	Shares issued to employee – value of services	500,000	0.08	40
30/06/2014	Balance	99,129,598		17,635

(d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

During the year ended 30 June 2014, 500,000 ordinary shares valued at 8 cents per share were issued to a former employee for no consideration. The total charge to the Statement of Profit or Loss and Other Comprehensive Income in relation to these shares was \$40,000.

During the year ended 30 June 2013, 100,000 ordinary shares to the value of \$6,500 were issued to an employee at a cost of 6.5 cents per share. In addition, 500,000 shares were issued to a former director to the value of \$15,000 at a cost of 3 cents.

(e) Options

During the year ended 30 June 2014, 9,000,000 options were issued to directors. Information relating to the options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 33.

(f) Share based payments

Certain shares were issued for no cash consideration for the provision of services, details of which are shown in note 33.

(g) Other equity securities

The amount shown for other equity securities is the value of the conversion rights relating to the convertible instruments, details of which are shown in note 18(a).

(h) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Financial Statements

For the financial year ended 30 June 2014

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'issued capital' as shown in the statement of financial position (including minority interest) plus net debt.

The gearing ratios at 30 June 2014 and 30 June 2013 were as follows:

Consolidated Group			
	Note	2014 \$'000	2013 \$'000
Total borrowings	14,15,17,18	5,497	4,420
Less: cash and cash equivalents	8	(1,283)	(777)
Net debt		4,214	3,643
Total equity		9,521	8,130
Total capital		13,735	11,773
Gearing Ratio		31%	31%

21. Reserves and retained losses

Consolidated Group			
(a) Reserves		2014 \$'000	2013 \$'000
Share-based payments reserve		343	303
Movements			
Balance 1 July 2013		303	263
Option expense		40	40
Transfer to retained losses		-	-
Balance 30 June 2014		343	303
(b) Retained losses		2014 \$'000	2013 \$'000
Opening retained losses		(9,905)	(10,929)
Net profit for the year		1,311	1,024
Balance 30 June		(8,594)	(9,905)

(c) Nature and purpose of reserves

(i) Share based payments reserve

The share based payments reserve is used to recognise the grant date fair value of options issued to employees and directors but not exercised.

Notes to the Financial Statements

For the financial year ended 30 June 2014

22. Dividends

The Group has not paid or declared any dividends during the period (2013: nil). Franking credits available for subsequent financial years based on a tax rate of 30% amount to Nil (2013: nil).

23. Key management personnel compensation

Refer to the remuneration report contained in the directors' report for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2014.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

	2014 \$'000	2013 \$'000
Short-term employee benefits	378	352
Post-employment benefits	18	16
Other long term benefits	-	-
Share-based payments	27	32
Total KMP compensation	423	400

(i) Short-term employee benefits

These amounts include fees and benefits paid to the Chair and directors as well as all salary, paid leave benefits, fringe benefits and cash bonuses awarded to executive directors and other KMP.

(ii) Post-employment benefits

These amounts are the current year's estimated cost of providing for the Group's superannuation contributions made during the year and post-employment life insurance benefits.

(iii) Other long-term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

(iv) Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the directors' report.

24. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

(a) WPIAS Pty Ltd	2014 \$	2013 \$
Audit and other assurance services		
Audit and review of financial reports	60,620	-
Other assurance services	-	-
Total auditors remuneration	60,620	-
(b) Williams Partners Independent Audit Specialists (former auditor)	2014 \$	2013 \$
Audit and other assurance services		
Audit and review of financial reports	-	60,000
Other assurance services	-	21,500
Total auditors remuneration	-	81,500

25. Contingencies

(a) Contingent liabilities

The parent entity and Group had contingent liabilities at 30 June 2014 in respect of:

(i) Unsecured guarantees

The Group has given unsecured guarantees in respect of potential leases amounting to \$103,447 (2013: \$96,787) in aggregate.

No liability has been recognised by the Group in relation to these financial guarantees as the guarantees are in the event that further leases are required. The fair value of the leases obtained during the reporting period has been reflected in the Group's balance sheet; the fair value of the leases guaranteed by the Group is immaterial.

(ii) Litigation

There are no litigation proceedings in process at the reporting date.

