Pacific Environment Limited

2016 Annual Report

ABN: 42 122 919 948

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Corporate Directory

Murray d'Almeida
Chairman

Robin Ormerod
Managing Director

David Johnstone
Non-Executive Director

Adam Gallagher
Company Secretary & Director

Company Secretary
Adam Gallagher

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Level 1, 146 Arthur Street
North Sydney, New South Wales 2060
Phone: 02 9870 0950

Share Registry
Boardroom Pty Limited
Grosvenor Place,
Level 12, 225 George 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

Pacific Environment Limited ABN: 42 122 919 948

Chairman's Letter

Dear Shareholder,

I am pleased to present the Annual Report for Pacific Environment Limited and its subsidiaries (the Group) for the 2016 Financial Year.

The year has been one of investment as we position the business and our team to capitalise on the opportunities we have identified in our target markets. In May 2015 we raised $1.5M for expenditure on our international market research and development that together with the repositioning processes within the Group has had an impact on the net result for the period. The investment however has been a necessary phase to bring to life the opportunities which a year ago were strategic objectives and are now well understood and articulated business strategies. Now in implementation stage we are seeing early results with several new customer wins in key markets including a signature trial with Thames Water Authority, United Kingdom.

Our target markets are those in which regulators, communities and industry meet to produce better outcomes for their stakeholders in regard to monitoring and management of activities that may collaterally disrupt their ambient environments. Specifically we are now active in markets including Europe, UK and the USA, where community concerns regarding pollution in its many forms and the proactive management and reporting of industrial activities is critical to meet the expectations of communities, government bodies and internal stakeholders.

Our market horizon continues to broaden as we collaborate with a growing number of client and technical partners that see EnviroSuite as a powerful platform that can be pointed to a number of applications. Our client activities include water management, shipping, mining, health, infrastructure, agriculture, local government and transport.

I would like to acknowledge and thank Mr Peter White who left the Group in May of this year. Peter had a tremendous positive impact on the Group over his four-year tenure as Chief Executive Officer. Under his stewardship the Group was able to re-establish itself as a cohesive and industry leading Science and Engineering service provider that grew both organically and with successful strategic acquisitions.

We are very pleased and excited to have the Group co-founder, Mr Robin Ormerod, as Managing Director supported by Dr Adrian Zammit as General Manager, Australasia. Robin's industry knowledge, experience, reputation and international network provides the foundation to lead and support our key people going into the next phase. Robin has worked tirelessly with our executive team to create the opportunities we have and are rapidly attaining. He has always been an inspirational figure in the Group and his leadership provides a unified culture of respect and acknowledgment for our Scientific foundation and a shared excitement and enthusiasm to realise our commercial potential.

Dr Adrian Zammit has proven himself as a commercially focused executive and industry professional both prior to his role at Pacific Environment having built and sold his own environmental services group and with PEH in returning the Brisbane business to growth and profitability.

We anticipate further key appointments in our key target markets in the early part of the 2017 financial year that will provide the on-the-ground focus to drive sales in these territories.

The Group I joined four years ago is immeasurably changed for the better and is now well placed, and I believe well poised, moving into the 2017 financial year.

We welcome any comments or questions and again we thank you for your support and interest.

Sincerely,

Murray d'Almeida

Chairman
30 August 2016


Monitoring
Smart Water Unit

Managing Director's Report

It is with great pleasure that I write this letter to you as Managing Director of the Group that has its origins in the company I founded with my partner Kristin Zeise in the mid 1990s. We steadily grew the then Science and Engineering services business, Pacific Air & Environment, establishing Pacific Environment Limited in 2006 and joining forces with three other like-minded business owners to list on the ASX in 2008.

At that point, what is now known as EnviroSuite was a prototype that had evolved from a decision we made in 2004 to dedicate consistent efforts to R&D. Our vision was that this prototype could be developed, with the support of investors, into a product with a global market. I am very pleased to say that the vision has now, after some challenges in earlier years, translated into the reality of a stronger and dynamic business with a world-class technology platform that we are starting to see roll out globally. It is gratifying also that some of our original team members are leading this charge, in some cases having returned from time away from the Company to rejoin this exciting enterprise.

The Past Year

It has been a year of investment in the commercial roll-out of our technology. Capital markets supported our journey with a $1.5m raise late in the 2015 financial year that we applied to further developing product capabilities, understanding international markets, developing strategy, and commencing roll-out. Each of these have been achieved with the roll-out continuing to gather momentum in our target markets. In April we completed a further raise of $2.15m to accelerate our initial activities in Europe and the USA, where we are currently setting up operations and picking up aligned opportunities in the process. As a first mover with a novel and sophisticated technology, we have learnt that gaining market traction can be slow, but now with landmark sales in Australia and internationally as references, the gathering momentum and interest in our offering is palpable. Recent conference showings have created many opportunities for sales and partnering.

There have been some notable staff changes during the year including at the C-level, with changes in the entire leadership team including the CFO, COO and CEO over the course of the year. While we understand a degree of concern from shareholders around these changes, the fact is that our business has had to undergo change and renewed focus to prepare for the next phase in our growth, with a strong emphasis on sales. While we started in Australia, much of our immediate future growth lies offshore in the larger markets of Europe, UK and the United States. We needed to shape the business, including the team, accordingly and also slim down some of the management requirements to suit the forward plan.

In particular I would like to acknowledge the efforts of Mr Peter White, who left the Group in May of this year. Peter had a very positive impact on the business over his four-year tenure as Chief Executive Officer. Under his stewardship the Group was able to re-establish itself as a cohesive and industry-leading Science and Engineering service provider that grew both organically and with successful strategic acquisitions.

Importantly, Peter exercised his experience and knowledge in the technology sector to oversee the evolution of the EnviroSuite platform from a project-based tool to the scalable and mature, yet always evolving, technology offering that we are now distributing globally. With a successful tenure, and seeing the leadership role requiring a sales-driven approach with increased international travel, we accepted Peter's personal timing decision and he leaves us with great appreciation, respect and best wishes from the board and the entire team.

The measure of a great team effort was our success in the 2015 Australian Technologies Competition, announced in October. EnviroSuite was selected from over 130 entrants as a winner and a finalist in 2 of the 6 technical categories: Built Environment (winner) and Mining Technologies (finalist). This outcome illustrates how EnviroSuite is relevant across multiple sectors and applications.

New skills in the team, combined with a priority on business development, have given the Group an augmented capability in technology applications and consulting projects involving water, wastewater and waste management. In February we announced the first application of EnviroSuite with a water focus, developing a more efficient and environmentally safe approach to managing wastewater irrigation. The fact that we can intelligently address air, water and noise issues on the same platform is a unique advantage for clients.

Towards the close of the financial year, the Group announced a new Executive structure, including the appointment of Dr Adrian Zammit to the role of General Manager Australasia, joining Mr Ketha Mahesan, our CFO appointed in November 2015. This new executive team very capably supports my MD role into the 2016-17 financial year. Dr Zammit is an accomplished scientist, manager and entrepreneur, and is well placed to energise the domestic activities of the Group by focusing on synergies between the technology and consulting, or STEM (Science, Technology, Engineering and Mathematics) arms of the business.

Before moving to the year ahead, a few words about the past year's performance. Our consulting businesses, both the Pacific Environment operations and DLA, remain at this stage the dominant source of the Group's revenue. As has been the trend over past years, the Group's revenue grew in the past year, tapping a more diverse client and sector base. However, conditions across the regions were not uniform, with substantial pressures in the Victorian and Western Australian environmental consulting business units in particular, due to challenging market conditions. The small Victorian office was closed and some retained staff were moved to other offices, including a growing DLA presence in Victoria. The Western Australian business faced strong challenges from the downturn in the mining industry, a key sector for that office. On the other hand, the Air & Noise practice group in Queensland led locally by Dr Bethany Warren performed consistently very well and DLA finished the year having performed strongly and with a healthy pipeline of projects. In NSW, road infrastructure projects in Sydney continued strongly under the technical guidance of Dr Paul Boulter.

To make better use of our skilled people across the country, the internal organisation of the environmental business was shifted to a practice structure, rather than the traditional geographic structure, early in 2016. The groups are the Air & Noise practice and the Land & Water practice, headed by Damon Roddis and Dr Ines Epari, respectively. Adrian Zammit was head of Land & Water until the recent change. The practice structure makes it easier to assign workloads and skills to projects that require them, rather than be restrained by a state-based silo effect – a free trade arrangement in effect. This has benefited the WA-based group in particular during the latter part of the year, while assisting projects won in the eastern states.

During the last year it was decided that the strategy should no longer aim to grow the consulting services base except through organic growth, i.e., we would not be considering further consulting acquisition opportunities, particularly within Australia, except under compelling circumstances. Any investments would be directed towards supporting EnviroSuite development, promotion and sales, both in the Australasian region and overseas.

The past year saw the first major international sale in a new sector, with the adoption of EnviroSuite by Thames Water in London as the basis for a commercial 12-month trial at a contract value of $300,000. The trial has progressed very well, and we are hopeful that once the full evaluation process is completed in early 2017, other opportunities will follow. In the meantime, other prospects in the wastewater sector for odour and water quality applications have opened up, both in Australia and overseas.

It is notable that the Thames Water opportunity resulted from our relationship with Odournet, based in Europe. Not only has this relationship spawned other opportunities, other Solution Partners or resellers have yielded sales and prospects in South East Asia, Europe and the Americas.

The Year Ahead

We begin the 2016-17 year with a great deal of optimism about where the Group is heading. The board and management are intent on achieving significant progress on shareholder value, and key to this is success with EnviroSuite sales. We now have multiple affirmations from around the world that EnviroSuite registers strongly with key business drivers relating to the environment: compliance, efficiency and cost savings, and social licence to operate. It is also a very attractive and user-friendly platform. Now that we clearly have confirmed that it is an excellent product, sales and distribution is the first priority. In time, this strategy is expected to greatly increase the proportion and volume of revenue from SaaS (Software as a Service) annuities and lift shareholder value.

Within Australia, the management team was recently enhanced by the appointment of Mr Damian Seaton as Head of Business Development and Sales. He has particular strengths in SaaS sales. The senior team is charged with driving the growth of EnviroSuite sales and bringing expanded opportunities for the STEM team, particularly where there are synergies with EnviroSuite. This more integrated approach has already brought positive changes in the levels of activity and collaboration between teams within the Group, and a growing pipeline of opportunities.

This year we are establishing sales operations in the USA and Europe, seeding them with two of our most experienced BD and Sales managers, Matt Scholl and Chaim Kolominskas, both of whom are long-term team members. They will work together with small teams in those regions and with Partners to work on maximising sales opportunities and closures as quickly as possible. We recognise that speed to market is a critical success factor, and our strategy is to work off the basis of solid partner relationships to rapidly extend market reach, focusing on identified key sectors considered to hold greatest potential. We do not anticipate that direct sales will be the major basis for rapid sales growth in new markets, but will play a key role in strategic early sales.

