

Pacific Environment Limited

ABN 42 122 919 948

Appendix 4E Preliminary Report to the Australian Stock Exchange

For the year ended 30 June 2009

**Pacific Environment Limited
Preliminary Final Report
Consolidated Results for Announcement to the Market
Financial Year Ended 30 June 2009**

Summary financials

	2009 \$'000	2008 \$'000	Comparison to Prior period
Operating revenue	6,771	2,941	3,830
Earnings from continuing operations before interest and tax	(4,159)	(1,310)	(2,849)
<i>EBIT Margin</i>	-61%	-45%	-74%
Net (loss) from continuing operations before tax	(4,635)	(1,541)	(3,094)
Attributable (loss) after tax	(9,131)	(893)	(8,238)
<i>Net margin</i>	-135%	-30%	-215%
Basic losses per share (cents)	(8.4)	(1.7)	(6.7)
Operating cashflow	(1,283)	(1,976)	693
Dividends per share	-	-	-

The full year final report and results are in the final stages of the audit process.

No dividends have been paid or declared during the reporting period.

Significant Changes to the state of affairs

The entity made the following acquisitions during the year:

- EcoVision Systems Unit Trust 30th April 2009
- EcoVision Solutions Pty Ltd 30th April 2009
- Commercial Energy Services Pty Ltd 22nd December 2008

The consideration for the above entities was in the form of cash and share based payments.

Commercial Energy Services Pty Ltd (CES) was acquired by the group on 22 December 2008 and was placed into voluntary administration on 16th June 2009 by its directors, at which time the PEL Group no longer had control of the entity. As a result CES has been reported as a discontinued operation in the accounts of the Group for year ended 30 June 2009.

Explanation of results

The information in this report contains all the information required by the ASX listing rule 4.3A.

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Consolidated Income Statement

		Consolidated	
	Notes	2009	2008
		\$'000	\$'000
Revenue from continuing operations	2	6,578	2,830
Other income		257	17
Changes in inventories of finished goods and work in progress		(64)	94
Cost of goods sold		(68)	-
Employee benefits expense		(4,882)	(2,253)
Consultants expense		(1,169)	(1,066)
Research & development expense		(243)	(132)
Travel expense		(452)	(77)
Rental expense		(295)	(99)
Directors expense		(142)	(92)
Laboratory expense		(328)	(177)
Depreciation and amortisation expense		(297)	(186)
Finance costs		(476)	(231)
Impairment expense	9	(1,936)	-
Other expenses		(1,118)	(169)
Loss before income tax		<u>(4,635)</u>	<u>(1,541)</u>
Income tax benefit / (expense)	3	(1,170)	648
Loss from continuing operations		<u>(5,805)</u>	<u>(893)</u>
Loss from Discontinued Operations	4	(3,326)	-
Loss is attributable to:			
Equity holders of Pacific Environment Limited		<u>(9,131)</u>	<u>(893)</u>
		Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share	17	(8.4)	(1.7)

The above income statement should be read in conjunction with the accompanying notes.

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Consolidated Balance Sheet

	Notes	Consolidated	
		2009 \$'000	2008 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	72	385
Trade and other receivables	6	1,425	1,717
Inventories		204	264
Total current assets		1,701	2,366
Non current assets			
Receivables		31	-
Property, plant and equipment	8	480	607
Deferred tax assets	7	-	1,040
Intangible assets	9	9,378	10,015
Total non current assets		9,889	11,662
Total assets		11,590	14,028
LIABILITIES			
Current liabilities			
Trade and other payables	10	3,735	1,119
Borrowings	11	2,361	103
Provisions	12	309	271
Total current liabilities		6,405	1,493
Non current liabilities			
Borrowings	13	2,172	4,411
Provisions	14	11	30
Total non current liabilities		2,183	4,441
Total liabilities		8,588	5,934
Net assets		3,002	8,094
EQUITY			
Contributed equity	15	13,506	9,637
Reserves	16	247	77
Retained (losses)	16	(10,751)	(1,620)
Total equity attributable to equity holders of Pacific Environment Limited		3,002	8,094

The above balance sheet should be read in conjunction with the accompanying notes.