26. Commitments

(a) Capital commitments

The Group has no capital expenditure contracted for at the reporting date but not recognised as liabilities in the reporting period.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(b) Lease commitments: Group as lessee

(i) Non-cancellable operating leases

The Group leases various offices under non-cancellable operating leases expiring within two to five years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	2014 \$'000	2013 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	528	525
Later than one year but not later than five years	246	656
	<u>774</u>	<u>1,181</u>

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of \$1,038,000 (2013: \$181,000) under finance leases expiring within one to four years. Under the terms of the leases, the Group has various options to either extend the lease subject to conditions, pay the residual and make an offer to purchase the asset, or to return the plant and equipment to the lessor to be sold with any profit or loss realised from the sale passed back to the lessee.

	Note	2014 \$'000	2013 \$'000
Commitments in relation to finance leases are payable as follows:			
Within one year		488	173
Later than one year but not later than five years		840	175
Later than five years		-	-
Minimum lease payments		1,328	348
Future finance charges		(125)	(63)
Total lease liabilities		1,203	285
Representing lease liabilities:			
Current	15	421	142
Non-current	18	782	143
		<u>1,203</u>	<u>285</u>
The present value of finance lease liabilities is as follows:			
Within one year		469	167
Later than one year but not later than five years		820	161
Minimum lease payments		1,289	328

27. Related party transactions

(a) Parent entities

The parent entity within the Group is Pacific Environment Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 29.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 23.

(d) Transactions with other related parties

The following transactions occurred with other related parties:

	Consolidated Group	
	2014 \$'000	2013 \$'000
Purchases of services		
Consultancy services – ROKZair Pty Ltd	407	369
Consultancy services – DG Capital Partners	80	-
Design & photography services – Alex Ormerod Photography	33	-
Other transactions		
Interest paid on convertible loan – R Ormerod	198	156
Repayment of convertible notes	-	80

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties, unless otherwise stated.

(e) Outstanding balances arising from transactions with other related parties

The following balances are outstanding at the reporting date in relation to transactions with other related parties:

	2014 \$'000	2013 \$'000
Current payables		
Purchase of services	46	47

(f) Loans to / from related parties

	Note	Consolidated Group	
		2014 \$'000	2013 \$'000
Loans to related parties			
Beginning of the year		27	27
Loans advanced		-	-
Loan written-off		(7)	-
End of the year		20	27

		2014 \$'000	2013 \$'000
Loans from related parties			
Beginning of the year		7	7
Loan written-off		(1)	-
End of the year		6	7

There is no allowance account for impaired receivables in relation to any outstanding balances from related parties. During the year \$7,000 expense has been recognised in respect of impaired receivables due from related parties (2013: nil).

(g) Borrowings from related parties

	2014 \$'000	2013 \$'000
Beginning of the year	1,733	1,833
Loans repaid	-	(80)
Other	17	(20)
End of the year	1,750	1,733

28. Business combinations

Acquisition of Business

On 1 May 2014, Pacific Environment Operations Pty Ltd acquired the assets of Waste Solutions Australia (WSA) as a going concern.

	Fair value \$000's
Purchase consideration:	
- Cash	220
- Deferred consideration (i)	278
	498
Less:	
Property, plant and equipment	63
Employee benefits	(42)
Identifiable assets acquired and liabilities assumed	21
Goodwill (ii)	477

- (i) The consideration paid to acquire WSA consists of deferred payments if maintainable profits targets are met.

Subject to the profit targets being met, the additional consideration is due to be paid on 31 May 2015, 31 May 2016 and 31 May 2017.

Included in current trade and other payables

Amount due 31 May 2015	\$117,000	Discounted value	\$117,000
------------------------	-----------	------------------	-----------

Included in non-current trade and other payables

Amount due 31 May 2016	\$117,000	Discounted value	\$ 86,000
Amount due 31 May 2017	\$117,000	Discounted value	\$ 75,000
			\$161,000

A discount rate of 14.54% was applied to determine the present value of the deferred consideration at the date of acquisition.

As such, a \$278,000 deferred consideration has been recognised as part of the consideration transferred to acquire WSA.