The promising sales opportunities internationally also come with some particular challenges and objectives. This year will see continued investment in product development, marketing and sales development. This is necessary if we are to heed the imperative of speed to market, progress the technology development roadmap to address new market opportunities and round out EnviroSuite's capabilities to suit regional needs, where such needs exist. We will give particular attention to developing effective Solution Partner relationships, reducing the length of the sales cycle, and pursuing corporate sales opportunities in those cases where we are already embedded in local operations within large global organisations.

Robin Ormerod

Managing Director & Founder
30 August 2016

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 2016.

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 (Director and Company Secretary)
David Johnstone (Director)
Robin Ormerod (Managing Director)

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 2016 were $17,832,000 a significant increase from $14,805,000 in the previous year due to organic growth and a full year with DLA as part of the Group compared to nine months in the previous year. Net loss after tax from continuing operations was $1,606,000 compared to a profit in the prior year of $1,822,000. The loss is primarily due to the expansion into new markets, development and marketing the Group's Technology products and consolidation of the Group's consulting activities.

Financial Position

The net assets of the consolidated Group have increased by $1,671,000 from $13,136,000 at 30 June 2015 to $14,807,000 as at 30 June 2016. This improvement is due to the decreased accounts payable and borrowings balances from more streamlined business as usual activities and payment of deferred acquisition costs and the partial conversion to equity of the convertible note.

Further discussion is contained in the Chairman's Letter and Managing Director'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. Full year inclusion of the DLA business that was acquired in October 2014.
2. Closure of the Group's Melbourne office
3. Expenditure of investment monies raised from Institutional Placement and Share Purchase Plan completed in May 2015.

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 Managing Director's 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 45 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

Chairman of BPS Technology Limited, Chairman of Bartercard Australia Pty Ltd, Chairman of Management Resource Solutions plc, Chairman of Barrack Street Investments Limited

Previous Directorships

Director of Beacon Hill Resources plc, Director of Hyperion Holdings Limited, Director of Hyperion Asset Management 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, Director of Institute of Business Leaders

Mr. d'Almeida is 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

Interest in shares and options

10,000,000 options in Pacific Environment Limited

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

Experience and expertise

Mr. Gallagher began his professional career as a commercial banking graduate and 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, an unlisted microcap-focused investment company. Through this role he is involved in strategy formulation and advice, market communications and corporate transactions with the investee companies. He has worked as a corporate advisor for businesses across a range of industries to assist them through transitional phases including listings, mergers, growth management and corporate governance development. He is also a Director and Company Secretary for Agenix Limited.

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

Director of Agenix Ltd (ASX:AGX)

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

Interest in shares and options

6,500,000 options in Pacific Environment Limited

David Johnstone
Director

Experience and expertise

Mr. Johnstone is an experienced executive who has been actively involved in business for more than 31 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 Centrepoint Alliance Ltd was previously Group Head of Corporate Development and prior to that CEO of Centrepoint 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

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

Interest in shares and options

4,000,000 options in Pacific Environment Limited

Robin Ormerod – B Sc (Hons)
Managing Director

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 33 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, practising 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

Interest in 40,489,947 ordinary shares, comprising:

(i) 27,444,420 held by R. Ormerod (both legally and beneficially)

(ii) 26,091,054 held by Zeise Ormerod Superannuation Fund (registered holders: R. Ormerod and K. Zeise) of which R. Ormerod is beneficially entitled to 13,045,527.

Interest in shares and options

2,000,000 options in Pacific Environment Limited

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 2016, 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	13	13	-	-	1	1	11	11
Adam Gallagher	13	13	4	4	3	3	11	11
David Johnstone	13	13	4	4	2	2	-	-
Robin Ormerod	12	13	-	-	-	-	-	-

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
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	680,000
10/02/18	0.55	100,000
10/02/18	0.75	100,000
19/04/18	0.06	6,025,000
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
12/11/18	0.03	5,000,000
31/10/19	0.10	1,000,000
31/10/19	0.15	1,000,000
12/11/19	0.07	2,000,000
09/12/19	0.12	4,500,000
09/12/19	0.18	4,500,000
01/04/20	0.09	1,000,000
09/04/20	0.06	2,000,000
14/07/20	0.09	600,000
10/11/20	0.16	1,000,000
12/11/20	0.05	1,000,000
04/02/21	0.11	4,600,000
	Total	45,655,000

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

On 8 December 2015, 200,000 ordinary shares of Pacific Environment Limited were issued on the exercise of options granted at an exercise price of 9 cents. No further shares have been issued on the exercise of options since that date. No amounts are unpaid on any of the shares.

Indemnification and insurance of officers or auditor

During the financial year, Pacific Environment Limited paid a premium of $34,702 (2015: $32,079) 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

During the year ended 30 June 2016 WPIAS Pty Ltd did not provide any non-audit services.

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 26.

Legislative Instrument 2016/191 - Rounding of amounts

The Company is an entity to which Legislative Instrument 2016/191 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 base fee for non-executive directors is $60,000 per annum.

Directors appointed to chair a board committee are paid an additional fee of $5,000 per committee. The Directors have resolved to increase the fee to $10,000 per committee Chair for the 2017 financial year. No additional fees are paid to non-chair members of the committees.

(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 9.5% of base salary for the financial year ended 30 June 2016, 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 18 for further information.

(iv) Chief Executive Officer's remuneration

Base pay

Peter White ended employment with the Group on 27 May 2016. Please see Remuneration report note B (iii) for details of remuneration paid during the financial year ended 30 June 2016.

Mr. White was paid a bonus of 2.5% of the Company's audited EBIT, and received shares, as detailed below, if specific revenue criteria were 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 was also entitled to be issued with 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.

As at 30 June 2015, the company had reached the specific revenue criteria targets Mr. White was granted 1,200,000 fully paid ordinary shares in the Company on 15 September 2015.

Effect of a Change of Control Event

If a Change of Control Event or an internal structure occurs that results in Mr. White no longer being the CEO then Mr. White would 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

An internal restructure was announced in December 2015 which when implemented gave effect to the above provision in his contract. At the time of Mr. White's departure from the Group in May 2016, a new contract had been negotiated and agreed to though not formally resolved. A settlement negotiation was subsequently agreed to such that Mr. White is due to be issued with shares at a equivalent value of $165,000 as at the date of issue. As at the 30 June 2016, these shares had not yet been issued however it is anticipated that they will be issued in the first quarter of the 2017 financial year.

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 have fully vested and will expire 6 years after date of 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 have fully vested and will expire 8 years after date of issue.

Final payments

The following cash payments were made to Peter White on his departure from the Group:

1. an amount of $57,673.05 representing 3 months' salary
2. an amount of $35,491.06 redundancy payment
3. an amount of $16,561.40 for accrued leave entitlements.

On termination, in addition to the share issue detailed above Mr. White will be issued with shares to the value of $165,000.
No other terminations benefits are applicable.

(v) Managing Director's remuneration

The Managing Director, Robin Ormerod is paid under an Independent Contractor Agreement dated 18 September 2013, His fee is paid to a related entity, ROKZair Pty Ltd, operated by Robin Ormerod and Kristin Zeise. The fee is $33,333 per month plus GST and is based on two people (Personnel: Robin Ormerod and Kristin Zeise) full time, pro rata for part time work. For the year ended 30 June 2016 an amount of $395,456 was paid to ROKZair Pty Ltd. The amount applicable to Robin Ormerod for the year ended 30 June 2016 was $197,748.

In August 2016 the Directors (with Mr Ormerod abtstaining) have resolved that Robin Ormerod will become an employee of the Company from 1 September 2016 and receive a base salary of $300,000 plus superannuation of 9.5% up to the maximum superannuation contribution base published by the Australian Taxation Office annually. In addition he will be eligible to receive a cash bonus that is based on the share price appreciation over the financial year as follows:

20% of base salary for each 100% increase in the 30 day VWAP (Volume Weighted Average Price) as at 30 June each year and payable in the following year.

A notice period of four months will apply on termination.

Ms Kristin Zeise will also become an employee of the Company from 1 September 2016 and the contract with ROKZair will end with no further payments on the commencement of the new employee arrangements.

Robin Ormerod also receives interest on an interest bearing convertible loan (refer note 19 to the financial report).

(vi) Company Secretary

The Board has resolved that the fee for the Company Secretary will be $90,000 per annum effective from 1 September 2016.

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 and the Managing Director.

(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

2016	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	-	-	-	-	-	55,215	115,215
David Johnstone	55,000	-	-	-	-	-	40,684	95,684
Managing director								
Robin Ormerod	-	-	-	-	-	-	32,947	32,947
Director and company secretary								
Adam Gallagher	60,000	-	-	-	-	-	35,312	95,312
Other key management personnel								
Peter White (left the company 27 May 2016)	344,318	-	-	36,901	-	150,000*	3,607	534,826
Total key management personnel compensation	519,318	-	-	36,901	-	150,000	167,765	873,984

*Amount does not include shares to be issued to Peter White of $165,000.

2015	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	-	-	-	-	-	11,769	71,769
David Johnstone	40,000	-	-	-	-	-	5,158	45,158
Kristin Zeise (appointed 3 December 2014, resigned 22 May 2015)	-	-	-	-	-	-	-	-
Managing director								
Robin Ormerod (appointed 22 May 2015)	-	-	-	-	-	-	-	-
Director and company secretary								
Adam Gallagher	60,000	-	-	-	-	-	7,094	67,094
Other key management personnel								
Peter White	268,373	-	-	18,783	-	-	11,016	298,172
Total key management personnel compensation	428,373	-	-	18,783	-	-	35,037	482,193

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 appointments for key management personnel for financial year end 30 June 2016 are listed below. All service agreements are reviewed annually by the Board of directors.

Name	Commencement date*	End Date	Annual base salary including superannuation**
Key management personnel			
Peter White – Chief Executive Officer ^	10 April 2012	27 May 2016	$250,000

* All service agreements are ongoing.
** Base salaries quoted are for the year ended 30 June 2016; they are reviewed annually.
^ Details of Peter White's remuneration are shown in section A of the remuneration report.

D. Share based compensation

(i) Options

Options over shares in the Company are granted under Pacific Environment Limited Employee Share Option Plan and the Pacific Environment Limited executive share option scheme.

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.

(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 up to seven 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

Options were issued to employees under the Pacific Environment Limited Executive Share Option Scheme. Under this scheme, options granted vest as specified under the individual option. The options are not forfeitable but lapse on the date specified in the individual option agreement. 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.

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 35 to the financial statements.