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Statement of Changes in Equity

	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Consolidated				
As at 1 July 2007	575	-	(727)	(152)
Income and expense recognised directly in equity				
Loss for the year	-	-	(893)	(893)
Equity transactions (net of transaction costs)				
Issue of shares (private placements)	1,008	-	-	1,008
Issue of shares (IPO)	4,083	-	-	4,083
Share based payments	3,630	-	-	3,630
Convertible notes - fair value of option to convert	341	-	-	341
Employee share options - value of employee services	-	77	-	77
At 30 June 2008	9,637	77	(1,620)	8,094
Income and expense recognised directly in equity				
Loss for the year	-	-	(9,131)	(9,131)
Equity transactions (net of transaction costs)				
Issue of shares (private placements)	225	-	-	225
Issue of shares (prospectus)	719	-	-	719
Issue of shares (rights issue)	1,074	-	-	1,074
Issue of shares (part of acquisition consideration)	1,851	-	-	1,851
Employee share options - value of employee services	-	170	-	170
At 30 June 2009	13,506	247	(10,751)	3,002

The above statement of changes in equity should be read in conjunction with the accompanying notes.

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Consolidated Cash Flow

	Consolidated	
	2009	2008
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	7,965	2,225
Payments to suppliers and employees (inclusive of goods and services tax)	(9,101)	(4,231)
	<u>(1,136)</u>	<u>(2,006)</u>
Other revenue	125	71
Interest paid	(213)	(6)
Income taxes paid	(59)	(35)
Net cash (outflow) / inflow from operating activities	<u>(1,283)</u>	<u>(1,976)</u>
Cash flows from investing activities		
Payment for purchase of subsidiary, net of cash acquired	(462)	(2,095)
Payments for property, plant and equipment	(50)	(21)
Payments for intangible assets	(306)	(188)
Loans to related parties	(326)	(288)
Proceeds from sale of property, plant and equipment	5	-
Repayment of loans by related parties	-	84
Other	4	-
Net cash (outflow) / inflow from investing activities	<u>(1,135)</u>	<u>(2,508)</u>
Cash flows from financing activities		
Proceeds from borrowings	119	444
Proceeds from issues of shares and other equity securities	2,291	6,238
Share issue transaction costs	(172)	(1,609)
Repayment of borrowings	(133)	(272)
Net cash inflow (outflow) from financing activities	<u>2,105</u>	<u>4,801</u>
Net increase (decrease) in cash and cash equivalents	(313)	317
Cash and cash equivalents at the beginning of the financial year	385	68
Cash and cash equivalents at end of year	<u>72</u>	<u>385</u>

The above statement of cashflow should be read in conjunction with the accompanying notes.

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1. Basis of Preparation

This preliminary financial report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the unaudited financial report. The financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncement of the Australia accounting Standards Board, urgent Issues Consensus Views and the Corporations Act 2001.

This preliminary financial report does not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with any public announcements made by Pacific Environment Limited during the period with the continuous disclosure requirements of the Corporations Act 2001. These policies have been consistently applied to all the years presented unless otherwise stated.

The Consolidated results include the parent, Pacific Environment Limited (PEL), and its wholly owned subsidiaries as identified in Note 18.

This report is based on the Financial Report which is in the process of being audited.

The current reporting year in the preliminary report is the year ended 30 June 2009

Going Concern

The Group has incurred an operating loss after income tax from continuing operations for the year of \$5,805,000 (2008 \$893,000 loss) and an operating cash outflow of \$1,283,000 (2008: \$1,976,000 outflow). As at 30 June 2009 current liabilities exceed current assets by \$4,704,000 (June 2008: current assets exceeded current liabilities by \$873,000).