- (ii) The goodwill is attributable to the profitability of the acquired business and the significant synergies expected to arise after the Group's acquisition of WSA. No amount of the goodwill is deductible for tax purposes.

Revenue of WSA included in the consolidated revenue of the Group since acquisition date on 1 May 2014 amounted to \$242,000. Profit of WSA included in consolidated profit of the Group since the acquisition date amounted to \$7,000. Acquisition integration activities undertaken during May and June 2014 had a negative impact on the performance of the WSA business unit.

It is impractical to provide an estimate of the revenues and profit for the full year including the Waste Solutions Australia business unit as the acquisition was an asset purchase only from a non-reporting entity and as such significant estimates of amounts would be required.

Included within administration expenses in the statement of profit or loss are acquisition-related costs totalling \$7,000. The costs include advisory, legal, accounting and other professional fees.

29. Interest in Subsidiaries

(a) Information about Principal Subsidiaries

The proportion of ownership interests held equal the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

Name of entity	Principal Place of Business	Class of shares	Ownership Interest Held by the Group	
			2014 %	2013 %
Pacific Environment Operations Pty Ltd	Sydney, Australia	Ordinary	100	100
Pacific Environment Holdings Pty Ltd	Sydney, Australia	Ordinary	100	100
Pacific Environment Monitoring Pty Ltd	Sydney, Australia	Ordinary	100	100
Toxikos Pty Ltd	Sydney, Australia	Ordinary	100	100
<i>Deregistered:</i>				
Pacific Air & Environment Pty Ltd	Sydney, Australia	Ordinary	0	100
EcoVision Holdings Pty Ltd	Sydney, Australia	Ordinary	0	100
EcoVision Operations Pty Ltd	Sydney, Australia	Ordinary	0	100
EcoVision Solution Pty Ltd	Sydney, Australia	Ordinary	0	100
Eco Vision Systems Unit Trust	Sydney, Australia	Ordinary	0	100
Karpelo Holdings Pty Ltd	Sydney, Australia	Ordinary	0	100

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

(b) Significant Restrictions

There are no significant restrictions over the Group's ability to access or use assets, and settle liabilities of the Group.

30. Events occurring after the reporting period

The financial statements were authorised for issue by the Board of Directors on 29 August 2014.

There is no matter or circumstance that has arisen since 30 June 2014 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

31. Cash flow statement reconciliation

(a) Reconciliation of net profit after tax to net cash flows from operations

	2014 \$'000	2013 \$'000
Profit for the year	1,311	1,024
Depreciation and amortisation	550	530
Non cash employee benefits expense – share based payments	80	62
Accrued interest	11	19
Amortised interest on convertible note rights	17	(9)
Net loss on sale of non-current assets	17	-
Software costs capitalised to intangibles	(290)	(136)
Changes in operating assets and liabilities		
Increase in trade and other debtors	(607)	(616)
Decrease/(increase) in inventories	10	(140)
(Decrease)/increase in trade creditors	(217)	151
(Decrease)/increase in other operating liabilities	(145)	311
Increase in provision for income taxes payable	-	-
(Decrease)/increase in other provisions	(23)	63
Net cash inflow from operating activities	714	1,259

(b) Non-cash financing and investing activities

(i) Share issues

During the year 500,000 ordinary shares to the value of \$40,000 were issued to a former employee at 8 cents per share.

(ii) Finance leases

During the year the Group acquired plant and equipment with an aggregate value of \$974,000 (2013: \$109,000) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

Notes to the Financial Statements

For the financial year ended 30 June 2014

(iii) Credit standing arrangements with banks

	2014 \$'000	2013 \$'000
Credit facility	3,450	325
Amount used	1,422	-
Undrawn facility	2,028	325

On 4 March 2014, the Group secured a \$2,600,000 financing facility with Australia and New Zealand Banking Group Limited, incorporating facilities for lease financing, overdrafts, standby letters of credit, an electronic payway facility and a commercial card facility. The unutilised debtor financing facility with Bank of Queensland was cancelled on the same date. On 20 June 2014, the ANZ facility was increased to \$3,450,000 incorporating an increase to the lease financing facility and a new tailored commercial facility. The increased facilities are a lease financing facility of \$1,600,000, an overdraft facility of \$500,000, a standby letter of credit facility of \$500,000, an electronic payway facility of \$500,000, a commercial card facility of \$100,000 and a tailored commercial facility of \$250,000.