2016	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	7,000,000	3,000,000	-	-	10,000,000	5,000,000	5,000,000
David Johnstone	2,000,000	2,000,000	-	-	4,000,000	-	4,000,000
Robin Ormerod	-	2,000,000	-	-	2,000,000	-	2,000,000
Other key management personnel of the Group							
Peter White	7,050,000	-	-	-	7,050,000	7,050,000	-
Director and Company Secretary							
Adam Gallagher	4,500,000	2,000,000	-	-	6,500,000	4,500,000	2,000,000

2015	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	5,000,000	2,000,000	-	-	7,000,000	500,000	6,500,000
David Johnstone	-	2,000,000	-	-	2,000,000	-	2,000,000
Other key management personnel of the Group							
Peter White	7,050,000	-	-	-	7,050,000	4,883,334	2,166,666
Director and Company Secretary							
Adam Gallagher	4,500,000	-	-	-	4,500,000	-	4,500,000

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 (2015: nil).

(ii) Shares

During the year 1,200,000 fully paid ordinary shares were allotted under the Company's placement capacity to Mr Peter White in accordance with the terms of his contract.

During the year it was agreed that Peter White be issued further shares at an acquisition value of $165,000 at the date of issue.

No other shares were granted to key management personnel 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 35.

2016	Balance at start of the year	Granted as compensation	Other changes during the year	Balance at end of the year
Directors of Pacific Environment Limited				
Murray d'Almeida	-	-	-	-
David Johnstone	-	-	-	-
Robin Ormerod	24,378,720		16,111,227	40,489,947
Other key management personnel of the Group				
Peter White	220,447	1,200,000	-	1,420,447
Director and Company Secretary				
Adam Gallagher	-	-	-	-

2015	Balance at start of the year	Granted as compensation	Other changes during the year	Balance at end of the year
Directors of Pacific Environment Limited				
Murray d'Almeida	-	-	-	-
David Johnstone	-	-	-	-
Kristin Zeise (appointed 3 December 2014, resigned 22 May 2015)	13,478,000	-	-	13,478,488
Robin Ormerod (appointed 22 May 2015)	15,632,841	-	8,745,879	24,378,720
Other key management personnel of the Group				
Peter White	220,447	-	-	220,447
Director and Company Secretary				
Adam Gallagher	-	-	-	-

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

Managing Director, Robin Ormerod, and a former Director, Kristin Zeise, are directors and shareholders of ROKZair Pty Ltd. This entity has provided the Group with environmental consultancy services during the reporting period. As noted in section A (v) this contract will end on the 31 August 2016.

Adam Gallagher is a director and the company secretary of the Company. His fees are paid to Famile Pty Ltd, an associate of Adam Gallagher. In addition to his core Directorship and Company Secretary functions Famile Pty Ltd provides additional services to the Company in relation to corporate advisory and transaction management around acquisitions and partnerships, equity and debt funding management and procurement, market communications. This contact will end on 31 August 2016 (refer section A (vi).

Murray d'Almeida is the Chairman of the company. His fees are paid to MC Consultancy Pty Ltd, an associate of Murray d'Almeida. MC Consultancy provide additional services to the Company in relation to marketing communications and business development.

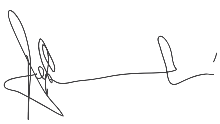
Aggregate amounts of each of the above types of other transactions with key management personnel of Pacific Environment Limited:

	2016 **$**	**2015** **$**
Amounts recognised as expense		
Consultancy fees - ROKZair Pty Ltd*	197,748	230,105
Consultancy fees - Famile Pty Ltd (formerly DG Capital Partners Pty Ltd)	96,000	96,000
Consultancy services - MC Consultancy Pty Limited	120,000	30,000
	413,748	356,105

* 2015 amount relates to the periods for which Kristin Zeise was a director (3 December 2014 to 22 May 2015) and the periods for which Robin Ormerod was a director (22 May 2015 to 30 June 2015). The entity continues to provide the group with environmental consultancy services. Please refer to Managing Director's Remuneration for further information.

*2016 The Managing Director, Robin Ormerod is paid under an Independent Contractor Agreement dated 18 September 2013. His fee is paid to a related entity, ROKZair Pty Ltd, operated by Robin Ormerod and Kristin Zeise. The fee is $33,333 per month plus GST and is based on two people (Robin Ormerod and Kristin Zeise) full time, pro rata for part time work. For the year ended 30 June 2016 an amount of $395,456 was paid to ROKZair Pty Ltd. The amount applicable to Robin Ormerod for the year ended 30 June 2016 was $197,748.

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



Murray d'Almeida

Chairman
30 August 2016

Corporate Governance Statement

Pacific Environment Limited is listed on the Australian Securities Exchange (ASX). Accordingly, unless otherwise stated in this document, the Board's corporate governance arrangements comply with the recommendations of the ASX Corporate Governance Council (including the 2014 amendments) as well as current standards of best practice for the entire financial year ended 30 June 2016. The Corporate Governance statement is current as at 30 June 2016 and has been approved by the Board.

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" or "the Company" 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 Managing Director.

Principle 2

Structure the Board to add value

A majority of the Board were not independent directors (as defined in the guidance notes to the Recommendations) for the reporting period. David Johnstone is the sole independent director on the board. Murray d'Almeida who is the non-executive Chairman as at 30 June 2016 is not independent having held the title of Executive Chairman until the 14th of June 2016. Adam Gallagher is not independent as he holds the role of Company Secretary.

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. As the Company continues to grow the composition of the Board will be reviewed and further appointments may be made as appropriate.

During the reporting period the roles of Chairman and Managing Director 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 only David Johnstone was an independent director. 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 is not considered an independent director as he is a substantial shareholder and is employed in an executive capacity.

Murray d'Almeida who is the non-executive Chairman as at 30 June 2016, held the title of Executive Chairman until the 14th June 2016, thus on the grounds that he held an executive role in the Company during the past 3 years, cannot be considered as independent.

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. The nature and appropriateness of the performance evaluation processes will be reviewed periodically 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 has a general code of conduct for employees. that is reviewed and updated to ensure it is current, appropriate and effective in assisting and guiding employees to feel safe, respected and empowered in their roles.

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 measurable 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 measurable 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;

measurable diversity objectives will be put in place. During the reporting period there were no women on the board. The proportion of women employees in the Group is 33% and in senior executive positions is 20%. 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 contrary to Recommendation 4.1 was chaired by an independent Director however the chair of the committee is not chair of the Board;

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 and the relevant qualifications and experience of the committee members.

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 security holders

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 cover 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. Contrary to Recommendation 7.1 the committee is comprised of only 2 directors. The Chair is not an independent director however they are not the Chairman of the Group;
- 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 Managing Director, Company Secretary 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 Managing Director (MD) and Chief Financial Officer (CFO) have provided a declaration to the Board in accordance with section 295A Corporations Act.

Pacific Environment is a relatively small publicly listed company by comparison to other listed entities which is reflected by the size of its operations, board structure and composition. Given its size the Company considers that it does not have exposure to economic, environmental or social sustainability risks.

Principle 8

Remunerate fairly and responsibly

The Board has a Remuneration and Nomination Committee and a copy of the Remuneration and Nomination Committee charter is published on the Company's website. Due to the small size of the company the Remuneration Committee consists of only two board members which the board acknowledges is contrary to Recommendation 8.1. The Chair of the committee is not an independent director however they are not the Chairman of the Group.

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 Managing Director, as well as reviewing the recommendations of the Managing Director in relation to appropriate remuneration for direct reports to the Managing Director.

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 2016, 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 30th day of August 2016

4 Helensvale Road
Helensvale Qld 4212

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

		Consolidated Group	
Continuing Operations	**Notes**	**2016 $'000**	**2015 $'000**
Revenue	4	17,832	14,805
Other income	5	1,707	1,645
Interest income		14	5
Client and project related costs		(2,687)	(952)
Employee benefits expense		(11,568)	(8,633)
Consultants expense	6	(1,020)	(692)
Travel expense		(415)	(447)
Rental expense	6	(645)	(554)
Directors' expense		(155)	(140)
Laboratory expense		(1,698)	(1,459)
Depreciation and amortisation expense	6	(1,033)	(708)
Finance costs	6	(207)	(311)
Impairment losses	6	-	295
Other expenses		(1,506)	(1,083)
(Loss)/profit before income tax		**(1,381)**	**1,771**
Income tax (expense)/benefit	7	(225)	51
(Loss)/profit for the year from continuing operations		**(1,606)**	**1,822**
Discontinued Operations			
Loss from discontinued operations after tax	8	-	(415)
Net (loss)/profit for the year		**(1,606)**	**1,407**
Other comprehensive income			
Other comprehensive income for the year, net of tax		-	-
Total comprehensive (loss)/income for the year		**(1,606)**	**1,407**
Net (loss)/profit attributed to:			
Equity holders of Pacific Environment Limited	23	**(1,606)**	**1,407**
Total comprehensive (loss)/income attributable to:			
Equity holders of Pacific Environment Limited	23	**(1,606)**	**1,407**
(Loss)/earnings per share from continuing and discontinued operations attributable to the ordinary equity holders of Pacific Environment Limited		**Cents**	**Cents**
Basic (loss)/earnings per share from continuing and discontinued operations	34	(1.1)	1.3
Diluted (loss)/earnings per share from continuing and discontinued operations	34	(1.1)	1.3
Basic (loss)/earnings per share from continuing operations	34	(1.1)	1.7
Diluted (loss)/earnings per share from continuing operations	34	(1.1)	1.7
Basic loss per share from discontinued operations	34	-	(0.4)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2016		Consolidated Group	
	Notes	2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	9	1,338	1,695
Trade and other receivables	10	4,258	5,408
Other assets	11	112	105
Inventories	12	340	307
Total current assets		6,048	7,515
Non-current Assets			
Property, plant and equipment	13	2,442	2,611
Deferred tax asset	20	489	350
Intangible assets	14	12,997	11,798
Total non-current assets		15,928	14,759
Total Assets		**21,976**	**22,274**
LIABILITIES			
Current Liabilities			
Trade and other payables	15	3,062	3,251
Borrowings	16	1,656	1,140
Provisions	17	998	742
Total current liabilities		5,716	5,133
Non-current Liabilities			
Trade and other payables	18	-	695
Borrowings	19	1,314	3,074
Deferred tax liabilities	20	-	92
Provisions	21	139	144
Total non-current liabilities		1,453	4,005
Total liabilities		**7,169**	**9,138**
Net assets		**14,807**	**13,136**
EQUITY			
Issued capital	22(b)	22,828	19,820
Reserves	23(a)	772	503
Retained losses	23(b)	(8,793)	(7,187)
Total equity attributable to equity holders of Pacific Environment Limited		**14,807**	**13,136**