Whilst the Group's current liabilities exceed its current assets, the directors have determined to prepare this preliminary financial report on the basis that the Group is a going concern.

The directors believe that the Group will be able to meet its debts and commitments as they fall due based on the following:

- A surge in demand for both environment and energy services both nationally and internationally;
- A strong commitment from the Australian Federal Government to the Emissions Trading Scheme;
- A letter of offer from an Australian Bank/Financier to provide an extended working capital facility against Group debtors to take advantage of high receivables ledger - waiting formal documentation;
- Successful negotiation of extension of convertible note payments;
- Successful renegotiation of current Overdraft Facility;
- The company has raised capital over the previous twelve months in a difficult capital raising environment and the board anticipates raising further capital over the coming twelve months;
- Recent sales and building pipeline for EcoVision technology and solutions including significant pilot program with one of Australia's leading energy providers;
- Recent sales and building pipeline for EmissionsXpert and PlumeXpert technologies;
- Extension of payment terms if required with key suppliers;
- Continued funding from the Federal Government under the Climate Ready Grant scheme. PEL has received approval for \$446,329 of which approximately 50% has been received to date;
- Company restructure including significant cost cutting and efficiency gains at both corporate level and business unit level;
- July 09 Results which show \$100K+ profit for the Group after all costs and positive monthly cash flow.

The directors believe that a combination of some of the above factors will contribute to achieving sufficient future cash flows to enable its obligations to be met.

As a result of the current financial results and position of the Group, there is material uncertainty whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the preliminary financial report.

However, the directors believe that the Group will be successful in the above matters and, accordingly, have prepared the preliminary financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the preliminary financial report at 30 June 2009. Accordingly, no adjustments have been made to the preliminary financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

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2. Revenue

	2009	2008
	\$'000	\$'000
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	66	-
Services	6,507	2,766
	6,573	2,766
<i>Other revenue</i>		
Interest	5	64
	6,578	2,830

3. Income Taxes

The group's previously carried deferred tax assets do not meet the current recognition criteria and have been written back against the income statement for year ended 30 June 2009 as follows:

	2009	
	\$'000	
Opening deferred tax asset	1,354	
Opening deferred tax liability	(184)	
Income Tax expense	1,170	
		2008
		\$'000
(Loss) / Profit from continuing operations before income tax expense		(1,541)
Prima Facie tax at the Australian tax rate of 30%		(462)
<i>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</i>		
Prior year losses and temporary difference now recognised		(215)
Other		29
Income tax expense		(648)

4. Discontinued Operations

	2009	2008
	\$'000	\$'000
Loss from discontinued operations		
Commercial Energy Services Pty Ltd	(3,326)	-
	(3,326)	-

Commercial Energy Services Pty Ltd (CES) was acquired by the group on 22 December 2008 and was placed into voluntary administration on 16th June 2009 by its directors, at which time the PEL Group lost control of the entity. As a result CES has been reported as a discontinued operation in the accounts of the Group for year ended 30 June 2009.

PEL is investigating legal avenues available to take action against the vendors of CES to rescind the contract entered into to acquire the CES business.

5. Current assets – Cash and Cash equivalents

	2009	2008
	\$'000	\$'000
Cash at bank and in hand	72	385
	72	385

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6. Current assets – Receivables

	2009 \$'000	2008 \$'000
Trade receivables	1,347	1,621
Provision for impairment of receivables	(12)	-
	<u>1,335</u>	<u>1,621</u>
Other receivables	18	58
Prepayments	72	38
	<u>1,425</u>	<u>1,717</u>

7. Current assets – Deferred tax asset

The Group's deferred tax assets do not meet the recoverability criteria of AASB 12 and therefore have not been recognised in the accounts for year ended 30 June 2009.