32. Earnings / (losses) per share

(a) Basic earnings / (losses) per share

	2014 cents	2013 cents
Basic earnings / (losses) per share attributable to the ordinary equity holders of the Company		
From continuing operations	1.3	1.0

(b) Diluted earnings / (losses) per share

The diluted earnings / (losses) per share is equal to the basic earnings / (losses) per share, as per AASB 131.

(c) Reconciliation of earnings used in calculating earnings / (losses) per share

	2014 \$'000	2013 \$'000
Benefits/(losses) attributable to the ordinary equity holders of the Company used in calculating basic earnings / (losses) per share		
From continuing operations	1,311	1,024

(d) Weighted average number of shares used as the denominator

	2014 Number	2013 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(losses) per share	98,992,235	98,349,872

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the Pacific Environment Limited Employee Share Option Plan are not considered to be potential ordinary shares, as including such securities in the calculation would result in a decreased earnings per share. The options have not been included in the determination of basic earnings per share.

(ii) Convertible instruments

Convertible instruments issued are not considered to be potential ordinary shares, as including such securities in the calculation would result in a decreased earnings per share. The instruments have not been included in the determination of basic earnings per share.

33. Share based payments

(a) Employee share option plan

The establishment of the Pacific Environment Limited Employee Share Option Plan was approved by the Board prior to the IPO of Pacific Environment Limited. The plan is designed to provide long term incentives for employees and executive directors to deliver long term shareholder returns. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The amount of options that will vest depends on the individual contracts agreed by Pacific Environment Limited. Once vested, the options remain exercisable for a period of ten years after the grant date. When exercisable, each option is convertible into one ordinary share on the day of the next Board meeting or within 15 business days, whichever is earlier. The exercise price of options is pre-determined in the individual option agreements.

(b) Executive share option scheme

In April 2013, options were issued to employees under the Pacific Environment Limited Executive Share Option Scheme. Under this scheme, options granted vest equally over four years, at 25% per year on each anniversary of the grant date. The options are not forfeitable but lapse after five years. If an employee ceases employment the options vest immediately and the employee has seven days to exercise the option at the current market price or the original exercise price, whichever is greater. If the employee does not exercise the options, the options lapse.

Set out on the following pages are summaries of options granted.

Notes to the Financial Statements

For the financial year ended 30 June 2014

2014			Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Grant date	Expiry date	Exercise price	Number	Number	Number	Number	Number	Number
Directors and Company Secretary of Pacific Environment Limited								
27/11/2012	08/05/2017	\$0.05	500,000	-	-	-	500,000	500,000
1/11/2013	31/10/2018							
Tranche 1		\$0.08	-	1,000,000	-	-	1,000,000	-
Tranche 2		\$0.12	-	1,500,000	-	-	1,500,000	-
Tranche 3		\$0.16	-	2,000,000	-	-	2,000,000	-
1/11/2013	31/10/2018							
Tranche 1		\$0.10	-	1,000,000	-	-	1,000,000	-
Tranche 2		\$0.15	-	1,500,000	-	-	1,500,000	-
Tranche 3		\$0.20	-	2,000,000	-	-	2,000,000	-
Former directors of Pacific Environment Limited								
14/01/2008	10/02/2018	\$0.75	250,000	-	-	-	250,000	250,000
04/02/2008	05/02/2018							
Tranche 1		\$0.75	200,000	-	-	-	200,000	200,000
Tranche 2		\$1.00	100,000	-	-	-	100,000	100,000
Tranche 3		\$1.25	100,000	-	-	-	100,000	100,000
Tranche 4		\$1.50	50,000	-	-	-	50,000	50,000
04/12/2009	05/02/2018							
Tranche 1		\$0.75	50,000	-	-	-	50,000	50,000
Tranche 2		\$1.00	50,000	-	-	-	50,000	50,000
Tranche 3		\$1.25	50,000	-	-	-	50,000	50,000
Tranche 4		\$1.50	50,000	-	-	-	50,000	50,000
27/11/2012	08/05/2017	\$0.03	300,000	-	-	-	300,000	300,000
Other employees								
04/02/2008	10/02/2018	\$0.75	350,000	-	-	-	350,000	350,000
12/09/2008	10/02/2018							
Tranche 1		\$0.75	100,000	-	-	-	100,000	100,000
Tranche 2		\$1.00	100,000	-	-	-	100,000	100,000
12/12/2008	10/02/2018							
Tranche 1		\$0.55	100,000	-	-	-	100,000	100,000
Tranche 2		\$0.75	100,000	-	-	-	100,000	100,000
04/12/2009	31/12/2013	\$0.40	150,000	-	-	150,000	-	-
20/08/2009	19/08/2014	\$0.40	1,500,000	-	-	-	1,500,000	1,500,000
25/11/2011	30/09/2014	\$0.15	1,670,000	-	-	-	1,670,000	1,670,000
09/04/2012	09/04/2020							
Tranche 1		\$0.06	500,000	-	-	-	500,000	500,000
Tranche 2		\$0.06	500,000	-	-	-	500,000	500,000
Tranche 3		\$0.06	500,000	-	-	-	500,000	-
Tranche 4		\$0.06	500,000	-	-	-	500,000	-