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Consolidated Group	Ordinary shares $'000	Reserves $'000	Retained losses $'000	Total Equity $'000
At 30 June 2014	**17,772**	**343**	**(8,594)**	**9,521**
Comprehensive income				
Profit for the year	-	-	1,407	1,407
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	-	-	**1,407**	**1,407**
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued on partial conversion of Convertible Loan	540	-	-	540
Shares issued to employees on exercising of options	53	-	-	53
Issue of shares (Institutional Placement)	1,208	-	-	1,208
Issue of shares (Share Purchase Plan)	314	-	-	314
Transaction costs of capital raising	(67)	-	-	(67)
Shares to be issued to employees	-	98	-	98
Employee share options – value of employee services	-	62	-	62
Total transactions with owners and other transfers	**2,048**	**160**	-	**2,208**
At 30 June 2015	**19,820**	**503**	**(7,187)**	**13,136**
Comprehensive income				
Loss for the year	-	-	(1,606)	(1,606)
Other comprehensive income for the year	-	-	-	-
Total comprehensive loss for the year	-	-	(1,606)	(1,606)
Transactions with owners, in their capacity as owners, and other transfers				
Shares issued on partial conversion of Convertible Loan	810	-	-	810
Shares issued to employees on exercising of options	18	-	-	18
Issue of shares (Institutional Placement)	2,150	-	-	2,150
Transaction costs of capital raising	(120)	-	-	(120)
Shares to be issued to employees	150	67	-	217
Employee share options – value of employee services	-	202	-	202
Total transactions with owners and other transfers	3,008	269	-	3,277
At 30 June 2016	**22,828**	**772**	**(8,793)**	**14,807**

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016		Consolidated Group	
	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		20,654	16,352
Payments to suppliers and employees		(20,817)	(15,693)
		(163)	659
Other revenue		1,180	565
Interest received		14	5
Interest paid		(257)	(300)
Net cash provided by operating activities	33(a)	**774**	**929**
Cash flows from investing activities			
Payments for property, plant and equipment		(359)	(343)
Payments for acquisition of business	30	(948)	(1,063)
Payments for intangible assets		(1,267)	(1,143)
Proceeds from sale of business	8	-	470
Net cash used in investing activities		**(2,574)**	**(2,079)**
Cash flows from financing activities			
Proceeds from borrowings		570	882
Repayment of borrowings		(1,145)	(800)
Proceeds from issue of shares		2,168	1,574
Share issue transaction costs		(150)	(94)
Net cash provided by financing activities		**1,443**	**1,562**
Net (decrease)/increase in cash and cash equivalents		(357)	412
Cash and cash equivalents at the beginning of the financial year		1,695	1,283
Cash and cash equivalents at the end of the financial year	9(a)	**1,338**	**1,695**

The accompanying notes form part of these financial statements.

Contents

Notes to Financial Statements

For the Financial Year Ended 30 June 2016

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 30 August 2016 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) Going Concern

The Directors are aware of the risks and uncertainties associated with the assessment of going concern for the Group, namely, whether there is likely to be opportunity for additional capital raising as required, continued support from the financier, and receipt of the Research and Development Tax Incentives identified in the accounts. In the context of the consolidated group's net loss of $1,606,000 for the year ended 30 June 2016, notwithstanding expectations of improved performance for the year ended 30 June 2017, without mitigation due to these areas of support, there would be a degree of uncertainty whether the group would be able to continue as a going concern.

However, the Directors have taken into account all relevant circumstances and the financial report has been prepared on a going concern basis which contemplates continuity of normal activities and realisation of assets and settlement of liabilities in the normal course of business.

The Directors of the company have determined that the going concern basis is appropriate having considered, inter alia, the following factors:

- The Directors are confident of the ability to achieve forecast cash flows from trading which, with the continuing support of the financier, continued receipt of the Research and Development Tax Incentives and additional capital raisings will enable the group to meet all its debts and liabilities as and when they become due and payable.
- Historically the Company has relied on a mix of internally generated cashflows and the proceeds from issues of new shares to fund its business activities. The Directors intend to continue to seek funding support from capital markets as required. Based on the Company's capacity and demonstrated willingness of the Directors to issue new shares as well as the capital raisings completed in the last two financial

years, the Directors believe that it is reasonable to expect that external funding will continue to be available when required.

(b) 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 31 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 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.

(c) 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 Managing Director 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.

(d) 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 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) Time and material activities

Revenue from time and material activities is recognised in the same period the hours worked and expenses charged are invoiced.

(ii) Milestone projects

Labour costs and other expenses associated with a milestone project are captured as work in progress until a milestone invoicing event occurs, at which time the revenue is recognised.

(iii) Prebilled activities

Where the service undertaken is required to be provided over multiple periods, the contract is prebilled and revenue is recognised on a monthly basis over the term of the service.

(iv) Interest income

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

(e) 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.

(f) 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.

Pacific Environment Limited and its wholly-owned Australian controlled entities (except EnviroSuite Pty Ltd) 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.

(g) 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 28). 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 28). 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.

(h) 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.

(i) 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.

(j) 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 - 90 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

(k) Inventories

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

(i) Work in progress

Work in progress represents the cost value of unbilled labour and disbursements less provision for amounts considered non-recoverable, plus any amounts withheld due to milestone projects or prebillings.

(l) 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 10) 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.

(m) 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(h) 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.

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.

(n) 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.

(o) 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 to 90 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.

(p) 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 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.

(q) 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.

(r) 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.

(s) 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 Australian Corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share based payments

Share based compensation benefits are provided to employees and directors via the Pacific Environment Limited Employee Share Option Plan, the Pacific Environment Limited Executive Share Option scheme and the Pacific Environment Limited Employee Share Plan. Information relating to these schemes is set out in note 35.

The fair value of options granted under the Pacific Environment Limited Employee Share Option Plan and the Pacific Environment Limited Executive Share Option scheme 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.

(t) 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.

(u) 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.

(v) 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.

(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.

(w) 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.

Pacific Environment Limited and its wholly owned Australian controlled entities (except EnviroSuite Pty Ltd) are grouped for GST.

(x) Rounding of amounts

The Company is of a kind referred to in legislative instrument 2016/191, 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 instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

(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

– *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(h). The recoverable amounts of subsidiaries have been determined based on value in use calculations. These calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

– *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.

– *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 35(i) for details of these assumptions.

– *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, $109,686 (2015: $174,023) was recognised as an interest expense in the consolidated statement of comprehensive income of the Group.

– *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 for impairment of receivables of $66,000 was considered necessary as at the end of the 2016 reporting period (2015:$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 to annual reporting periods beginning on or after 1 January 2018).

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

  The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, 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 the Standard, 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 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2018, as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – effective date of AASB15).

  When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB15); or recognise the cumulative effect of retrospective application of incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

– AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

(aa) Parent entity financial information

The financial information for the parent entity, Pacific Environment Limited, disclosed in note 36 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.

(ii) Tax consolidation legislation

Pacific Environment Limited and its wholly-owned Australian controlled entities (except for EnviroSuite Pty Ltd) have implemented the tax consolidation legislation.

The head entity, Pacific Environment Limited, accounts for tax of the consolidated group as if it was a single entity.

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.

All tax assets or liabilities arising under tax funding agreements with the tax consolidated entities are assumed by the parent entity. The group does not allocate to each subsidiary its tax assets or liabilities.

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	**2016 $'000**	**2015 $'000**
Financial assets			
Cash and cash equivalents	9	1,338	1,695
Trade and other receivables	10(e)	4,258	5,408
Loans receivable	10(e)	-	-
Total financial assets		5,596	7,103
Financial liabilities			
Trade and other payables	15(b)	3,062	3,946
Current borrowings	16	1,656	1,140
Non-current borrowings	19	1,314	3,074
Total financial liabilities		6,032	8,160

Financial risk management policies

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

2. Financial risk management (continued)

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 risks

(i) Foreign exchange risk

The Group does not have any material exposure 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 current 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.

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

	2016		2015	
	Weighted average interest rate %	**Balance $'000**	**Weighted average interest rate %**	**Balance $'000**
Cash and cash equivalents	1%	1,338	1%	1,695
Bank loans	3%	(937)	3%	(741)
Convertible instruments (interest bearing) – face value	11%	(450)	11%	(1,260)
Other loans – current	-	-	6%	(162)
Other loans – non-current	-	-	-	-
Lease liabilities	6%	(1,600)	6%	(2,085)
Net exposure to cash flow interest rate risk		(1,649)		(2,553)

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 2016, 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 $5,607 higher / $5,607 lower (2015: changes of -2% / +2%: $35,000 higher / $35,000 lower), mainly as a result of higher / lower interest income from cash and cash equivalents.

2. Financial risk management (continued)

Summarised sensitivity analysis

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

At 30 June 2016	Carrying amount $'000	Interest rate risk -2% Profit $'000	Other Equity $'000	+2% Profit $'000	Other Equity $'000
Financial assets					
Cash and cash equivalents	1,338	(19)	-	19	-
Trade and other receivables	4,258	-	-	-	-
Financial liabilities					
Trade and other payables	3,062	-	-	-	-
Borrowings	2,970	13	-	(13)	-
Total (increase) / decrease		(6)	-	6	-

(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 2016 $'000	 2015 $'000
Trade receivables		
*Counterparties without external credit rating **		
• A customers (aged 0 – 30 days)	1,445	1,972
• B customers (aged 31 – 60 days)	895	894
• C customers (aged 61 – 120 days)	182	652
• D customers (aged 120+ days)	21	293
Total trade receivables	2,543	3,811

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

2. Financial risk management (continued)

(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:

	2016 $'000	2015 $'000
Floating rate		
Bank overdraft facility	750	750

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.

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
Consolidated Group	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**	**2016 $'000**	**2015 $'000**
Financial liabilities due for payment								
Bank facilities and loans	511	321	427	419	-	-	938	740
Trade and other payables	3,062	3,251	-	695	-	-	3,062	3,946
Finance lease liabilities	712	657	887	1,428	-	-	1,599	2,085
Amounts payable to related parties	433	-	-	1,227	-	-	433	1,227
Other loans	-	162	-	-	-	-	-	162
Total expected outflows	4,718	4,391	1,314	3,769	-	-	6,032	8,160
Financial assets – cash flows realisable								
Cash and cash equivalents	1,338	1,695	-	-	-	-	1,338	1,695
Trade and other receivables	4,258	5,408	-	-	-	-	4,258	5,408
Other investments	-	-	-	-	-	-	-	-
Amounts receivable from related parties	-	-	-	-	-	-	-	-
Total anticipated inflows	5,596	7,103	-	-	-	-	5,596	7,103
Net inflow/(outflow) on financial instruments	878	2,712	(1,314)	(3,769)	-	-	(436)	(1,057)

2. Financial risk management (continued)

(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

	Notes	Consolidated Group 2016 $'000	2015 $'000
From continuing operations			
Sales revenue		17,832	14,805
Total revenue		17,832	14,805
From discontinued operations			
Sales revenue		-	1,105
Total revenue		-	1,105

5. Other income

		2016 $'000	2015 $'000
Government Grants:			
Research & Development Tax Incentives	5(a)	1,663	1,597
Under provision of prior year R&D Tax Incentive		42	-
Other income		2	48
Total other income		1,707	1,645

5. Other Income (continued)

(a) Research and Development Tax Incentives

Research and Development Tax Incentives includes the claim for the year ended 30 June 2016 of $1,663,000 (2015: $1,597,000). The FY2016 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 similar to those followed in previous years which is based on external advice received. The receivable amount has been included in other receivables, refer Note 10.