	2009 \$'000	2008 \$'000
Deferred Tax Asset	-	1,040
	<u>-</u>	<u>1,040</u>

8. Non current assets – Property Plant & equipment

Consolidated	Motor Vehicles \$'000	Furniture fittings and equipment \$'000	Leased Assets \$'000	Total \$'000
At 30 June 2008				
Cost or fair value	67	319	274	660
Accumulated depreciation	(2)	(37)	(14)	(53)
Net book amount	<u>65</u>	<u>282</u>	<u>260</u>	<u>607</u>
At 30 June 2009				
Cost or fair value	19	443	217	679
Accumulated depreciation	(8)	(131)	(60)	(199)
Net book amount	<u>11</u>	<u>312</u>	<u>157</u>	<u>480</u>

9. Non current assets – Intangible assets

Consolidated	Goodwill \$'000	Software \$'000	Other \$'000	Total \$'000
At 30 June 2008				
Cost	8,931	1,238	29	10,198
Accumulated depreciation and amortisation	-	(183)	0	(183)
Net book amount	<u>8,931</u>	<u>1,055</u>	<u>29</u>	<u>10,015</u>
At 30 June 2009				
Cost	8,931	2,630	82	11,643
Accumulated amortisation	-	(325)	(4)	(329)
Accumulated impairment (a) & (b)	(744)	(1,192)	-	(1,936)
Net book amount	<u>8,187</u>	<u>1,113</u>	<u>78</u>	<u>9,378</u>

9. Non current assets – Intangible assets (continued)

(a) Impairment of Goodwill

During the reporting period the carrying values of goodwill attributable to the Toxikos CGU was impaired by \$446,000 (2008 Nil) and the NewEq CGU by \$298,000 (2008 Nil). The impairment charge represents the difference between the net present value of future cash flows of the CGU's (recoverable amount) and the carrying value of the goodwill.

(b) Impairment of Software

During the reporting period the Group acquired two subsidiary entities being EcoVision Solutions Pty Ltd and EcoVision Systems Unit Trust (refer to Note 18). The majority of Consideration paid was for the intellectual property owned by the entities. At time of acquisition the Directors understood that further development prior to commercialisation is required to realise the potential from the acquisition. Until funds become available to fund the development the directors believe it prudent to prepare the future cashflows based upon its current state. The net present value of these future cash flows does not exceed its carrying value and accordingly a provision for impairment of \$997,000 (2008 Nil) has been raised.

During the reporting period the carrying value of the PlumeXpert/EmmissionsXpert software were impaired by \$195,000. The impairment charge represents the difference between the net present value of future cash flows from sales of the software (recoverable amount) and the carrying value of the software.

10. Current liabilities – Trade and other payables

	2009	2008
	\$'000	\$'000
Trade payables	1,307	593
Other payables	2,423	471
Loans from related parties	5	55
	<u>3,735</u>	<u>1,119</u>

11. Current liabilities – Borrowings

	2009	2008
	\$'000	\$'000
Secured		
Lease Liabilities	80	103
Total secured current borrowings	<u>80</u>	<u>103</u>
Unsecured		
Convertible notes	2,281	-
Total unsecured current borrowings	<u>2,281</u>	<u>-</u>
Total current borrowings	<u>2,361</u>	<u>103</u>

12. Current liabilities – Provisions

	2009	2008
	\$'000	\$'000
Employee benefits - long service leave	309	271
	<u>309</u>	<u>271</u>

13. Non current liabilities – Borrowings

	2009 \$'000	2008 \$'000
Secured		
Lease liabilities	65	203
Total secured non-current borrowings	<u>65</u>	<u>203</u>
Unsecured		
Other loans	108	-
Convertible notes	1,999	4,208
Total unsecured non-current borrowings	<u>2,107</u>	<u>4,208</u>
Total non-current borrowings	<u>2,172</u>	<u>4,411</u>

