Pacific Energy Limited (PEA)

22 009 191 744

Appendix 4E – Results for the year ended 30 June 2014

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1. Details of reporting periods:

Current reporting period : 12 months ended 30 June 2014
Previous corresponding period : 12 months ended 30 June 2013

2. Results for announcement to the market

	12 Months ended 30 June 2014 $'000	12 Months ended 30 June 2013 $'000	% Change
Revenues	**47,947**	43,532	10%
Adjusted profit after tax attributable to members [1]	**17,106**	17,314	(1%)
Profit after tax	**14,690**	13,073	12%
Profit after tax attributable to members	**14,690**	13,073	12%

[1]Adjusted profit after tax equates to the reported net profit after tax pre non-cash amortisation charges, "one off" asset sale gains/losses and the related tax effects. Refer to page 13 of the Financial Report.

Commentary on the above figures is included in the accompanying ASX Announcement and the attached financial report for the year ended 30 June 2014 on pages 13 to 16.

Dividend / distributions	Amount per security (cents)	Franked amount per security (cents)	Amount $'000	Amount per security of foreign sourced dividend (cents)	Record date	Date paid / payable
Final dividend – current year	**1.5**	**1.5**	**5,493**	**-**	**27/08/14**	**24/09/14**
Final dividend – previous year	1.0	1.0	3,634	-	2/09/13	16/09/13

3. Statement of comprehensive income
Refer to attached financial report for the year ended 30 June 2014.

4. Statement of financial position
Refer to attached financial report for the year ended 30 June 2014.

5. Statement of cash flows
Refer to attached financial report for the year ended 30 June 2014.

6. Dividend reinvestment plans
Not applicable.

This Appendix 4E Preliminary Final Report is provided to the ASX under Listing Rule 4.3B and should be read in conjunction with the accompanying financial report for the year ended 30 June 2014.

7. Statement of changes in equity

Refer to attached financial report for the year ended 30 June 2014.

8. Net tangible assets per security

	30 June 2014 (cents)	30 June 2013 (cents)
Net tangible assets per ordinary security	27.8	24.6

9. Gain or loss of control over entities

Not applicable.

10. Associates and joint ventures

Not applicable.

11. Other significant information

Not applicable.

12. Foreign entities

Not applicable.

13. Commentary on results for the period

Refer to accompanying ASX Announcement and attached financial report for the year ended 30 June 2014 for commentary on results.

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14. Status of audit

The financial report for the year ended 30 June 2014 has been audited and is not subject to dispute or qualification. Refer to the Independent Audit Report on page 57 of the attached financial report.

Signed: Grant Walsh
CFO & Company Secretary
Pacific Energy Limited

Date: 12 August 2014

Pacific Energy Limited

ACN 009 191 744

and its controlled entities

2014 Financial Report

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The directors present their report on the consolidated entity comprising Pacific Energy Limited ("Pacific Energy" or "the company") and its controlled entities ("the Group") for the year ended 30 June 2014 and the auditor's report thereon.

1. Directors

The directors of the company in office during the period and up to the date of this report were:

Mr M Cliff Lawrenson	Non-Executive Chairman
Mr Adam H Boyd	Chief Executive Officer & Managing Director
Mr Kenneth J Hall	Executive Director
Mr A Stuart Foster	Non-Executive Director
Mr Louis I Rozman	Non-Executive Director
Mr Gregory A Dick	Alternate Director for Mr Louis I Rozman

Unless otherwise disclosed, all directors held their office from 1 July 2013 until the date of this report.

2. Directors and officers

Mr M Cliff Lawrenson

Independent Non-Executive Chairman
B.Com (Hons)

Mr Lawrenson holds postgraduate qualifications in commerce and finance, and has worked extensively in project development and investment banking around the world, including in Australia, USA and Singapore. Mr Lawrenson has served on several boards in international locations where he has led the project development and financing of numerous major power and infrastructure projects.

Since May 2012, Mr Lawrenson has been the Chief Executive Officer & Managing Director of Minemakers Limited. Prior to this he was Chief Executive Officer of FerrAus Limited which he led to a recommended takeover by Atlas Iron Limited in December 2011. Prior to this he was Group Chief Executive Officer of mining engineering and development company GRD Limited (2006 - 2009) having also served as GRD's Finance Director since July 2004. Earlier in his career Mr Lawrenson spent seven years with CMS Energy Corporation (CMS) in the United States as Vice President Financial, Advisory and Strategic Planning.

During the three years prior to the end of the year, Mr Lawrenson was a director of Minemakers Limited (May 2012 to date), Bold Resources Limited (November 2011 to February 2013) and FerrAus Limited (January 2011 to December 2011).

Mr Lawrenson was appointed Non-Executive Chairman on 23 August 2010.

Mr Adam H Boyd

Chief Executive Officer & Managing Director
B.Com, CA

Mr Boyd is a Chartered Accountant and holds a Bachelor of Commerce degree. He worked for a large international chartered accounting firm before joining the Bank of Scotland group originating and structuring hard rock mining and hydrocarbon project financing transactions. Mr Boyd is a renewable infrastructure and energy specialist and was previously a senior executive with the Global Renewables Group when it was jointly owned by GRD Limited and Hastings Funds Management Limited. He was principally involved in the successful commercialisation of Global Renewables' alternative waste treatment and renewable energy process technology in Australia and the United Kingdom.

Immediately prior to joining Pacific Energy, Mr Boyd was engaged by Perpetual Investments Limited to secure and project manage alternative waste treatment and energy investment opportunities for Perpetual's diversified infrastructure funds. He has considerable experience in the mining and energy infrastructure sectors.

During the three years prior to the end of the year, Mr Boyd has not held any directorships in any other listed companies.

Mr Boyd has been a director since 23 June 2006.

Mr Kenneth J Hall

Executive Director

Mr Hall is an electrician and founded Kalgoorlie Power Systems in 1981. Mr Hall has been involved in the mining industry for 51 years and the contract power generation business for 31 years.

During the three years prior to the end of the year, Mr Hall has not held any directorships in any other listed companies.

Mr Hall was appointed as a director on 8 May 2009.

2. Directors and officers (continued)

Mr A Stuart Foster
Independent Non-Executive Director
B.Com, CA

Mr Foster has been involved in stockbroking and financial management for over 25 years. He is the founder and Chief Executive Officer of Foster Stockbroking Pty Ltd, which was established in 1991. Mr Foster possesses a background in equity research and financial analysis. He actively works in a dealing and advisory capacity to predominantly institutional clients and professional investors. Mr Foster is also the founder of Cranport Pty Ltd, which is a private Funds Management operation that primarily focuses on identifying investment opportunities in listed equities. Mr Foster holds a Bachelor of Commerce degree from Canterbury University and he is a qualified Chartered Accountant. He is also an ASIC Responsible Executive and an ASIC Responsible Manager.

During the three years prior to the end of the year, Mr Foster has not held any directorships in any other listed companies.

Mr Foster is Chair of the Audit Committee and has been a director since 20 February 1998.

Mr Louis I Rozman
Non-Executive Director
BEng, MGeos, FAusIMM CP(Man), FAICD

Mr Rozman is a founding partner of Pacific Road Capital, a private equity mining investment fund. Mr Rozman holds degrees in mining engineering (Bachelor of Engineering, University of Sydney) and mineral economics (Master of Geoscience, Macquarie University) and has over 30 years' experience in mining operations, joint ventures and corporate management internationally.

Previously, Mr Rozman was Chief Executive Officer and Managing Director of ASX listed CH4 Gas Limited and prior to that Chief Operating Officer of ASX listed Delta Gold Ltd and AurionGold Ltd. Mr Rozman is a Fellow and Chartered Professional of the Australasian Institute of Mining and Metallurgy and he is a Fellow of the Australian Institute of Company Directors.