6. Expenses

(Loss)/profit before income tax from continuing operations includes the following specific expenses:

	Notes	Consolidated Group 2016 $'000	2015 $'000
Consultants expense			
Audit and accounting		198	76
Corporate support and company secretarial		20	18
Information Technology		23	16
Legal		46	32
Strategic consultancy		733	550
Total consultants expense		1,020	692
Depreciation			
Plant and equipment		228	181
Plant and equipment under finance leases		421	250
Total depreciation	13	649	431
Amortisation			
Software		384	277
Other		-	-
Total amortisation	14	384	277
Total depreciation and amortisation expense		1,033	708
Finance costs			
Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss		207	311
Rental expense relating to operating leases			
Minimum lease payments		645	554
Impairment losses			
Reversal of impairment – Software	14	-	(295)
Defined contribution superannuation expense		874	598
Share based payment expenses	35(e)	419	160

7. Income tax expense

	Consolidated Group 2016 $'000	2015 $'000
(a) The components of Income tax benefit/(expense) comprise:		
Current tax	(147)	-
Deferred tax	200	(649)
(Under)/over provision of prior year tax	(278)	700
Income tax (expense)/benefit	(225)	51

	2016 $'000	2015 $'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Prima facie tax on profit from continuing operations before income tax is reconciled to income tax as follows:		
Prima facie tax payable on profit from continuing operations before income tax at 30% (2015:30%)	(415)	531
Add:		
Tax effect of:		
- non-allowable items (including R&D expenditure)	767	816
- share options expensed during the year	125	48
- revaluation of assets not subject to income tax	11	-
- under-provision for income tax in prior year	278	-
Less:		
Tax effect of:		
- R&D income non-assessable	(511)	(479)
- revaluation of assets not subject to income tax	-	(89)
- over-provision for income tax in prior year	-	(273)
- adjustment to equity raising costs	(30)	-
- recoupment of prior year tax losses not previously brought to account	-	(605)
Income tax expense/(benefit)	225	(51)

8. Discontinued Operations

On 8 April 2015, the consolidated group announced the divestment of its Queensland based stack emissions measurement business unit via a management buy-out, thereby discontinuing its operations in this non-core business.

The financial performance of the discontinued operation to the date of sale, which is included in the profit/(loss) from discontinued operations per the statement of comprehensive income is as follows:

	Consolidated Group	
	2016	**2015**
	$'000	**$'000**
Revenue & other income	-	1,191
Expenses	-	(1,337)
Loss before income tax	-	(146)
Income tax benefit	-	44
Loss after tax attributable to the discontinued operation	-	(102)
Loss on sale before income tax	-	(447)
Income tax expense	-	134
Loss on sale after income tax	-	(313)
Total Loss after tax attributable to the discontinued operation	-	(415)

	2016	**2015**
	$'000	**$'000**
The net cash flows of the discontinued operation, which have been incorporated into the statement of cash flows, are as follows:		
Net cash outflow from operating activities	-	(123)
Net cash outflow from investing activities	-	(8)
Net cash inflow/(outflow) from financing activities	-	-
Net cash decrease generated by the discontinued operation	-	(131)

9. Current assets – Cash and cash equivalents

	Consolidated Group 2016 $'000	2015 $'000
Cash at bank and in hand	1,338	1,695

(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	2016 $'000	2015 $'000
Balances as above		1,338	1,695
Bank overdraft	16	-	-
Balance per statement of cash flows		1,338	1,695

(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.

10. Current assets – Trade and other receivables

	2016 $'000	2015 $'000
Trade receivables	2,609	3,811
Provision for impairment of receivables (note (a))	(66)	-
	2,543	3,811
Research and Development Tax Incentive receivable	1,663	1,597
Other receivables (note (b))	52	-
Loans to related parties (note (c))	-	-
Trade and other receivables	4,258	5,408

10. Current assets – Trade and other receivables (continued)

(a) Impaired Trade Receivables

	Gross Amount	Past Due and Impaired	Past Due but Not Impaired (Days Overdue) < 30	31 – 60	61 – 90	> 90	Within Initial Trade Terms
	$000	$000	$000	$000	$000	$000	$000
2016							
Trade & term receivables	2,609	66	895	144	38	21	1,445
Other receivables	1,715	-	-	-	-	-	1,715
Total	4,324	66	895	144	38	21	3,160
2015							
Trade & term receivables	3,811	-	894	481	171	293	1,972
Other receivables	1,597	-	-	-	-	-	1,597
Total	5,408	-	894	481	171	293	3,569

(b) Other receivables

These amounts are for rental bonds on leased properties and security deposits paid on hired equipment.

(c) Loans to related parties

Loans to related parties relate to amounts owing by the original founders of the subsidiaries acquired during prior periods. These loans were written off in 2015 (refer to note 29(f)).

(d) 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.

(e) Financial assets classified as loans and receivables

	Note	Consolidated Group 2016 $'000	2015 $'000
Trade and other receivables		4,258	5,408
Loans receivable		-	-
Financial Assets		4,258	5,408

11. Other Assets

	Consolidated Group	
	2016 $'000	2015 $'000
Prepayments	112	105

12. Current assets – Inventories

	2016 $'000	2015 $'000
Work in Progress at cost	340	307

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

Consolidated Group	Motor Vehicles $'000	Furniture fittings and equipment $'000	Leased Assets $'000	Total $'000
Year ended 30 June 2015				
Opening net book amount	62	373	1,038	1,473
Additions	-	444	1,201	1,645
Disposals	-	(76)	-	(76)
Transfer between classes	26	(1)	(25)	-
Depreciation charge	(30)	(151)	(250)	(431)
Closing net book amount	58	589	1,964	2,611
At 30 June 2015				
Cost or fair value	115	1,304	2,400	3,819
Accumulated depreciation	(57)	(715)	(436)	(1,208)
Accumulated impairment	-	-	-	-
Net book amount	**58**	**589**	**1,964**	**2,611**
Year ended 30 June 2016				
Opening net book amount	58	589	1,964	2,611
Additions	-	326	158	484
Disposals	-	(4)	-	(4)
Transfer between classes	72	(72)	-	-
Depreciation charge	(43)	(169)	(437)	(649)
Closing net book amount	87	670	1,685	2,442
At 30 June 2016				
Cost or fair value	199	1,620	2,480	4,299
Accumulated depreciation	(112)	(950)	(795)	(1,857)
Accumulated impairment	-	-	-	-
Net book amount	**87**	**670**	**1,685**	**2,442**

Total impairment losses recognised in the statement of comprehensive income was nil (2015:nil).

Included in disposals for the year ended 30 June 2016 is nil (2015: nil) of accumulated impairment losses.

Non-current assets pledged as security

Refer to note 19 for information on non-current assets pledged as security by the Group.

14. Non-current assets – Intangible assets

Consolidated Group	Goodwill $'000	Software $'000	Other $'000	Total $'000
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**
Year ended 30 June 2015				
Opening net book amount	8,450	683	8	9,141
Acquisition of business	2,437	-	-	2,437
Cost capitalised *	-	1,143	-	1,143
Adjustments to goodwill on acquisition of business	(26)	-	-	(26)
Disposal of business	(907)	-	(8)	(915)
Amortisation charge **	-	(277)	-	(277)
Reversal of prior year impairment	-	295	-	295
Closing net book amount	9,954	1,844	-	11,798
At 30 June 2015				
Cost or fair value	10,696	3,913	-	14,609
Accumulated amortisation	-	(1,710)	-	(1,710)
Accumulated impairment	(742)	(359)	-	(1,101)
Net book amount	**9,954**	**1,844**	-	**11,798**
Year ended 30 June 2016				
Opening net book amount	9,954	1,844	-	11,798
Acquisition of business	-	-	-	-
Cost capitalised *	-	1,267	-	1,267
Adjustments to goodwill on acquisition of business	316	-	-	316
Amortisation charge **	-	(384)	-	(384)
Impairment charge (note (f))	-	-	-	-
Closing net book amount	10,270	2,727	-	12,997
At 30 June 2016				
Cost or fair value	11,012	5,180	-	16,192
Accumulated amortisation	-	(2,094)	-	(2,094)
Accumulated impairment	(742)	(359)	-	(1,101)
Net book amount	**10,270**	**2,727**	**-**	**12,997**

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

*** Amortisation of $384,000 (2015: $277,000) is included in depreciation and amortisation expense in the consolidated statement of comprehensive income.*

14. Non-current assets – Intangible assets (continued)

(a) Impairment tests for goodwill

Goodwill is allocated to the subsidiaries of the Group. A summary of the goodwill allocation is presented below. During 2015, the goodwill allocated to Toxikos Pty Ltd was reallocated to Pacific Environment Operations Pty Ltd as part of a rationalisation of the Pacific Environment Limited entities. Goodwill allocated to Pacific Environment Monitoring Pty Ltd of $907,000 was eliminated as part of the disposal of the Emissions Monitoring business unit as disclosed in Note 8.

2016	Pacific Environment Operations Pty Ltd $'000	DLA Environmental Services Pty Ltd $'000	Total $'000
Goodwill	8,357	2,655	11,012
Impairment	(742)	-	(742)
	7,615	**2,655**	**10,270**

2015	Pacific Environment Operations Pty Ltd $'000	DLA Environmental Services Pty Ltd $'000	Total $'000
Goodwill	8,259	2,437	10,696
Impairment	(742)	-	(742)
	7,517	**2,437**	**9,954**

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. Cash flows exclude future software development costs as it is expected these will be funded from other sources including R&D tax incentive refunds.

14. Non-current assets – Intangible assets (continued)

During the 2015 year impairment of $295,000 against the software was written back. The Group determined that the substantial investment in the development of EnviroSuite 2.0 and associated sales initiatives during FY15 significantly increased the value of future cash flows of the Technologies cash generating unit and that the circumstances that led to the original impairment no longer exist.

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

	Growth rate expense*		Growth rate revenue*		Discount rate **	
CGU	**2016 %**	**2015 %**	**2016 %**	**2015 %**	**2016 %**	**2015 %**
Consulting	5.0	5.0	7.0	7.0	6.52	10.1
Technologies	14.0 – 32.5	14.0 – 42.0	31.0 – 83.0	31.0 – 51.0	6.52	10.1
DLA	5.0	5.0	5.0	5.0	6.52	10.1

** 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 2016 and 2015 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: $46,408,000
- Technologies: $39,736,000
- DLA Environmental Services: $12,848,000

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 6.52% 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: 26%
- Technologies: 60%

14. Non-current assets – Intangible assets (continued)

- DLA Environmental Services: 32%

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. 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 2016 and the year ended 30 June 2015 no impairment charges were made against cash generating units.