Notes to the Financial Statements

For the financial year ended 30 June 2014

2014			Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Grant date	Expiry date	Exercise price	Number	Number	Number	Number	Number	Number
12/11/2012	12/11/2018							
Tranche 1		\$0.03	1,666,667	-	-	-	1,666,667	1,666,667
Tranche 2		\$0.03	1,666,667	-	-	-	1,666,667	-
Tranche 3		\$0.03	1,666,666	-	-	-	1,666,666	-
12/11/2012	12/11/2020							
Tranche 1		\$0.05	500,000	-	-	-	500,000	500,000
Tranche 2		\$0.05	500,000	-	-	-	500,000	-
1/4/2013	19/04/2018							
Tranche 1		\$0.06	2,125,000	-	-	125,000	2,000,000	2,000,000
Tranche 2		\$0.06	2,125,000	-	-	125,000	2,000,000	-
Tranche 3		\$0.06	2,125,000	-	-	125,000	2,000,000	-
Tranche 4		\$0.06	2,125,000	-	-	125,000	2,000,000	-
Total			22,270,000	9,000,000	-	650,000	30,620,000	10,786,667
Weighted average exercise price			\$0.14	\$0.15	-	\$0.14	\$0.14	\$0.24
2013			Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Grant date	Expiry date	Exercise price	Number	Number	Number	Number	Number	Number
Directors and Company Secretary of Pacific Environment Limited								
27/11/2012	08/05/2017	\$0.05	-	500,000	-	-	500,000	-
Former directors of Pacific Environment Limited								
14/01/2008	10/02/2018	\$0.75	250,000	-	-	-	250,000	250,000
04/02/2008	05/02/2018							
Tranche 1		\$0.75	200,000	-	-	-	200,000	200,000
Tranche 2		\$1.00	100,000	-	-	-	100,000	100,000
Tranche 3		\$1.25	100,000	-	-	-	100,000	100,000
Tranche 4		\$1.50	50,000	-	-	-	50,000	50,000
04/12/2009	05/02/2018							
Tranche 1		\$0.75	50,000	-	-	-	50,000	50,000
Tranche 2		\$1.00	50,000	-	-	-	50,000	50,000
Tranche 3		\$1.25	50,000	-	-	-	50,000	50,000
Tranche 4		\$1.50	50,000	-	-	-	50,000	50,000
27/11/2012	08/05/2017	\$0.03	-	300,000	-	-	300,000	300,000
Other employees								
04/02/2008	10/02/2018	\$0.75	350,000	-	-	-	350,000	350,000
12/09/2008	10/02/2018							
Tranche 1		\$0.75	100,000	-	-	-	100,000	100,000
Tranche 2		\$1.00	100,000	-	-	-	100,000	100,000
12/12/2008	10/02/2018							
Tranche 1		\$0.55	100,000	-	-	-	100,000	100,000
Tranche 2		\$0.75	100,000	-	-	-	100,000	100,000
04/12/2009	31/12/2013	\$0.40	150,000	-	-	-	150,000	150,000