During the three years prior to the end of the year, Mr Rozman has also held the positions of director with Kula Gold Limited (ASX) (27 July 2007 to date), Carbon Energy Limited (ASX) (7 April 2010 to date), Mawson West Limited (TSX) (30 September 2009 to 7 April 2014) and ABM Resources NL (ASX) (8 May 2014 to date).

Mr Rozman was appointed as a director on 8 May 2009.

Mr Gregory A Dick
Alternate Director for Mr Louis Rozman
B.Com, MBA, CA

Mr Dick holds a Bachelor of Commerce degree from the University of Queensland, a Masters of Business Administration from the Australian Graduate School of Management and is a member of the Institute of Chartered Accountants in Australia.

Mr Dick is currently Finance Director of Pacific Road Capital, a private equity mining investment fund. He has over 20 years of financial and corporate advisory experience, including 10 years with Pacific Road Corporate Finance.

Prior to this he spent five years with a large international chartered accounting firm in the corporate finance division gaining experience in a wide range of industries concentrating on equity valuation, acquisition due diligence and financial advice.

Mr Dick is a member of the Audit Committee and has been an Alternate Director for Mr Louis Rozman since 30 November 2011.

Mr Grant J Walsh
Chief Financial Officer and Company Secretary (Joint)
B.Bus, CPA, SA Fin, CFTP (Snr)

Mr Walsh holds a Bachelor of Business Degree (1982) from Edith Cowan University of Western Australia. Mr Walsh is a Certified Practicing Accountant (1985), a Senior Associate of the Financial Services Institute of Australasia (Finsia) and a Certified Finance and Treasury Professional – Senior, of The Finance and Treasury Association.

Mr Walsh has over thirty years' experience in the corporate finance sector in Australia and overseas. Mr Walsh has extensive experience in Australian listed companies administering corporate finance and treasury risk management activities.

2. Directors and officers (continued)

Most recently, Mr Walsh has operated his own consultancy advising to a number of major resource companies. Prior to that, Mr Walsh held senior executive positions with WP Invest, Churchill Capital and Dominion Mining.

Mr Walsh has been Chief Financial Officer and Company Secretary since 27 August 2013.

Ms Adela J Ciupryk
Company Secretary (Joint)
B.Com, CA

Ms Ciupryk is a Chartered Accountant and has a Bachelor of Commerce degree from the University of Western Australia. Ms Ciupryk joined the company in 2009 and was appointed Chief Financial Officer and Company Secretary in September 2011.

Prior to joining Pacific Energy, Ms Ciupryk worked for a medium sized Chartered Accountancy firm, followed by positions at two boutique investment and advisory companies where she was involved in providing accounting and company secretarial services to ASX listed, public and private companies, and various capital advisory projects including capital raisings.

3. Directors' meetings

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the company during the financial year are:

Director	Board meetings 2014		Audit Committee meetings 2014	
	Number of meetings held	Number attended	Number of meetings held	Number attended
Mr M C Lawrenson	9	9	-	-
Mr A H Boyd	9	9	2	2
Mr K J Hall	9	9	-	-
Mr A S Foster	9	9	2	2
Mr L I Rozman	9	7	-	-
Mr G A Dick (Alternate Director for Mr L Rozman)	9	6	2	2

4. Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial period, which comply with the ASX Corporate Governance Council Principles and Recommendations ("ASX Principles"), unless otherwise stated.

4.1 Board of directors

Role of the board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall corporate governance of the Group including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control, legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting.

The Board has delegated responsibility for the operation and administration of the company to the Chief Executive Officer & Managing Director and executive management. Responsibilities are delineated by formal authority delegations.

Board processes

The Board meets regularly in order to retain full and effective control over the company and monitor the executive management. The Board has established a framework for the management of the Group including a system of internal control, a business risk management process and establishment of appropriate ethical standards.

The agenda for meetings is prepared in conjunction with the Chairman, Chief Executive Officer & Managing Director and Company Secretary. Standing items include the Managing Director's report, financial reports, strategic matters, governance and compliance.

Submissions are circulated in advance. Executives are regularly involved in Board discussions and directors have other opportunities, including visits to business operations, for contact with a wider group of employees.

4.1 Board of directors (continued)

Director and executive education

The Group has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit Group facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Group also has a formal process to educate new senior executives upon taking such positions. The induction program includes reviewing the Group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with the respective rights, duties, responsibilities and roles of the individual and the Board.

Independent professional advice and access to company information

Each director has the right of access to all relevant company information and to the company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director and prepared at the Group's expense is made available to all other members of the Board.

Composition of the Board

The names and qualifications of the directors of the company in office at the date of this report are set out on page 3 of this report.

The composition of the Board is determined using the following principles:

- The Board shall comprise directors with a range of expertise encompassing the current and proposed activities of the company, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies.
- An appropriate number of independent non-executive directors.
- A non-executive independent director as Chairman.
- Where a vacancy is considered to exist, the Board selects an appropriate candidate through consultation with external parties, consideration of the needs of the shareholder base and consideration of the needs of the company. Such appointments are referred to shareholders at the next available opportunity for re-election in general meeting.

The Board currently comprises two independent non-executive directors (including the Chairman), one non-independent non-executive director and two executive directors. This is a departure from ASX Principle 2.1, which requires a majority of the Board comprise independent directors, however the Board believes that the qualifications, experience and expertise of the non-independent directors bring considerable benefit to the company and is appropriate to adequately represent the majority shareholders of the company.

The Board has adopted a definition of independence which is derived from the definition set out in the ASX Principles and materiality is assessed on a case-by-case basis with reference to each director's individual circumstances rather than by applying general materiality thresholds.

The Board is of the opinion that the Group is not of a sufficient size to warrant a Nomination and Remuneration Committee. This is a departure from ASX Principles 2.4 and 8.1, however the full Board performs the duties of this committee.

Board performance evaluation

The assessment of the Board's overall performance and its succession plan is conducted by the Chairman and directors on a regular basis including an informal assessment of the composition and skill mix of the directors of the company.

During the reporting period, performance evaluations for the Board, its committee and the individual directors were undertaken in accordance with the process disclosed in this report.

Board committees and membership

The Board established an Audit Committee on 20 June 2012 to assist in the discharge of its responsibilities. The charter of the Audit Committee is available on the company's website.

The current members of the Audit Committee are as follows:

Mr Stuart Foster – Chair	(appointed 20 June 2012)
Mr Greg Dick	(appointed 20 June 2012)

4.1 Board of directors (continued)

The composition of the Audit Committee is at variance to ASX Principle 4.2 which requires a minimum of three members, and a majority of independent directors. This is primarily due to the constraints imposed by the size and composition of the Board itself. The Board believes that the size and composition of the Audit Committee is appropriate.

Committee members are chosen for the skills, experience and other qualities they bring to the Committee. The executive management attends, by invitation, Audit Committee meetings.

Following each Audit Committee meeting, usually at the next Board meeting, the Board is given a verbal update by the Chair of the Committee, and minutes of Committee meetings are provided to all directors.

Two Audit Committee meetings were held during the financial year ended 30 June 2014 (2013: two).

4.2 Remuneration report - audited

This report outlines the remuneration arrangements in place for directors and other key management personnel of the Group.

Remuneration is referred to as compensation throughout this report.

4.2.1 Principles of compensation

Non-Executive Director remuneration policy

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities, having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to all non-executive directors must not exceed the maximum annual amount approved by the company's shareholders.