15. Current liabilities – Trade and other payables

	Consolidated Group	
	2016 $'000	2015 $'000
Trade payables	1,032	1,257
Acquisition deferred settlement (refer note 30)	944	944
Other payables	1,086	1,050
	3,062	3,251

(a) Risk exposure

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

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

		Consolidated Group	
	Note	2016 $'000	2015 $'000
Trade payables – current	15	1,032	1,257
Other payables – current	15	2,030	1,994
Other payables – non-current	18	-	695
Financial liabilities		3,062	3,946

16. Current liabilities – Borrowings

	Notes	Consolidated Group 2016 $'000	Consolidated Group 2015 $'000
Secured			
Bank overdraft	9	-	-
Bank loans		511	321
Lease liabilities	28	712	657
Total secured current borrowings		1,223	978
Unsecured			
Other loans		-	162
Convertible loan (refer note 19(a))		433	-
Total unsecured current borrowings		433	162
Total current borrowings		1,656	1,140

(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 19 and note 33 (b) (iii).

(b) Risk exposures

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

17. Current liabilities – Provisions

	Provision for Income tax	Employee Benefits $'000	Deferred Lease Incentive $'000	Total $'000
Opening balance at 1 July 2015	-	729	13	742
Additional provisions	147	919	-	1,066
Amounts used	-	(797)	(13)	(810)
Balance at 30 June 2016	147	851	-	998

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. 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.

	2016 $'000	2015 $'000
Long service leave obligations expected to be settled after 12 months (refer note 21)	139	144

18. Non-current liabilities – Trade and other payables

	Consolidated Group 2016 $'000	Consolidated Group 2015 $'000
Acquisition deferred settlement (refer note 30)	-	695

19. Non-current liabilities – Borrowings

	Consolidated Group 2016 $'000	Consolidated Group 2015 $'000
Secured		
Bank loans	427	419
Lease liabilities	887	1,428
Total secured non-current borrowings	1,314	1,847
Unsecured		
Other loans	-	-
Convertible loan (note (a))	-	1,227
Total unsecured non-current borrowings	-	1,227
Total non-current borrowings	1,314	3,074

(a) Convertible loan

	Date issued	Face value $'000	Repayment Date
Interest bearing convertible loan			
Robin Ormerod	17/11/2010	450	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 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.

On 10 May 2016, Robin Ormerod requested a partial conversion of his convertible note with the Group. The conversion of $450,000 of outstanding principal into fully paid shares in the Group was executed on 10 May 2016, which resulted in an issue of 13,353,115 new shares and a reduction in the outstanding loan amount to $433,331 with an associated reduction in interest charges to the Group.

19. Non-current liabilities – Borrowings (continued)

On 20 October 2015, Robin Ormerod requested a partial conversion of his convertible note with the Group. The conversion of $360,000 of outstanding principal into fully paid shares in the Group was executed on 20 October 2015, which resulted in an issue of 10,682,492 new shares and a reduction in the outstanding loan amount to $874,997 with an associated reduction in interest charges to the Group.

On 18 December 2014, Robin Ormerod requested a partial conversion of his convertible note with the Group. The conversion of $540,000 of outstanding principal into fully paid shares in the Group was executed on 18 December 2014, which resulted in an issue of 16,023,738 new shares and a reduction in the outstanding loan amount to $1,218,328 with an associated reduction in interest charges to the Group.

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.

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

	Consolidated Group	
	2016 $'000	**2015 $'000**
Face value of notes issues	1,800	1,800
Other equity securities – value of conversion rights	(109)	(109)
	1,691	1,691
Interest expense*	822	717
Amortisation	93	77
Conversion to equity	(1,350)	(540)
Interest paid	(822)	(713)
	434	1,232
Less: Interest owing (included in other payables)	(1)	(5)
Less: Convertible note liability included in current borrowings	(433)	-
Total convertible note liability included in non-current borrowings	-	1,227

** 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	
	2016 $'000	**2015 $'000**
Bank overdraft	-	-
Bank loans	937	740
Lease liabilities	1,600	2,085
Total secured liabilities	2,537	2,825

19. Non-current liabilities – Borrowings (continued)

(b) Secured liabilities and assets pledged as security (continued)

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 and DLA Environmental Services Pty Ltd as well as an unlimited corporate guarantee and indemnity by and on account of each of the four entities listed. (Refer note 33 (b) (iii) for further details.)

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

	Note	Consolidated Group 2016 $'000	2015 $'000
Current			
Finance lease			
Plant and equipment	28(b)	712	657
Non-current			
Finance lease			
Plant and equipment	28(b)	887	1,428
Total lease liability		1,599	2,085

(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.

20. Tax

	Consolidated Group 2016 $'000	2015 $'000
Current		
Income tax receivable – Research & Development	1,663	1,597

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	Opening Balance $'000	Charged to Income $'000	Charged directly to Equity $'000	Changes in Tax Rate $'000	Exchange Differences $'000	Closing Balance $'000
Deferred tax liabilities						
Balance at 30 June 2015	(92)					(92)
Other		92				92
Balance at 30 June 2016	(92)	92				-

20. Tax (continued)

	Opening Balance $'000	Charged to Income $'000	Charged directly to Equity $'000	Changes in Tax Rate $'000	Exchange Differences $'000	Closing Balance $'000
Deferred tax assets						
Provisions	-	298	-	-	-	298
Transaction costs on equity issue	-	-	29	-	-	29
Other	-	23	-	-	-	23
Balance at 30 June 2015	-	321	29	-	-	350
Provisions	298	118	-	-	-	416
Transaction costs on equity issues	29	-	30	-	-	59
Other	23	(9)	-	-	-	14
Balance at 30 June 2016	350	109	30	-	-	489

The amount of unused tax losses for which no deferred tax assets have been brought to account:

Tax losses: operating losses $2,374,493 (2015: $2,374,493)

Tax losses: capital losses $961,807 (2015: $961,807)

The benefits of the above unused tax losses will only be realised if the conditions for deductibility set out in Note 1(f) occur. These amounts have no expiry date.

21. Non-current liabilities – Provisions

	Employee Benefits $'000	Total $'000
Opening balance at 1 July 2015	144	144
Additional provisions	51	51
Transferred to current	(56)	(56)
Amounts used	-	-
Balance at 30 June 2016	139	139

22. Issued Capital

	2016 Shares	2015 Shares	2016 $'000	2015 $'000
(a) Share capital				
Ordinary shares (notes (c) and (d))				
Fully Paid	182,259,474	132,934,978	22,691	19,683

22. Issued Capital (continued)

(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	182,259,474	132,934,978	22,828	19,820

(c) Movements in ordinary shares

Date	Details	Number of shares	Issue price	$'000
30/06/2014	Balance	99,129,598		17,635
18/12/2014	Partial conversion of convertible notes	16,023,738	0.03	540
22/04/2015	Conversion of employee options	875,000	0.06	53
14/05/2015	Institutional Placement	13,417,777	0.09	1,208
07/05/2015	Share Purchase Plan to existing shareholders	3,488,865	0.09	314
	Less: Transaction costs of capital raising			(67)
30/06/2015	Balance	132,934,978		19,683
15/09/2015	Shares issued to CEO per contract	1,200,000	0.13	150
22/10/2015	Partial conversion of convertible notes	10,682,492	0.03	360
08/12/2015	Conversion of employee options	200,000	0.09	18
09/05/2016	Institutional Placement	23,888,889	0.09	2,150
10/05/2016	Partial conversion of convertible notes	13,353,115	0.03	450
	Less: Transaction costs of capital raising			(120)
30/06/2016	**Balance**	**182,259,474**		22,691

(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.

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 2016, 1,200,000 ordinary shares valued at 12.5 cents per share were issued to the Chief Executive Officer as part of his employment contract for no consideration. The total charge to the Statement of Profit or Loss and Other Comprehensive Income in relation to these shares was $51,600 (FY2015 $98,400 was charged to the Statement of Profit or Loss and Other Comprehensive Income in relation to these shares).

During the year ended 30 June 2016, 24,035,607 shares were issued upon partial conversion of the convertible note to the value of $810,000.

During the year ended 30 June 2016, 200,000 shares were issued upon exercise of employee options to the value of $18,000.

During the year ended 30 June 2016, 23,888,889 shares were issued at 9 cents per share through an institutional placement raising $2,150,000. Transaction costs for the capital raisings were a net of $120,000 ($150,000 adjusted for tax effect of $30,000).

During the year ended 30 June 2015, 16,023,738 shares were issued upon partial conversion of the convertible note to the value of $540,000.

22. Issued Capital (continued)

During the year ended 30 June 2015, 875,000 shares were issued upon exercise of employee options to the value of $53,000.

During the year ended 30 June 2015, 13,417,777 shares were issued at 9 cents per share through an institutional placement raising $1,208,000. In addition, 3,488,865 shares were issued at 9 cents per share to existing shareholders through a share purchase plan raising $314,000. Transaction costs for the capital raisings were $96,000 (net of tax $67,000)

(e) Options

During the year ended 30 June 2016, 9,000,000 (2015: 4,000,000) options were issued to directors and 1,000,000 (2015: 815,000) options were issued to employees. 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 35.

(f) Share based payments

Certain shares were issued for no cash consideration for the provision of services, details of which are shown in note 35.

(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 19(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 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.

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 'total equity' as shown in the statement of financial position (including minority interest) plus net debt.

The gearing ratios at 30 June 2016 and 30 June 2015 were as follows:

		Consolidated Group	
	Note	2016 $'000	2015 $'000
Total borrowings	15,16,18,19	6,032	8,160
Less: cash and cash equivalents	9	(1,338)	(1,695)
Net debt		4,694	6,465
Total equity		14,807	13,136
Total capital		19,501	19,601
Gearing Ratio		24%	33%

23. Reserves and retained losses

(a) Reserves	Consolidated Group 2016 $'000	2015 $'000
Employee shares reserve (a)	165	98
Share-based payments reserve (b)	607	405
	772	503
Movements (a) :		
Balance 1 July	98	-
Recognition of employee shares to be issued	165	98
Transfer to equity	(98)	-
Balance 30 June	165	98
Movements (b) :		
Balance 1 July	405	343
Option expense	202	62
Transfer to retained losses	-	-
Balance 30 June	607	405

(b) Retained losses	2016 $'000	2015 $'000
Movements		
Opening retained losses	(7,187)	(8,594)
Net profit for the year	(1,606)	1,407
Balance 30 June	(8,793)	(7,187)

(c) Nature and purpose of reserves

(i) Employee shares reserve

The employee shares reserve is used to recognise the fair value of employee shares that are granted but not yet issued.

(ii) 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.

24. Dividends

The Group has not paid or declared any dividends during the period (2015: nil). Franking credits available for subsequent financial years based on a tax rate of 30% amount to Nil (2015: nil).

25. 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 2016.