Notes to the Financial Statements

For the financial year ended 30 June 2014

2013			Balance at the start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Grant date	Expiry date	Exercise price	Number	Number	Number	Number	Number	Number
20/08/2009	19/08/2014	\$0.40	1,500,000	-	-	-	1,500,000	1,500,000
25/11/2011	30/09/2014	\$0.15	1,670,000	-	-	-	1,670,000	1,670,000
09/04/2012	09/04/2020							
Tranche 1		\$0.06	500,000	-	-	-	500,000	500,000
Tranche 2		\$0.06	500,000	-	-	-	500,000	-
Tranche 3		\$0.06	500,000	-	-	-	500,000	-
Tranche 4		\$0.06	500,000	-	-	-	500,000	-
12/11/2012	12/11/2018							
Tranche 1		\$0.03	-	1,666,667	-	-	1,666,667	-
Tranche 2		\$0.03	-	1,666,667	-	-	1,666,667	-
Tranche 3		\$0.03	-	1,666,666	-	-	1,666,666	-
12/11/2012	12/11/2020							
Tranche 1		\$0.05	-	500,000	-	-	500,000	-
Tranche 2		\$0.05	-	500,000	-	-	500,000	-
01/04/2013	19/04/2018							
Tranche 1		\$0.06	-	2,125,000	-	-	2,125,000	-
Tranche 2		\$0.06	-	2,125,000	-	-	2,125,000	-
Tranche 3		\$0.06	-	2,125,000	-	-	2,125,000	-
Tranche 4		\$0.06	-	2,125,000	-	-	2,125,000	-
Total			6,970,000	15,300,000	-	-	22,270,000	5,770,000
Weighted average exercise price			\$0.35	\$0.05	-	-	\$0.14	\$0.41

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.86 years (2013: 4.63 years).

(i) Fair value of options granted

The assessed fair value at grant date of options granted is allocated equally over the period from the grant date to the vesting date. The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

On 1 November 2013, 9,000,000 options were granted to directors.

(c) Shares issued to employees - value of services

On 9 October 2013, 500,000 ordinary shares were issued by the Company to a former employee for no cash consideration in recognition of service to the Company. The fair value of the shares issued, determined by reference to the market price was \$40,000 or 8 cents per share.

(d) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	2014 \$'000	2013 \$'000
Options issued under employee share option plan	40	40
Shares issued to employees – value of services	40	7
Total purchase consideration	80	47

(e) Liabilities arising from share based payment transactions

Total payables at reporting date arising from share based payment transactions are as follows:

	2014 \$'000	2013 \$'000
Shares to be issued to employees – value of services	-	-

34. Parent entity financial information

The following information has been extracted from the books and records of the parent entity and has been prepared in accordance with Australian Accounting Standards.

(a) Statement of financial position

	2014 \$'000	2013 \$'000
Assets		
Current assets	614	992
Non-current assets	28,014	18,518
Total assets	28,628	19,510
Liabilities		
Current liabilities	200	444
Non-current liabilities	27,684	18,605
Total liabilities	27,884	19,049
Equity		
Issued Capital	17,772	17,732
Reserves	343	263
Retained losses	(17,371)	(17,534)
Total equity	744	461

(b) Statement of profit or loss and other comprehensive income

Profit / (Loss) for the year	163	(1,965)
Total comprehensive profit/(loss) for the year	163	(1,965)

Notes to the Financial Statements

For the financial year ended 30 June 2014

(c) Guarantees entered into by the parent entity

The parent entity has given unsecured guarantees in respect of potential leases of subsidiaries amounting to \$nil (2013: \$96,787) in aggregate.

No liability has been recognised by the parent of the consolidated entity in relation to these financial guarantees as the guarantees are in the event that the subsidiary requires further leases.

(d) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2014.

(e) Contractual commitments

At 30 June 2014, Pacific Environment Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2013: Nil).