Non-executive directors do not receive performance related compensation, however to create alignment with shareholders non-executive directors are encouraged to hold equity securities in the Group and may participate in the Director and Employee Share Option Plan. Directors' fees cover all main Board activities.

Non-Executive Director fees

Total compensation for all non-executive directors are set within the maximum aggregate amount approved by shareholders at the 2005 AGM, being $250,000 per annum. Currently non-executive directors do not receive additional committee fees or other payments for additional services outside the scope of Board and committee duties apart from the Chair of the Audit Committee who receives an additional fee in recognition of the additional time commitment involved, and the Chairman of the Board, Mr Lawrenson, who is entitled to consulting fees of $2,500 per day for extra exertion services as engaged from time to time.

The total remuneration paid to each non-executive director during the year is set out in this report.

In addition to these fees, non-executive directors are entitled to reimbursement of reasonable travel, accommodation and other expenses incurred attending meetings of the Board, committees or shareholders, or while engaged on the Group's business. Non-executive directors are not entitled to compensation or retirement benefits on termination of their directorships.

Board fees are not paid to the Managing Director, as the time spent on Board work and the responsibilities of Board membership are considered in determining the remuneration package provided as part of his normal employment conditions.

Executive remuneration policy

Compensation levels for executives of the Group are competitively set to attract and retain appropriately qualified and experienced executives. The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The compensation structures take into account:

- The capability and experience of the executive;
- The executive's ability to control the relevant segment's performance; and
- The Group's performance including:
    - The Group's earnings; and
    - The growth in share price and delivering constant returns on shareholder wealth.

4.2 Remuneration report (continued)

4.2.1 Principles of compensation (continued)

Compensation packages include a mix of fixed and variable compensation, and long-term incentives. In considering the Group's performance and returns on shareholder wealth, the Board has regard to the following indicators of performance in respect of the current financial year and the previous four financial years:

Year ended	30 June 2014	30 June 2013	30 June 2012	30 June 2011
EBITDA ($'000)	34,380	27,839	21,514	18,039
Dividend per share (cents)[1]	2.5	1.0	-	-
Change in share price ($)	0.10	(0.09)	0.06	0.20

[1] Dividends include dividends declared after year end.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges related to employee benefits), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

Performance linked compensation

Performance linked compensation includes both short-term and long-term incentives, and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash that is paid upon the achievement of pre-determined key performance indicators set by the Board, while the long-term incentive (LTI) is provided as options over ordinary shares of the company. The objective of this form of reward is to align the behaviour of executives to maximise shareholder value.

Performance evaluations of senior executives have taken place during the reporting period in accordance with the process disclosed above.

Employment contracts of key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the company and the Group, including directors of the company and other executives.

A summary of the agreements are set out below:

Mr Adam Boyd, Chief Executive Officer & Managing Director:

(a) Term of agreement – commencing 1 January 2011 with indefinite duration;
(b) Base salary of $375,000 per annum plus superannuation;
(c) Annual Key Performance Indicator (KPI) Bonus Payment, capped at $150,000, calculated from a set of defined KPIs based on share price, EBITDA, contracted generating capacity, management team and safety performance in the financial year, payable after the release on the ASX of the Group's audited annual financial report for the relevant financial year;
(d) Share options as detailed in this Remuneration report;
(e) Is capable of termination by both parties on three months' notice;
(f) On termination without cause by the Group an additional termination payment of one month's remuneration for every two years of service on a pro rata basis; and
(g) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

Mr Ken Hall, Executive Director:

(a) Term of agreement – commencing 8 May 2009 with indefinite duration;
(b) Consulting fees of $204,000 per annum until 31 July 2013, increasing to $240,000 per annum from 1 October 2013;
(c) Base directors fees of $45,000 per annum plus superannuation; and
(d) Is capable of immediate termination by mutual agreement of the parties.

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4.2 Remuneration report (continued)

4.2.1 Principles of compensation (continued)

Mr Grant Walsh, Chief Financial Officer and Joint Company Secretary:
(a) Term of agreement – commencing 27 August 2013 with 12 month duration;
(b) Base salary of $160,000 per annum plus superannuation; and
(c) Is capable of termination by both parties on one months' notice.

Ms Adela Ciupryk, Joint Company Secretary:
(a) Term of agreement – commencing 30 March 2009 with indefinite duration;
(b) Base salary of $205,000 per annum plus superannuation until 26 August 2013 in the capacity of Chief Financial Officer; and
(c) Is capable of termination by both parties on one months' notice.

4.2.2 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director of the company and key management personnel for the year ended 30 June 2014 are as follows:

In AUD		Short-term Salary & fees $	Short-term Cash bonus $	Post-employment Superannuation $	Share-based payments Options $	Total $	Performance related %	Value of options as proportion of remuneration %
Non-Executive Directors								
Mr M C Lawrenson	2014	85,000	-	7,863	-	92,863	-	-
	2013	85,000	-	7,650	-	92,650	-	-
Mr A S Foster	2014	55,000	-	5,088	-	60,088	-	-
	2013	55,000	-	4,950	-	59,950	-	-
Mr L I Rozman	2014	45,000	-	-	-	45,000	-	-
	2013	45,000	-	-	-	45,000	-	-
Mr G A Dick	2014	-	-	-	-	-	-	-
	2013	-	-	-	-	-	-	-
Executive Directors								
Mr A H Boyd (MD & CEO)	2014	384,337	75,000	25,350	-	484,687	15.5%	-
	2013	375,000	107,112	33,750	452,885	968,747	11.1%	46.7%
Mr K J Hall	2014	276,000	-	4,163	-	280,163	-	-
	2013	249,000	-	4,050	-	253,050	-	-
Executives								
Mr G J Walsh (CFO & Joint	2014	172,254	-	15,933	-	188,187	-	-
Company Secretary)	2013	-	-	-	-	-	-	-
Ms A J Ciupryk	2014	34,167	-	3,160	-	37,327	-	-
(Joint Company Secretary)	2013	188,897	-	16,965	-	205,862	-	-
Mr G Ladbrook (GM, KPS)	2014	151,578	-	11,667	-	163,245	-	-
	2013	350,000	106,566	35,000	154,199	645,765	16.5%	23.9%
Total	**2014**	**1,203,336**	**75,000**	**73,224**	**-**	**1,351,560**	**5.5%**	**-**
Total	**2013**	**1,347,897**	**213,678**	**102,365**	**607,084**	**2,271,024**	**9.5%**	**26.9%**

Notes in relation to the table of directors' and executives' remuneration

(a) The short-term incentive bonuses were for performance during the respective financial period in recognition of contributions made by employees above the normal expectations of their role except for the incentive bonus paid to Mr Boyd which was made in accordance with his employment contract as outlined in section 4.2.1 of this report;

(b) The fair value of the options is calculated at the date of grant using the binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period;

(c) Mr Dick is not entitled to directors' fees from the company in his role as Alternate Director for Mr Louis Rozman;

(d) Mr Walsh was appointed 27 August 2013;

(e) Ms Ciupryk was on maternity leave from 27 August 2013; and

(f) Mr Ladbrook resigned 28 August 2013.

4.2 Remuneration report (continued)

4.2.3 Equity instruments

All options refer to options over ordinary shares of Pacific Energy Limited, which are exercisable on a one-for-one basis under the Director and Employee Share Option Plan.

Options and rights over equity instruments granted as compensation

No options over ordinary shares in the company were granted as compensation to key management personnel during or since the end of the financial year.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as compensation

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation:

	Number of shares	Amount paid ($) per share
Directors		
Mr M C Lawrenson	1,000,000	$0.30
Executives		
Mr G Ladbrook	1,000,000	$0.40

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2014 financial year.

Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the company held by each key management person is detailed below:

	Granted in period $(a)	Cancelled in period $(b)	Value of options exercised in period $(c)	Lapsed in period $(d)
Directors				
Mr M C Lawrenson	-	-	135,000	-
Executives				
Mr G Ladbrook	-	213,625	40,000	-

(a) The value of options granted in the period is the fair value of the options calculated at grant date using the binomial option valuation model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period (i.e. in years 1 July 2013 to 30 June 2014).

(b) The value of options cancelled in the period is the fair value of the options calculated at grant date using the binomial option valuation model. The total value of the options granted is included in the table above.

(c) The value of options exercised during the year is calculated as the market price of shares in the company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(d) The value of options that lapsed during the period represents the benefit forgone and is calculated at the date the option lapsed using the binomial option valuation model assuming the performance criteria had been achieved.

4.3 Risk management

Oversight of the risk management system

The Board oversees the establishment, implementation and monitoring of the company's risk management system. Management has established and implemented the risk management system for assessing, monitoring and managing all risks, including material business risks and sustainability risks, for the Group. The Chief Executive Officer & Managing Director and the Chief Financial Officer have provided assurance, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating effectively. The operational and other risk management compliance and controls have also been assessed and found to be operating effective.

4.3 Risk management (continued)

Risk profile

Management details the risk exposure of the company to the Board on a regular basis outlining the material business risks to the company. Risk reporting includes detailing the status of risks through regular Board reports and delegated risk and financial authority limits to management aimed at ensuring risks are identified, assessed and appropriately allocated and managed.

Material business risks for the company may arise from such matters as actions by competitors, government policy changes, the impact of exchange rate movements, technical solutions installed, environment, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

Risk management and compliance and control

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control comprises the company's internal control compliance and control systems, including:

- Operating unit controls – Operating units confirm compliance with financial controls and procedures including information systems controls.
- Investing appraisal – Guidelines of capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- Financial exposures are controlled, including the use of derivatives. Further details of the company's policies relating to credit risk management are included in Note 23 to the financial statements;
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel (see below); and
- Financial reporting accuracy and compliance with the financial reporting regulatory framework (see below).

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management.

Financial reporting

The Chief Executive Officer & Managing Director and Chief Financial Officer have provided assurance in writing to the Board that the company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Bi-monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared regularly.

Environmental regulation

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

4.4 Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

4.4 Ethical standards (continued)

Code of conduct

The Board has approved a Code of Conduct which promotes ethical and responsible decision making by directors and employees.

The Code of Conduct requires directors and employees to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity, decency and responsibility at all times.

The Code of Conduct also sets out the processes of reporting, monitoring and ensuring compliance with the Code of Conduct, and provides protection for those who report violations in good faith.

Diversity and equal employment opportunity policy

The Board has approved a Diversity and Equal Employment Opportunity Policy which sets out the company's commitment to promoting and advancing diversity within the company. A copy of the policy can be found on the company's website.

The company is committed to fostering a corporate culture that is fair and inclusive, and embraces and promotes diversity among its employees, consultants, senior management and Board.

The company will actively work to ensure equal employment opportunity in relation to age, race, disability, ethnicity, marital or family status, nationality, religion, sex, sexual orientation or any other characteristic protected by law.

The company is committed to ensuring that all employment and career-related matters are free from discriminatory practices by ensuring that selection for jobs and career progression is based on the individual applicant or employee's qualifications, experience, knowledge and skills as they relate to the particular job specification, however the Board has not established measurable objectives for achieving gender diversity due to the size of the company and the nature of its workforce. This is a departure from ASX Principles 3.2 and 3.3.

At 30 June 2014, 14% of employees, 25% of senior executives and 0% of the Board are women.

Trading in general company securities by directors and employees

The key elements of the company's policy on trading in company securities include:

- Identification of those restricted from trading;
- Directors and senior executives may acquire shares in the company, but are prohibited from dealing in company securities:
  - between the end of the interim reporting period and the release of interim results, and the end of the full year reporting period and the release of full year results; and
  - at any time whilst in possession of price sensitive information not yet released to the market.
- Recommended time frames for employees to deal in the company's shares, being the one month period after the release of the company's half year and annual results, the Annual General Meeting or any major ASX announcement;
- To raise the awareness of legal prohibitions including transactions with colleagues and external advisers;
- To raise awareness that the company prohibits entering into transactions that limit economic risks related to unvested share-based payments and that the company requires declarations of compliance with this particular policy;
- To raise awareness that the company prohibits those restricted from trading in company shares as described above from entering into transactions such as margin loans that could trigger a trade during a prohibited period;
- To require details to be provided of intended trading in the company's shares;
- To require details to be provided of the subsequent confirmation of the trade; and
- The identification of processes for unusual circumstances where discretion may be exercised in cases such as financial hardship.

The policy also details the insider trading provisions of the Corporations Act 2001.

4.5 Communication with shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the company's website, and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- The Chief Executive Officer & Managing Director is responsible for interpreting the company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX as soon as practically possible after they are discovered.
- The full Annual Financial Report is distributed to all shareholders who have elected to receive it by mail and is made available in full on the company's website at www.pacificenergy.com.au. It includes relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders.
- All announcements made to the market, and related information (including information provided to analysts or the media during briefings) are placed on the company's website after they are released to the ASX.
- The external auditor attends the Annual General Meeting to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the company and the independence of the auditor in relation to the conduct of the audit.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to shareholders as single resolutions.

Shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder on request.

5. Principal activities

The principal activities of the Group during the twelve months to 30 June 2014 were the investment in power generation and related infrastructure, either in operation or being assessed for future development.

6. Operating and financial review

Overview of the Group

The Group operates two electricity generation businesses; Kalgoorlie Power Systems, which includes the generation of electricity by diesel, gas and dual fuelled generators located at a number of mine sites across WA, NT and SA with a total contracted generation capacity of approximately 210MW; and Pacific Energy Victorian Hydro, which includes the generation of electricity from two hydro power stations in Victoria with a combined capacity of 6MW.

Review of financial results

Consolidated entity (or Group) net profit after tax for the year ended 30 June 2014 was $14.7 million compared with a net profit after tax of $13.1 million for the year ended 30 June 2013.

Adjusted profit after tax[1]

The adjusted net profit after tax for the year ended 30 June 2014 was $17.1 million. Details of adjustments and a comparison to the preceding year ended 30 June 2013 are as follows:

	30 June 2014 $'000	30 June 2013 $'000
Profit after tax attributable to members	**14,690**	**13,073**
Add back non-cash charges and one-off items:		
Amortisation of purchased contracts and associated rights	2,416	4,237
(Profit) / Loss on sale of investments and property, plant and equipment	-	6
Tax expense / (benefit) of non-cash and one-off items	-	(2)
Adjusted profit after tax attributable to members[1]	**17,106**	**17,314**

[1]Adjusted profit after tax equates to the reported net profit after tax pre non-cash amortisation charges, "one off" asset sale gains/losses and the related tax effects.

6. Operating and financial review (continued)

The Group's reported net profit after tax is inclusive of non-cash and one-off items associated with:

- The amortisation charge of electricity supply contracts acquired in the acquisition of the Kalgoorlie Power Systems business in 2009 (KPS Acquisition), net of tax; and
- The profits/(losses) realised upon the sale of investments, plant and equipment, net of tax.