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

	2016 $'000	2015 $'000
Short-term employee benefits	519	428
Post-employment benefits	37	19
Other long term benefits	-	-
Share-based payments*	318	35
Total KMP compensation	874	482

* Amount does not include shares to be issued to the previous Chief Executive Officer $165,000.

(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 together with salary sacrifice superannuation.

(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 during the year.

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

26. 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	2016 $	2015 $
Audit and other assurance services		
Audit and review of financial reports		
- current year	100,000	60,086
- prior year	60,000	-
Other assurance services	-	-
Total auditors remuneration	160,000	60,086

27. Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2016 in respect of:

(i) Guarantees

The Group has potential exposure to guarantees it has issued to third parties in relation to the performance and obligation of controlled entities with respect to property lease rentals amounting to $238,592 (2015: $191,913).

No liability has been recognised by the Group in relation to these financial guarantees as the guarantees are in the event of default on the property leases' terms and conditions.

(ii) Litigation

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

28. 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.

(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.

	2016 $'000	2015 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	494	518
Later than one year but not later than five years	373	241
	867	759

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of $1,685,000 (2015: $1,964,000) under finance leases expiring within one to four years. Under the terms of the leases, the Group has various options to 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.

28. Commitments (continued)

	Note	2016 $'000	2015 $'000
Commitments in relation to finance leases are payable as follows:			
Within one year		789	765
Later than one year but not later than five years		957	1,561
Later than five years		-	-
Minimum lease payments		1,746	2,326
Less: Future finance charges		(147)	(241)
Present value of minimum lease payments		1,599	2,085
Representing lease liabilities:			
Current	16	712	657
Non-current	19	887	1,428
		1,599	2,085

29. 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 31.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 25.

(d) Transactions with other related parties

The following transactions occurred with other related parties:

	Consolidated Group	
	2016 $'000	2015 $'000
Purchases of services		
Consultancy services – ROKZair Pty Ltd	395	400
Consultancy services – DG Capital Partners	72	96
Consultancy services – Famile Pty Ltd	24	-
Creative services – Soliton Creative	157	106
Consultancy services - MC Consultancy Pty Limited	120	30
Marketing services - Ian Edgehill	59	56
Other transactions		
Interest paid on convertible loan – R Ormerod	109	169
Partial conversion of convertible note	810	540

29. Related party transactions (continued)

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:

	2016 $'000	2015 $'000
Current payables		
Purchase of services	95	51

(f) Loans to / from related parties

	Consolidated Group	
	2016 $'000	2015 $'000
Loans to related parties		
Beginning of the year	-	20
Loans advanced	-	-
Loan written-off	-	(20)
End of the year	-	-

	2016 $'000	2015 $'000
Loans from related parties		
Beginning of the year	-	6
Loan written-off	-	(6)
End of the year	-	-

(g) Borrowings from related parties

	2016 $'000	2015 $'000
Beginning of the year	1,227	1,750
Loans repaid	(810)	(540)
Other	16	17
End of the year	433	1,227

There is no allowance for impaired receivables in relation to any outstanding balances from related parties. During the year no expense has been recognised in respect of impaired receivables due from related parties (2015: $20,000).

30. Business combinations

Acquisition of Business – DLA Environmental Services

On 1 October 2014, DLA Environmental Services Pty Ltd, a wholly owned subsidiary of Pacific Environment Limited, acquired the assets of DLA Environmental (DLA) as a going concern.

		Fair value $'000
Purchase consideration:		
	- Cash	1,021
	- Deferred consideration (i)	1,654
		2,675
Less:	Property, plant and equipment	101
	Employee benefits	(81)
	Identifiable assets acquired and liabilities assumed	20
Goodwill (ii)		2,655

(i) The consideration paid to acquire DLA consists of deferred payments if maintainable profits targets are met. In November 2015 based on reaching profit targets, total payment due less adjustment was $853,078. The difference between the estimated first payment of $826,883 and the actual first payment was recognised in the profit and loss. Payment in full was made by the end of February 2016. Subject to the profit targets being met, additional consideration is due to be paid on 14 November 2016.

Included in current trade and other payables

Amount due 14 November 2016 $826,883

(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 DLA. No amount of the goodwill is deductible for tax purposes.

Revenue of DLA included in the consolidated revenue of the Group to 30 June 2015 since acquisition date on 1 October 2014 amounted to $3,612,000. Profit of DLA to 30 June 2015 included in consolidated profit of the Group since the acquisition date amounted to $725,000.

Included within expenses in the statement of profit or loss for the year ended 30 June 2015 are acquisition-related costs totalling $102,000. The costs include advisory, legal, accounting and other professional fees.

Acquisition of Business – Waste Solutions Australia

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

30. Business combinations (continued)

	Fair value $'000
Purchase consideration:	
- Cash	220
- Deferred consideration (i)	350
	570
Less:	
Property, plant and equipment	63
Employee benefits	(42)
Identifiable assets acquired and liabilities assumed	21
Goodwill (ii)	549

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

In June 2016, a payment of $82,907 was made in relation to the first deferred payment. The difference between the estimated first payment of $116,667 and the actual first payment was recognised in the profit and loss.

In May 2015, a payment of $50,000 was made in relation to the first deferred payment. The difference between the estimated first payment of $116,667 and the actual first payment was recognised in the profit and loss.

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

Included in current trade and other payables
Amount due 31 May 2017 $116,667

(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.

31. Interest in Subsidiaries

(a) Information about Controlled Entities

Controlled Entities Consolidated	Note	Country of incorporation	Percentage Owned * 2016 %	Percentage Owned * 2015 %
Parent Entity				
Pacific Environment Limited		Australia	100	100
Subsidiaries of Pacific Environment Limited				
Pacific Environment Operations Pty Ltd		Australia	100	100
Pacific Environment Holdings Pty Ltd		Australia	100	100
DLA Environmental Services Pty Ltd		Australia	100	100
EnviroSuite Pty Ltd		Australia	100	-
EnviroSuite Corp**	(i)	United States of America	100	-
Pacific Environment Monitoring Pty Ltd	(i)	Australia	-	100
Toxikos Pty Ltd	(i)	Australia	-	100

* Percentage of voting power in proportion to ownership
** formerly known as Metriqa Corp

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.

(i) Controlled entities with ownership interest of 100%

Metriqa Corp was incorporated in the United States of America on 17 June 2016. As at 30 June 2016 there were no transactions or balances to be included in the 30 June 2016 financial statements. On 21 August 2016 Metriqa Corp changed its name to EnviroSuite Corp.

Pacific Environment Monitoring Pty Ltd and Toxikos Pty Ltd were deregistered by ASIC on 22 July 2015. As the entities operated during the year ended 30 June 2015 their transactions/balances are included in the 30 June 2015 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 other than those imposed by the financier(s).

32. Events occurring after the reporting period

The financial statements were authorised for issue by the Board of Directors on 30 August 2016.

There is no matter or circumstance that has arisen since 30 June 2016 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.

33. Cash flow statement reconciliation

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

	2016 $'000	2015 $'000
(Loss)/profit for the year	(1,606)	1,407
Depreciation and amortisation	1,033	708
Non cash employee benefits expense – share based payments	419	160
Accrued interest	-	5
Amortised interest on convertible note rights	16	17
Acquisition earn out expense target not met	(63)	-
Net loss on sale of non-current assets	4	8
Reversal of impairment – capitalised software	-	(295)
Impairment of goodwill	-	447
Tax effect share transaction costs in equity	30	29
Write-off of related party loan	-	(14)
Changes in operating assets and liabilities		
Increase/(Decrease) in trade and other debtors	1,143	(2,402)
Decrease/(Increase) in inventories	(33)	(175)
Increase/(Decrease) in deferred tax asset	(139)	(350)
(Decrease)/Increase in deferred tax liabilities	(92)	92
(Decrease)/Increase in trade creditors	(88)	753
(Decrease)/Increase in other operating liabilities	(101)	104
Increase in provision for income taxes payable	147	-
Increase in other provisions	104	435
Net cash inflow from operating activities	774	929

(b) Non-cash financing and investing activities

(i) Share issues

During the year ended 30 June 2016, 24,035,607 ordinary shares to the value of $810,000 were issued as partial conversion of the convertible note at 3.37 cents per share. In addition 1,200,000 shares were issued to the Chief Executive Officer as per his employment contract at 12.5 cents per share. During the year ended 30 June 2015, 16,024,000 ordinary shares to the value of $540,000 were issued as partial conversion of the convertible note at 3 cents per share.

(ii) Finance leases

During the year the Group acquired plant and equipment with an aggregate value of $106,000 (2015: $1,201,000) by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

33. Cash flow statement reconciliation (continued)

(iii) Credit standing arrangements with banks

	2016 $'000	2015 $'000
Credit facility	6,591	6,212
Amount used	2,434	2,819
Undrawn facility	4,157	3,393

During 2016, the ANZ facility was increased to $6,591,050 incorporating an increase to the facility for the earn out on the acquisition of the DLA Environmental Services business. The facilities are now a lease financing facility of $3,100,000, an overdraft facility of $750,000, a standby letter of credit or guarantee facility of $500,000, an electronic payaway facility of $1,050,000, a commercial card facility of $100,000 and a tailored commercial facility of $1,091,050.

The ANZ requires principal repayments of $132, 850 to be made each quarter on the tailored commercial facility, reducing the facility limit with each principal repayment. As at 30 June 2016 $937,000 of the tailored commercial facility was used and the undrawn amount 'nil'.

During 2015, the ANZ facility was increased to $6,211,600 incorporating an increase to the lease financing facility and a new tailed commercial facility for the acquisition of the DLA Environmental Services business.

The following financial covenants form part of the Company's undertakings in respect to the banking facilities:

- The Debt to EBITDA ratio of the testing entities for any relevant period does not exceed 2:1; and
- The Interest Cover Ratio of the testing entities for any relevant period is not less than 3.5:1

34. Earnings / (losses) per share

(a) Basic earnings / (losses) per share

	2016 cents	2015 cents
Basic earnings / (losses) per share attributable to the ordinary equity holders of the Company		
From continuing operations	(1.1)	1.7
From discontinued operations	-	(0.4)

(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

	2016 $'000	2015 $'000
Benefits/(losses) attributable to the ordinary equity holders of the Company used in calculating basic earnings / (losses) per share		
From continuing operations	(1,606)	1,822
From discontinued operations	-	(415)

34. Earnings/ (losses) per share (continued)

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

	2016 Number	2015 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/(losses) per share	146,700,414	110,343,716

(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.

35. 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 up to seven 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

Options were issued to employees under the Pacific Environment Limited Executive Share Option Scheme. Under this scheme, options granted vest as specified under the individual option. The options are not forfeitable but lapse on the date specified in the individual option agreement. 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.

(c) Employee share plan

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.