Directors' Declaration

For the financial year ended 30 June 2014

In accordance with a resolution of the directors of Pacific Environment Limited, the directors of the company declare that:

- (a) the financial statements and notes set out on pages 36 to 90 are in accordance with the *Corporations Act 2001*, and:
 - (i) comply with Australian Accounting Standards, and
 - (ii) give a true and fair view of the financial position as at 30 June 2014 and of the performance for the year ended on that date of the Consolidated Group; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



Murray d'Almeida
Chairman
Sydney

29 August 2014

**PACIFIC ENVIRONMENT LIMITED ABN 42 122 919 948
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PACIFIC ENVIRONMENT LIMITED**

Report on the Financial Report

We have audited the accompanying financial report of Pacific Environment Limited and Controlled Entities (the entity), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial report of Pacific Environment Limited for the year ended 30 June 2014, intended to be included on the entity's website. The entity's directors are responsible for the integrity of the entity's website. We have not been engaged to report on the integrity of the entity's website. The auditor's report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the website.

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**PACIFIC ENVIRONMENT LIMITED ABN 42 122 919 948
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PACIFIC ENVIRONMENT LIMITED**

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion the financial report of Pacific Environment Limited is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Report on the Remuneration Report

We have audited the remuneration report included in pages 23 to 30 of the directors' report for the year ended 30 June 2014. The directors of the entity are responsible for the preparation and presentation of the remuneration report in accordance with s300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the remuneration report of Pacific Environment Limited and Controlled Entities for the year ended 30 June 2014 complies with s300A of the Corporations Act 2001.

WPIAS Pty Ltd

Authorised Audit Company No. 440306



**LEE-ANN DIPPENAAR BCom CA RCA
DIRECTOR**

Dated this 29th day of August 2014

**4 Helensvale Road
Helensvale Qld 4212**

Shareholder Information

For the financial year ended 30 June 2014

Shareholder Information

The shareholder information set out below was applicable as at 19 August 2014.

1. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

Holding	Class of equity	
	Ordinary shares	
	Shares	Options
1 – 1,000	8	-
1,001 – 5,000	138	-
5,001 – 10,000	128	1
10,001 – 100,000	318	6
100,001 and over	106	29
	698	36

Shareholder Information

For the financial year ended 30 June 2014

2. Equity security holders

(a) Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Robin Ormerod & Kristin Zeise	13,431,054	13.55%
Kristin Zeise	6,762,961	6.82%
Herft Accounting Australia Number 2 Pty Ltd	5,968,149	6.02%
Jean Vincent	4,222,300	4.26%
Nigel & Kerry Holmes	4,071,428	4.11%
Ellamax Pty Ltd	3,031,023	3.06%
David Cassidy	3,007,834	3.03%
Nhil Investments Pty Limited	3,000,000	3.03%
David Arbuckle	2,895,219	2.92%
Roger Drew & Susanne Tepe	2,608,543	2.63%
Robin Ormerod	2,201,787	2.22%
Northstar Global Pty Ltd	1,900,000	1.92%
Meis Supertee Pty Ltd	1,800,000	1.82%
Terence & Rosemary Butler	1,739,874	1.76%
Vibeke Pty Ltd	1,670,000	1.68%
Cryptogenix Services Pty Ltd	1,470,429	1.48%
Chinta Holdings Pty Ltd	1,413,577	1.43%
John Frangos	1,304,270	1.32%
Gusto2 Pty Limited	1,000,000	1.01%
Peej Investments Pty Ltd	1,000,000	1.01%
	64,498,448	65.06%

Shareholder Information

For the financial year ended 30 June 2014

(b) Unquoted equity securities

	Number held
Pacific Environment Limited unlisted options	28,320,000

(c) Substantial holders

Substantial holders in the Company are set out below:

Ordinary Shares	Number held	Percentage
Robin Ormerod & Kristin Zeise	13,431,054	13.55%
Kristin Zeise	6,762,961	6.82%
Herft Accounting Australia Number 2 Pty Ltd	5,968,149	6.02%

3. Voting rights

The voting rights attaching to each class of equity securities are set out below

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote

(b) Convertible notes

Convertible notes do not carry any voting rights.

(c) Options

Options carry the standard voting rights available to ordinary shareholders when converted to ordinary shares.



**WESTCONNEX ROADSIDE
AIR QUALITY MONITORING
STATION** Photo by Dr Paul Boulter



*We strive for scientific excellence and innovation
We respect and invest in our people
We practise our discipline with integrity and through teamwork*

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