EBITDA performance

The table below provides a comparison of the key results for the year to 30 June 2014 as reported, against the preceding year to 30 June 2013:

Statement of profit or loss	% Change	30 June 2014 $'000	30 June 2013 $'000
Revenue from operations	10%	47,947	43,532
Adjusted EBITDA[1]	22%	34,959	28,621
EBITDA	23%	34,380	27,839
Adjusted profit after tax attributable to members[2]	(1%)	17,106	17,314
Reported profit after tax attributable to members	12%	14,690	13,073

[1]Adjusted EBITDA equates to EBITDA pre employee share and option expense and impairment of intangible assets (refer Note 8)
[2]Adjusted profit after tax equates to the reported net profit after tax pre non-cash amortisation charges, "one off" asset sale gains/(losses) and the related tax effects.

The Pacific Energy Group EBITDA for the year ended 30 June 2014 was $34.4 million. Adjusted EBITDA of $35.0 million was significantly higher than the previous twelve month period of $28.6 million mainly due to increased revenues arising from the operational commencement and EBITDA contribution of new power stations commissioned during the current 12-month period detailed in this report.

Financial position

The company's net assets increased by 7% compared to the prior period, primarily attributable to the increase in the company's net profit after tax of $14.7 million.

Property, plant and equipment increased by 5% in 2014, reflecting the residual capital expenditure incurred to complete and commission the 95MW of new generation capacity installed by the KPS predominately during the prior year.

The company's working capital position remains strong, with current cash and cash equivalents increasing by 30% compared to the prior period. Trade receivables have decreased by 5% due to increases in revenues compared to the prior period and the invoicing of a termination payment to a customer in the KPS segment at 30 June 2013. Only 5% of the Group's customers are in arrears at 30 June 2014.

Earnings per share

Based on 364,761,270 weighted average ordinary shares on issue during the year ended 30 June 2014 the result represents a basic profit after tax attributable to members per share of 4.03 cents compared with a basic profit after tax attributable to members of 3.64 cents per share for the year ended 30 June 2013.

Review of operations

Kalgoorlie Power Systems

Pacific Energy's core activity is the Kalgoorlie Power Systems business which it acquired on 8 May 2009. The KPS business builds, owns and maintains diesel, gas and dual fuelled power stations located at mine sites across Australia. The total contracted generation capacity of the KPS business is now approximately 210MW. See Operating Segment Note 4 for more details of the financial performance of the KPS Power Generation segment.

Revenues from three customers in the KPS Power Generation segment represents approximately 43% (30 June 2013: 27% from two customers) of the Group's total revenues (each customer greater than 10% individually).

New Power Station Construction and Commission

KPS completed the commissioning of 56MW of new generation capacity comprising:

In the 3-month period to 30 September 2013;

- The 44MW Tropicana Main power station to supply electricity to the Tropicana Joint Venture Gold Project for AngloGold Ashanti Australia Limited;

6. Operating and financial review (continued)

- The 6MW expansion of the existing Garden Well power station to supply electricity to the Garden Well Gold Project for Regis Resources Limited;
- The 3.5MW Andy Well power station to supply electricity to the Andy Well Gold Project for Doray Minerals Limited;
- The 1.5MW Tropicana Borefields power station to supply electricity to the Tropicana Gold Project Borefields for AngloGold Ashanti Australia Limited; and
- The 1.5MW Red October power station to supply electricity for Saracen Gold Mines Pty Ltd.

In the period commencing 1 October 2013, no new KPS power stations were constructed and commissioned.

Contract Extensions

KPS secured contract extensions for the following existing KPS power stations during the year:

- Newmont Tanami Pty Limited and KPS have agreed a 12-month extension of the existing electricity supply contract for the 13MW power station located at the Granites milling operations and the 20MW power station located at the Dead Bullock Soak gold mine in the Northern Territory. The documentation for the 12-month extension is expected to be executed in August 2014; and
- A 36-month extension to the contract with Saracen Mineral Holdings Limited for the 10MW power station located at the Carosue Dam Gold Project in Western Australia.

Contract Terminations

During the period, the following reductions in contracted capacity occurred:

- Xstrata Nickel Australasia Operations Pty Ltd terminated the existing electricity supply contract for the supply of power to the Cosmos Nickel Mine and the electricity supply contract for the supply of power to the Sinclair Nickel Mine concluded. The installed capacity of these power stations was 7MW and 5MW respectively;
- On 16 August 2013, GMK Exploration Pty Ltd was placed into Administration, resulting in KPS terminating the electricity supply contract for the supply of power to the Meekatharra Gold Project. KPS and the Administrator agreed to continue to supply power to the Meekatharra Gold Project pursuant to the existing contractual terms and conditions until 31 January 2014. From 1 February 2014, KPS and the Administrator agreed to a monthly rolling electricity supply contract for the supply of up to a maximum of 2MW of contracted capacity. This short-term electricity supply contract was terminated on 28 February 2014. Refer to Note 8 of the financial statements for details of the amounts owed by GMK Exploration Pty Ltd at 30 June 2014; and
- On 30 November 2013, AngloGold Ashanti Australia Limited terminated the existing electricity supply contract for the supply of power to the Tropicana Joint Venture Gold Project Accommodation Village. The installed capacity of Tropicana Village power station was 3MW. Electricity supply to the Tropicana Accommodation Village is now provided by the 44MW Tropicana Main power station that was commissioned on 1 July 2013.

Pacific Energy has also made progress to further exploit the proprietary KPS dual fuel and exclusive waste heat recovery technologies. KPS continues the on-site retro-fit of our waste heat recovery technology to the Garden Well Gold Mine power station after completing all the design and fabrication of the integration infrastructure and equipment required to commission each waste heat recovery installation. KPS expects to complete and commission the waste heat recovery retro-fit of the Garden Well Gold Project power station by 30 September 2014 and, subsequently retro-fit waste heat recovery to the Moolart Well Gold Mine power station.

The company continues to progress electricity supply contract and related negotiations with mining sector companies developing or operating resource project opportunities. Pacific Energy expects these negotiations to result in the signing of new electricity supply contracts by 31 December 2014.

The company's business development activities continue to focus on the establishment of new, high quality opportunities and KPS is actively presenting to mining and resource companies in our preferred markets.

Perth Workshop and Office Complex

In June 2012, Pacific Energy acquired a 20 acre industrial site 30kms from the Perth CBD and approved the establishment of a Perth domiciled KPS workshop and office complex. Development Approval was received and construction commenced during H2 FY13. Practical Completion of the new KPS Workshop and Office Complex was achieved in August 2014. Prior to 1 January 2015, all Pacific Energy Group personnel will be located at either the KPS Kalgoorlie or KPS Perth workshop and office facilities.

6. Operating and financial review (continued)

Victorian Hydro operations

Pacific Energy owns and operates two hydro power stations, located approximately 70 kilometres from Melbourne, Victoria. These two stations have a combined power generation capacity of 6MW and have been in operation since 1992.

The Cardinia and Blue Rock hydro power stations both performed in line with budget during the 2014 financial year. Renewable energy generation by Cardinia and Blue Rock totalled 11.1 GWh (2013: 6.8 GWh) and 8.7 GWh (2013: 8.9 GWh) respectively. The generation performance of these hydro power stations is entirely dependent on water flows made available by the relevant water authority suppliers. Particularly pleasing was the return to usual water supply volumes to the Cardinia hydro power station, during the year.

The Cardinia water supply arrangements with Melbourne Water Corporation (MWC) require a minimum annual volume of 93GL of water be made available for power generation during "peak periods" (Minimum Annual Volume). Where the Minimum Annual Volume is not supplied, Pacific Energy is entitled to a royalty rebate for any revenue unearned. During June 2014 the Group received payment of $1.3 million for royalty rebates relating to the period 1 January 2011 through 31 December 2013. An amount of $1.1 million of this payment has been recognised as royalty rebates during the year ended 30 June 2014 and $0.2 million had been accrued as revenue during previous financial years.