14. Non current liabilities – Provisions

	2009 \$'000	2008 \$'000
Employee benefits – long service leave	11	30
	<u>11</u>	<u>30</u>

15. Contributed Equity

	2009 \$'000	2008 \$'000
(a) Share capital		
Opening balance	9,296	575
Issued during the financial year	4,145	6,238
Share based payments	-	3,625
Shares issued to employees	-	23
Less: Capital raising costs	(276)	(1,165)
Closing balance	<u>13,165</u>	<u>9,296</u>
(b) Other equity securities		
Convertible Notes - fair value option to convert	488	488
Deferred tax liability to convert	(147)	(147)
Closing balance	<u>341</u>	<u>341</u>
Total consolidated contributed equity	<u>13,506</u>	<u>9,637</u>
(c) Movements in Ordinary Shares		
Opening balance	66,915,822	47,144,000
Issued during the year as private placements	2,518,261	2,016,000
Issued during Initial public offering	-	10,459,000
Issued through a prospectus	4,050,000	-
Issued under rights issue	573,852	-
Share based payments	-	7,296,822
Issued for acquisitions	4,812,364	-
Closing balance	<u>78,870,299</u>	<u>66,915,822</u>

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15. Contributed Equity (continued)

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

16. Reserves and Retained Profits

	2009	2008
	\$'000	\$'000
(a) Reserves		
Movements:		
<i>Share-based payments reserve</i>		
Opening balance	77	-
Option expense	170	77
Closing balance	247	77
(b) Retained profits/(losses)		
Movements:		
Opening Balance	(1,620)	(727)
Net loss for the year	(9,131)	(893)
Closing Balance	(10,751)	(1,620)

17. Loss Per Share

	2009	2008
(a) Basic loss per share		
Basic loss per share	(8.4)	(1.7)
Net loss used as the numerator in calculation (\$'000)	(4,635)	(893)
Weighted average number of ordinary shares used as the denominator in the calculation	68,756,639	51,870,383
(b) Diluted earnings per share		

Options granted to employees under the Employee Share Option Plan during the year are not considered to be potential ordinary shares as including such securities in the calculation would result in a decrease loss per share. Therefore the diluted earnings per share is equal to the basic earnings per share, per AASB 133.

Options and convertible notes issued have not been included in the determination of basic earnings per share.

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18. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of Entity	Country of incorporation	Class of shares	Equity holding*	
			2009 %	2008 %
EcoVision Holdings Pty Ltd	Australia	Ordinary	100	-
EcoVision Operations Pty Ltd	Australia	Ordinary	100	-
EcoVision Solutions Pty Ltd	Australia	Ordinary	100	-
EcoVisions Systems Unit Trust	Australia	Ordinary	100	-
Karpelo Holdings Pty Ltd	Australia	Ordinary	100	100
New Environmental Quality Pty Ltd	Australia	Ordinary	100	100
Pacific Air & Environment Pty Ltd	Australia	Ordinary	100	100
Pacific Environment Holdings Pty Ltd	Australia	Ordinary	100	100
Queensland Environment Pty Ltd	Australia	Ordinary	100	100
Toxikos Pty Ltd	Australia	Ordinary	100	100
Commercial Energy Services Pty Ltd*	Australia	Ordinary	-	-

* Commercial Energy Services Pty Ltd was placed into voluntary administration on 16th June 2009 and has not been included in the consolidated results of the Group.

19. Events occurring after balance date

Since 30 June 2009, the group has raised further capital through private placements of \$155,000 with 620,000 options exercisable at \$0.40 expiring on 31st December 2011.

On the 26th of August 2009, the Administrators for CES held the second creditors meeting since the company entered voluntary administration, at that meeting the creditors voted to accept a Deed of Company Arrangement.

On 21 August 2009, the Group issued 1,500,000 options exercisable at \$0.40 expiring on 19th August 2014, to a key supplier of services in partial consideration for services rendered to the company.