35. Share based payments (continued)

2016 Grant date	Expiry date	Exercise price	Balance at the start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at the end of the year 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	1,000,000
Tranche 2		$0.12	1,500,000	-	-	-	1,500,000	1,500,000
Tranche 3		$0.16	2,000,000	-	-	-	2,000,000	2,000,000
1/11/2013	31/10/2018							
Tranche 1		$0.10	1,000,000	-	-	-	1,000,000	1,000,000
Tranche 2		$0.15	1,500,000	-	-	-	1,500,000	1,500,000
Tranche 3		$0.20	2,000,000	-	-	-	2,000,000	2,000,000
27/11/2014	31/10/2019							
Tranche 1		$0.10	1,000,000	-	-	-	1,000,000	-
Tranche 2		$0.15	1,000,000	-	-	-	1,000,000	-
27/11/2014	12/11/2019	$0.07	2,000,000	-	-	-	2,000,000	-
25/11/2015								
Tranche 1	09/12/2019	$0.12	-	4,500,000	-	-	4,500,000	-
Tranche 2	09/12/2019	$0.18	-	4,500,000	-	-	4,500,000	-
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	330,000	-	-	-	330,000	330,000
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
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	500,000
Tranche 4		$0.06	500,000	-	-	-	500,000	500,000

35. Share based payments (continued)

2016 Grant date	Expiry date	Exercise price	Balance at the start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at the end of the year 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	1,666,667
Tranche 3		$0.03	1,666,666	-	-	-	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	500,000
01/04/2013	19/04/2018							
Tranche 1		$0.06	1,287,500	-	-	-	1,287,500	1,287,500
Tranche 2		$0.06	1,287,500	-	-	-	1,287,500	1,287,500
Tranche 3		$0.06	1,725,000	-	-	-	1,725,000	1,725,000
Tranche 4		$0.06	1,725,000	-	-	-	1,725,000	-
01/04/2014	01/04/2020							
Tranche 1		$0.09	500,000	-	-	-	500,000	500,000
Tranche 2		$0.09	500,000	-	-	-	500,000	-
Tranche 3		$0.09	500,000	-	-	500,000	-	-
Tranche 4		$0.09	500,000	-	-	500,000	-	-
14/07/2014	14/07/2020							
Tranche 1		$0.09	200,000	-	200,000	-	-	-
Tranche 2		$0.09	200,000	-	-	-	200,000	-
Tranche 3		$0.09	200,000	-	-	-	200,000	-
Tranche 4		$0.09	200,000	-	-	-	200,000	-
04/02/2015	04/02/2021							
Tranche 1		$0.11	1,337,500	-	-	-	1,337,500	1,337,500
Tranche 2		$0.11	1,337,500	-	-	250,000	1,087,500	-
Tranche 3		$0.11	1,337,500	-	-	250,000	1,087,500	-
Tranche 4		$0.11	1,337,500	-	-	250,000	1,087,500	-
11/11/2015	10/11/2020							
Tranche 1		$0.16	-	333,333	-	-	333,333	-
Tranche 2		$0.16	-	333,333	-	-	333,333	-
Tranche 3		$0.16	-	333,333	-	-	333,333	-
Total			37,605,000	10,000,000	200,000	1,750,000	45,655,000	25,567,500
Weighted average exercise price			$0.12	$0.15	$0.09	$0.10	$0.13	$0.14

35. Share based payments (continued)

2015 Grant date	Expiry date	Exercise price	Balance at the start of the year Number	Granted during the year Number	Exercised during the year Number	Forfeited during the year Number	Balance at the end of the year Number	Vested and exercisable at the end of the year 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	-
27/11/2014	31/10/2019							
Tranche 1		$0.10	-	1,000,000	-	-	1,000,000	-
Tranche 2		$0.15	-	1,000,000	-	-	1,000,000	-
27/11/2014	12/11/2019	$0.07	-	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	-	-	20,000	330,000	330,000
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
20/08/2009	19/08/2014	$0.40	1,500,000	-	-	1,500,000	-	-
25/11/2011	30/09/2014	$0.15	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	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	1,666,667

35. Share based payments (continued)

Tranche 2		$0.03	1,666,667	-	-	-	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	500,000
01/04/2013	19/04/2018							
Tranche 1		$0.06	2,000,000	-	437,500	275,000	1,287,500	1,287,500
Tranche 2		$0.06	2,000,000	-	437,500	275,000	1,287,500	1,287,500
Tranche 3		$0.06	2,000,000	-	-	275,000	1,725,000	-
Tranche 4		$0.06	2,000,000	-	-	275,000	1,725,000	-
01/04/2014	04/02/2021							
Tranche 1		$0.09	-	500,000	-	-	500,000	-
Tranche 2		$0.09	-	500,000	-	-	500,000	-
Tranche 3		$0.09	-	500,000	-	-	500,000	-
Tranche 4		$0.09	-	500,000	-	-	500,000	-
14/07/2014	04/02/2021							
Tranche 1		$0.09	-	200,000	-	-	200,000	-
Tranche 2		$0.09	-	200,000	-	-	200,000	-
Tranche 3		$0.09	-	200,000	-	-	200,000	-
Tranche 4		$0.09	-	200,000	-	-	200,000	-
04/02/2015	04/02/2021							
Tranche 1		$0.11	-	1,337,500	-	-	1,337,500	-
Tranche 2		$0.11	-	1,337,500	-	-	1,337,500	-
Tranche 3		$0.11	-	1,337,500	-	-	1,337,500	-
Tranche 4		$0.11	-	1,337,500	-	-	1,337,500	-
Total			30,620,000	12,150,000	875,000	4,290,000	37,605,000	10,838,334
Weighted average exercise price			$0.14	$0.10	$0.06	$0.22	$0.12	$0.17

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.21 years (2015: 3.93 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.

During financial year 2016, 9,000,000 options were issued to directors and 1,000,000 options were issued to employees. In financial year 2015, 4,000,000 options were issued to directors and 8,150,000 options were issued to employees.

(d) Shares issued to employees - value of services

On 15 September 2015, 1,200,000 ordinary shares were issued by the Company to the Chief Executive Officer as part of his employment contract for no cash. The fair value of the shares issued, determined by reference to the market price was $150,000 or 12.5 cents per share.

35. Share based payments (continued)

(e) 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:

	2016 $'000	2015 $'000
Options issued under employee share option plan	202	62
Shares issued to employees – value of services	52	-
Shares to be issued to employees – value of services	165	98
Total purchase consideration	419	160

(f) Liabilities arising from share based payment transactions

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

	2016 $'000	2015 $'000
Shares to be issued to employees – value of services	165	98

36. 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

	2016 $'000	2015 $'000
Assets		
Current assets	1,662	1,618
Non-current assets	9,626	7,051
Total assets	11,288	8,669
Liabilities		
Current liabilities	794	288
Non-current liabilities	53	1,417
Total liabilities	847	1,705
Equity		
Issued Capital	22,828	19,820
Reserves	772	503
Retained losses	(13,159)	(13,359)
Total equity	10,441	6,964

36. Parent entity financial information (continued)

Non-current assets and non-current liabilities in the parent entity include intercompany payables and receivables. Legacy balances in these intercompany accounts were written off during the year ended 30 June 2015 as part of the rationalisation of the Group's legal entities, in accordance with Deeds of Forgiveness entered into between the relevant entities. There was no impact to the financial statements of the Consolidated Group as a result of these transactions.

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

	2016 $'000	**2015 $'000**
(Loss)/profit for the year	(200)	3,923
Total comprehensive (loss)/profit for the year	(200)	3,923

(c) Guarantees entered into by the parent entity

The parent entity has potential exposure to guarantees it has issued to third parties in relation to its performance and obligations with respect to property lease rentals amounting to $217,325 (2015: $170,646).

(d) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 (2015: nil).

(e) Contractual commitments

At 30 June 2016, Pacific Environment Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2015: Nil)

Directors' Declaration
For the financial year ended 30 June 2016

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 27 to 83 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 2016 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

30 August 2016

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 (the company), which comprises the consolidated statement of financial position as at 30 June 2016, 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 company'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 company'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 2016, intended to be included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of the company'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.

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

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

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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

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 2016 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 13 to 21 of the directors' report for the year ended 30 June 2016. The directors of the company 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 for the year ended 30 June 2016 complies with s300A of the Corporations Act 2001.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1A of the financial report which indicates the consolidated group incurred a net loss of $1,606,000 for the year ended 30 June 2016 and is dependent on achieving forecast cash flows from trading, continued support of the financier, continued receipt of the Research and Development Tax Incentives and additional capital raising. Without the support from the financier, additional capital raisings and receipt of the Research and Development Tax Incentives the ability of the group to continue as a going concern, and therefore the ability to pay its debts as and when they become due and payable and to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report is uncertain.

WPIAS Pty Ltd
Authorised Audit Company No. 440306

LEE-ANN DIPPENAAR BCom CA RCA
DIRECTOR

Dated this 30th day of August 2016

4 Helensvale Road
Helensvale Qld 4212

Shareholder Information

The shareholder information set out below was applicable as at 10 August 2016.

1. Distribution of equity securities

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

	Class of equity	
	Ordinary shares	
Holding	Shares	Options
1 – 1,000	12	-
1,001 – 5,000	165	-
5,001 – 10,000	186	-
10,001 – 100,000	594	1
100,001 and over	254	20
	1,211	21

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:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
Robin Ormerod	27,114,420	14.88%
Robin Ormerod & Kristin Zeise	26,741,054	14.67%
Austral Capital Pty Ltd	5,000,000	2.74%
Jean Vincent	4,301,050	2.36%
Coterie Nominees Pty Ltd	3,000,000	1.64%
HSBC Custody Nominees	2,541,000	1.39%
WS Dobson Pty Ltd	1,915,000	1.05%
Northstar Global Pty Ltd	1,900,000	1.04%
Dr Nigel Holmes & Dr Kerry Holmes	1,805,714	0.99%
MEIS Supertee Pty Ltd	1,800,000	0.99%
Dixon Trust Pty Ltd	1,694,000	0.93%
Amma Fep Pty Ltd	1,500,000	0.82%
Cryptogenix Services Pty Ltd	1,470,429	0.81%
Herft Accounting Australia	1,468,149	0.81%
Amma Private Equity Pty Ltd	1,445,174	0.79%
Roger Drew & Susanne Tepe	1,369,766	0.75%
Washington H Soul Pattinson & Co Ltd	1,309,000	0.72%
Comserv (No 1157) Pty Ltd	1,180,000	0.65%
Dr Kerry Holmes	1,132,857	0.62%
Nigel Holmes	1,132,857	0.62%
	89,820.470	49.27%

(b) Unquoted equity securities

	Number held
Pacific Environment Limited unlisted	45,655,000

(c) Substantial holders

Substantial holders in the Company are set out below:

Ordinary Shares	Number held	Percentage
Robin Ormerod	27,114,420	14.88%
Robin Ormerod & Kristin Zeise	26,741,054	14.67%

3. Voting rights

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

(a) Ordinary shares

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.

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