The Cardinia water rights agreement with MWC expired during December 2013. The company successfully renegotiated a 10-year extension of the existing Cardinia water supply rights with MWC during the year ended 30 June 2014. However, the MWC obligation to supply the Minimum Annual Volume will no longer apply. Going forward, the volume of water supplied to the Cardinia hydro power station will be at the discretion of MWC.

Significant changes in the state of affairs

In the opinion of the directors, other than as outlined in this report, there were no significant changes in the state of affairs of the Group that occurred during the financial period under review.

7. Dividends

Dividends paid during the financial year were as follows:

	30 June 2014 $'000	30 June 2013 $'000
Final dividend for the year ended 30 June 2013 of 1.0 cent per ordinary share (2012: nil)	3,634	-
Interim dividend for the year ended 30 June 2014 of 1.0 cent per ordinary share (2013: nil)	3,661	-
	7,295	**-**

On 12 August 2014 the directors declared a fully franked, final dividend for the year ended 30 June 2014 of 1.5 cents per ordinary share to be paid on 24 September 2014, a total estimated distribution of $5,493,183 based on the number of ordinary shares on issue at 12 August 2014.

8. Likely developments

The Group will continue to pursue new power station developments and related infrastructure.

Information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

9. Directors' interests

The relevant interests of each director in the shares and options over shares issued by the company, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report are as follows:

	Pacific Energy Limited	
Director	Ordinary shares	Options over ordinary shares
Mr M C Lawrenson	1,020,000	-
Mr A H Boyd	5,133,332	4,000,000
Mr K J Hall	184,718,244	-
Mr A S Foster	4,063,442	-
Mr L I Rozman	-	-
Mr G A Dick	-	-

10. Share options

Options granted to directors and officers of the company

No options over ordinary shares were issued to directors or officers of the company during or since the end of the financial year.

Unissued shares under options

At the date of this report unissued ordinary shares of the company under option are:

Expiry date	Exercise price	Number of shares
7 December 2014	$0.40	2,500,000
30 June 2015	$0.40	400,000
30 June 2015	$0.45	300,000
30 June 2015	$0.50	400,000
7 December 2015	$0.50	1,500,000
		5,100,000

These options do not entitle the holder to participate in any share issue of the company.

Shares issued on exercise of options

During and since the end of the financial year, the company issued ordinary shares as a result of the exercise of options as follows (there are no amounts unpaid on the shares issued):

Date of exercise	Number of shares	Amount paid per share
3 December 2013	1,000,000	$0.30
19 December 2013	250,000	$0.35
17 February 2014	1,000,000	$0.40
26 June 2014	250,000	$0.40

11. Indemnification and insurance of officers and auditors

The company has agreed to indemnify the current directors of the company, Mr M C Lawrenson, Mr A S Foster, Mr K J Hall, Mr L I Rozman, Mr A H Boyd, Mr G A Dick, the joint company secretaries, Mr G J Walsh and Ms A J Ciupryk and the former directors, Mr I P Middlemas, Mr A L Newman, Dr B E Hewitt, Mr J W S Fletcher, Mr G Long and Mr A J Berry, against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as officers of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses should any such potential matters meet the requirements, terms and conditions of the Directors' & Officers' Insurance Liability Policy.

The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the Directors' and Officers' Liability Policy, as such disclosure is prohibited under the terms of the contract.

12. Non-audit services

During the period Crowe Horwath, the company's auditor, did not perform other services in addition to their statutory duties.

12. Non-audit services (continued)

Details of the amounts paid to the auditor of the company, Crowe Horwath, and its related practices for audit and non-audit services provided during the period and the prior period are set out below.

In AUD	Consolidated 2014	2013
Audit services		
Auditors of the company		
Audit and review of financial reports	91,000	103,530
	91,000	103,530

13. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 19 and forms part of the directors' report for the financial year ended 30 June 2014.

14. Rounding off

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:

A H Boyd
Chief Executive Officer & Managing Director

Dated this 12th day of August 2014

Crowe Horwath.

AUDITOR’S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Pacific Energy Ltd for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Crowe Horwath Perth

CROWE HORWATH PERTH

SEAN MCGURK
Partner

Signed at Perth, 12 August 2014

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2014

In thousands of AUD	*Notes*	30 June 2014	30 June 2013
Revenue		47,947	43,532
Other income	5	1,320	102
Consumables and spare parts		(2,628)	(2,622)
Employee benefits expense	6	(5,975)	(6,462)
Impairment expense	8	(2,042)	(2,850)
Other expenses		(4,242)	(3,861)
Earnings before interest, tax, depreciation and amortisation		**34,380**	**27,839**
Depreciation and amortisation		(10,948)	(11,045)
Results from operating activities		**23,432**	**16,794**
Financial income		323	278
Financial expenses		(2,543)	(2,403)
Net financing expense	7	**(2,220)**	**(2,125)**
Profit before income tax		**21,212**	**14,669**
Income tax expense	9	(6,522)	(1,596)
Profit for the year		**14,690**	**13,073**
Other comprehensive income			
Foreign currency translation differences for foreign operations		(5)	5
Effective portion of changes in fair value of cash flow hedges, net of tax		-	14
Other comprehensive income for the year, net of income tax		**(5)**	**19**
Total comprehensive income for the year		**14,685**	**13,092**
Profit attributable to:			
Equity holders of the company		14,690	13,073
Profit for the year		**14,690**	**13,073**
Total comprehensive income attributable to:			
Equity holders of the company		14,685	13,092
Total comprehensive income for the year		**14,685**	**13,092**
Earnings per share:			
Basic earnings per share (cents)	17	4.03	3.64
Diluted earnings per share (cents)	17	4.02	3.63

The notes on pages 25 to 55 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 June 2014

In thousands of AUD	*Notes*	30 June 2014	30 June 2013
Assets			
Cash and cash equivalents	15(a)	15,611	11,981
Trade and other receivables	14	6,585	6,943
Inventory	13	869	877
Total current assets		**23,065**	**19,801**
Cash and cash equivalents	15(a)	103	103
Trade and other receivables	14	88	88
Property, plant and equipment	10	128,758	122,806
Intangible assets	11	29,357	32,284
Total non-current assets		**158,306**	**155,281**
Total assets		**181,371**	**175,082**
Liabilities			
Trade and other payables	22	1,827	2,816
Employee benefits	19	330	295
Provisions	21	948	985
Current tax liabilities		2,214	4,482
Loans and borrowings	18	10,578	4,162
Total current liabilities		**15,897**	**12,740**
Loans and borrowings	18	32,371	38,722
Provisions	21	970	920
Employee benefits	19	289	236
Deferred tax liabilities	12	6,091	4,992
Total non-current liabilities		**39,721**	**44,870**
Total liabilities		**55,618**	**57,610**
Net assets		**125,753**	**117,472**
Equity			
Share capital	16	108,374	106,980
Reserves		(744)	(236)
Retained earnings		18,123	10,728
Total equity		**125,753**	**117,472**

The notes on pages 25 to 55 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2014

Attributable to equity holders of the company

In thousands of AUD	Share capital	Translation reserve	Hedging reserve	Option reserve	Accumulated profit / (loss)	Total equity
Balance at 1 July 2012	**102,493**	**(1,255)**	**(14)**	**1,923**	**(2,630)**	**100,517**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	13,073	13,073
Foreign currency translation differences for foreign operations	-	5	-	-	-	5
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	14	-	-	14
Total other comprehensive income	-	5	14	-	-	19
Total comprehensive income for the period	**-**	**5**	**14**	**-**	**13,073**	**13,092**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Share options exercised, net of transaction costs and tax	4,316	-	-	(1,232)	-	3,084
Issue of ordinary shares, net of transaction costs and tax	171	-	-	-	-	171
Equity settled shared based payment transactions	-	-	-	608	-	608
Share options lapsed	-	-	-	(285)	285	-
Total transactions with owners	4,487	-	-	(909)	285	3,863
Balance at 30 June 2013	**106,980**	**(1,250)**	**-**	**1,014**	**10,728**	**117,472**

The notes on pages 25 to 55 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

PACIFICENERGY

For the year ended 30 June 2014

Attributable to equity holders of the company

In thousands of AUD	Share capital	Translation reserve	Hedging reserve	Option reserve	Accumulated profit / (loss)	Total equity
Balance at 1 July 2013	**106,980**	**(1,250)**	**-**	**1,014**	**10,728**	**117,472**
Total comprehensive income for the period	-	-	-	-	14,690	14,690
Profit for the period			-			
Foreign currency translation differences for foreign operations	-	(5)	-	-	-	(5)
Total other comprehensive income	-	(5)	-	-	-	(5)
Total comprehensive income for the period	**-**	**(5)**	**-**	**-**	**14,690**	**14,685**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(7,295)	(7,295)
Share options exercised, net of transaction costs and tax	1,285	-	-	(401)	-	884
Issue of ordinary shares, net of transaction costs and tax	162	-	-	-	-	162
Issue of share options	-	-	-	59	-	59
Share buy-back	(53)	-	-	-	-	(53)
Equity settled shared based payment transactions	-	-	-	(161)	-	(161)
Total transactions with owners	1,394	-	-	(503)	(7,295)	(6,404)
Balance at 30 June 2014	**108,374**	**(1,255)**	**-**	**511**	**18,123**	**125,753**

The notes on pages 25 to 55 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2014

In thousands of AUD	*Notes*	30 June 2014	30 June 2013
Cash flows from operating activities			
Receipts from customers		48,098	38,676
Payments to suppliers and employees		(13,675)	(12,314)
Interest received		322	278
Interest paid		(2,237)	(2,131)
Income taxes paid		(7,686)	(1,903)
Net cash provided by operating activities	15(b)	**24,822**	**22,606**
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,524)	(34,713)
Proceeds from the sale of property, plant and equipment		-	10
Payments relating to new electricity supply contracts		(4)	(73)
Net cash used in investing activities		**(14,528)**	**(34,776)**
Cash flows from financing activities			
Proceeds from borrowings		4,000	18,000
Repayment of borrowings		(4,187)	(4,119)
Proceeds from issue of shares		888	3,095
Payment for buy-back of shares		(53)	-
Dividends paid		(7,295)	-
Payment of transaction costs		(11)	(355)
Net cash provided by / (used in) financing activities		**(6,658)**	**16,621**
Net increase in cash and cash equivalents		**3,636**	**4,451**
Cash and cash equivalents at the beginning of the financial period		11,981	7,525
Exchange rate movements		(6)	5
Current cash and cash equivalents at the end of the financial period	15(a)	**15,611**	**11,981**

The notes on pages 25 to 55 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2014

1. Reporting entity

Pacific Energy Limited ("the company") is a company domiciled in Australia. The company is a for-profit entity and the address of the company's registered office is Level 9, 37 St Georges' Terrace, Perth WA 6000. The consolidated financial statements of the company as at and for the twelve months ended 30 June 2014 comprise the company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associates and jointly controlled entities. The Group is primarily involved in the management, operation and development of electricity generation facilities.

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

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the Board of Directors on 12 August 2014.

(b) New standards and interpretations for current year

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any significant impact on the accounting policies of the Group from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of the Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

AASB 10 Consolidated Financial Statements
The Group has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the Group is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over the other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The Group has reviewed its investments in other entities to assess whether the conclusion to consolidate is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements were required as a result of AASB 10.

AASB 12 Disclosure of Interests in Other Entities
The Group has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements were required as a result of AASB 12.

AASB 13 Fair Value Measurements and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
The Group has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements were required as a result of AASB 13.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- financial instruments at fair value through profit or loss measured at fair value.

The methods used to measure fair values are discussed further in Note 23.

2. Basis of preparation (continued)

(d) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the company's functional currency. The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(e) Use of critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

(i) Provision for decommissioning

As a result of the acquisition of the Kalgoorlie Power Systems business in May 2009, the Group assumed decommissioning and dismantling costs in relation to the obligation to remove plant and equipment located at mine sites at the conclusion of electricity supply contracts. In determining the fair value of the provision for decommissioning, assumptions and estimates are made in relation to the discount rates, the expected cost to dismantle and remove plant and equipment from the site and the expected timing of those costs. The carrying amount of the provision at 30 June 2014 was $1.9 million (2013: $1.9 million).

(ii) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The value in use calculation is based on a discounted cashflow model. The cash flows are derived from the budget for the next financial year and do not include significant future investment that will enhance the asset's performance of the Cash Generating Unit ("CGU") being tested. The recoverable amount includes estimates and judgements relating to the discount rate used for the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the CGU's are detailed and further explained at Note 11.

(iii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial option valuation model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the specific knowledge of the individual debtors financial position.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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 to direct the activities of the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies have been changed where necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(ii) Transactions eliminated on consolidation (continued)

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Gains and losses are recognised when the contributed assets are consumed or sold by the equity accounted investees or, if not consumed or sold by the equity accounted investee, when the Group's interest in such entities is disposed of.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at the average exchange rates for the period.

Foreign currency differences are recognised directly in other comprehensive income. Since 1 January 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve (translation reserve or FCTR). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the FCTR.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and liability and settle the asset and liability simultaneously.

The Group has the following non-derivative financial assets: receivables and cash and cash equivalents.

Receivables

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortised cost using the effective interest method, less any impairment losses. Receivables comprise trade and other receivables.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Restricted cash balances are reflected as non-current assets on the statement of financial position.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income / (expense) in the statement of profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

(iii) Depreciation (continued)

Power generation assets

Power generation assets comprise the plant, equipment, fixtures and fittings of the Group's wholly owned power stations. In the opinion of the directors, these assets comprise a separate class of assets.

The power generation assets have been componentised in the following categories and are being depreciated over their estimated useful lives as follows:

- Gas and diesel engines 20 years
- Instrument and control systems 20 years
- Other assets 5 to 30 years

Power generation assets of the Group require ongoing maintenance and minor / major overhaul works over time. This is managed as part of an ongoing major cyclical maintenance program. The cost of this maintenance is charged as an expense as incurred, except where the cost relates to the replacement of a component of an asset, in which case costs are capitalised and depreciated in accordance with the component classifications above. Other routine maintenance, repair costs and minor renewals are also charged as expenses as incurred.

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.

The estimated useful lives of other classes of assets for current and comparative periods are as follows:

- Office and equipment 2-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. Negative goodwill arising on an acquisition is recognised directly in the income statement.

(ii) Other intangible assets – electricity supply contracts, customer relationships and distribution licence

Electricity supply contracts, customer relationships and distribution licence acquired under business combinations are initially recognised at fair value at acquisition date and have finite useful lives. The recognised fair value is reduced by accumulated amortisation and accumulated impairment losses.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iv) Amortisation

Amortisation is calculated over the cost of the asset, or another amount substituted for cost, less its residual value.

3. Significant accounting policies (continued)

(e) Intangible assets (continued)

(iv) Amortisation (continued)

Amortisation is recognised in profit or loss based on a systematic basis of consumption of the future economic benefit anticipated. Electricity supply contracts are amortised over the anticipated term of each contract. The term of each electricity supply contract is different and varies from six months through to 15 years. Customer relationships are amortised over the anticipated life of mine to which the contract relates. Goodwill is not amortised.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, except for investment property, the leased assets are not recognised on the Group's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost also may include transfers from other comprehensive income of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets including receivables

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such impairment exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

3. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("the cash-generating unit" ("CGU")). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the acquisition synergies.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs. An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Employee benefits

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term benefits

Short-term employee benefit obligations are those benefits expected to be settled within 12 months of the reporting date. They are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits are those not expected to be settled within 12 months of the reporting date and are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date.

(iv) Share-based payment transactions

The Group operates an employee share scheme and a director and employee share option plan. The grant date fair value of equity instruments granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the equity instrument. The amount recognised as an expense is adjusted to reflect the number of equity instruments for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of equity instruments that do not meet the related service and non-market performance conditions at the vesting date. For equity instruments with non-vesting conditions, the grant date fair value of the equity instruments is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

When the company grants equity instruments to employees of subsidiaries, the fair value at grant date is recognised as a receivable from subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

3. Significant accounting policies (continued)

(j) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

(k) Revenue

Sale of electricity

Revenue from the sale of electricity is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is recognised once the electricity has been delivered to the customer and is measured through a regular review of usage meters. Customers are billed on a periodic and regular basis.

(l) Other income

Income from the provision of services, and from penalties received under customer/supplier contracts, is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the consolidated entity and it can be reliably measured.

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(n) Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, changes in the fair value of financial assets at fair value through profit or loss and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial liabilities at fair value through profit or loss, impairment losses recognised on financial assets and losses on hedging instruments that are recognised in profit or loss. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(o) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

3. Significant accounting policies (continued)

(o) Income tax (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(i) Tax consolidation

The company and its wholly-owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity from that date. The head entity within the tax-consolidated group is Pacific Energy Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the “separate taxpayer within group” approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries are assumed by the head entity in the tax-consolidated group and are recognised by the company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the company as an equity contribution or distribution.

The company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(ii) Nature of tax funding arrangements and tax sharing arrangements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability/(asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable/(payable) equal in amount to the tax liability/(asset) assumed. The inter-entity receivables/(payables) are at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity’s obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

3. Significant accounting policies (continued)

(p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(q) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise exchangeable bonds and share options granted to employees.

(r) Segment reporting

Determination and presentation of operating segments

The Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) and related revenue, loans and borrowings and related expenses, corporate assets (primarily the company's headquarters) and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(s) New standards and interpretations not yet adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application date or future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

- AASB *9* Financial Instruments *and its consequential amendments:*
  This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The Group will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the Group.

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3. Significant accounting policies (continued)

(s) New standards and interpretations not yet adopted (continued)

- AASB 2012-3 Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities*: The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the Group.

- AASB 2013-3 Amendments to AASB 136 - *Recoverable Amount Disclosures for Non-Financial Assets*: These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 will not have a material impact on the Group.

4. Operating segments

The Group has one reportable segment, KPS Power Generation, which includes the generation of electricity by diesel, gas and dual fuelled generators located at a number of mine sites across WA, NT and SA. This is the Group's sole strategic business unit, and the Group's CEO reviews internal management reports for the strategic business unit on at least a quarterly basis.

Other operations include Hydro Power Generation which does not meet any of the quantitative thresholds for determining reportable segments in 2014.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest, income tax, depreciation and amortisation, and net cash flows as included in the internal management reports that are reviewed by the Group's CEO.

Segment earnings before interest, income tax, depreciation and amortisation, and net cash flows are used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The accounting policies of the reportable segments are the same as described in Notes 2 and 3.

Information about reportable segments

	KPS Power Generation		Other		Total	
In thousands of AUD	2014	2013	2014	2013	2014	2013
External revenues	47,038	42,838	909	694	47,947	43,532
Interest income	169	113	4	33	173	146
Interest expense	(2,237)	(2,131)	-	-	(2,237)	(2,131)
Depreciation and amortisation	(10,633)	(10,732)	(284)	(282)	(10,917)	(11,014)
Reportable segment profit before income tax[1]	22,091	17,249	1,220	11	23,311	17,260
Income tax expense	(6,715)	(2,253)	(366)	(3)	(7,081)	(2,256)
Reportable segment assets	171,879	164,947	4,293	3,221	176,172	168,168
Reportable segment liabilities	52,328	52,817	583	662	52,911	53,479
Capital expenditure	(14,432)	(35,094)	(48)	(7)	(14,480)	(35,101)

[1] Other segment reportable profit before income tax includes Royalty Rebates (refer Note 5).

Notes to the consolidated financial statements

For the year ended 30 June 2014

4. Operating segments (continued)

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

In thousands of AUD	2014	2013
Revenues		
Total revenue for reportable segments	47,947	43,532
Other revenue	18,078	16,548
Elimination of inter-segment revenue	(18,078)	(16,548)
Consolidated revenue	47,947	43,532
Profit or loss		
Total profit for reportable segments	23,311	17,260
Other profit or loss	(2,099)	(2,591)
Elimination of inter-segment profits	-	-
Consolidated profit before income tax	21,212	14,669
Assets		
Total assets for reportable segments	176,172	168,168
Other assets	5,199	6,914
Consolidated total assets	181,371	175,082
Liabilities		
Total liabilities for reportable segments	52,911	53,479
Other liabilities	2,707	4,131
Consolidated total liabilities	55,618	57,610

Other material items

	Reportable segment totals		Adjustments		Consolidated totals	
In thousands of AUD	2014	2013	2014	2013	2014	2013
Interest revenue	173	146	150	132	323	278
Interest expense	(2,237)	(2,131)	-	-	(2,237)	(2,131)
Capital expenditure	(14,480)	(35,101)	(3)	(10)	(14,483)	(35,111)
Depreciation and amortisation	(10,917)	(11,014)	(31)	(31)	(10,948)	(11,045)
Income tax benefit / (expense)	(7,081)	(2,256)	559	660	(6,522)	(1,596)

Major customer

Revenues from three customers in the KPS Power Generation segment represents approximately 43% (2013: 27% from two customers) of the Group's total revenues (each customer greater than 10% individually).

5. Other income

In thousands of AUD	2014	2013
Royalty rebates[1]	1,066	74
Loss on sale of property, plant and equipment	-	(6)
Other income	254	34
	1,320	102

[1] The water supply arrangements with Melbourne Water Corporation (MWC) for the supply of water to the Cardinia power station required a minimum annual volume of 93GL of water be made available for power generation during "peak periods" (Minimum Annual Volume) for the period to 31 December 2013. Pacific Energy was entitled to a royalty rebate for any revenue unearned in circumstances where the Minimum Annual Volume is not supplied. During June 2014 the Group received payment of $1.3 million for royalty rebates relating to the period 1 January 2011 through 31 December 2013. $1.1 million of this payment has been recognised as royalty rebates during the year ended 30 June 2014 and $0.2 million had been accrued as revenue during previous financial years.

6. Employee benefits expense

In thousands of AUD	*Notes*	2014	2013
Wages and salaries		5,470	5,305
Contributions to defined contribution plans		355	331
Equity-settled share-based payment transactions	20	63	782
Increase in leave liabilities		87	44
		5,975	6,462

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For the year ended 30 June 2014

7. Finance income and finance costs

Recognised in profit or loss

In thousands of AUD	2014	2013
Interest income on bank deposits	323	278
Interest expense on financial liabilities measured at amortised cost	(2,237)	(2,131)
Unwind of discount on decommissioning cost provision	(53)	(64)
Other finance costs	(253)	(208)
Net finance costs recognised in profit or loss	(2,220)	(2,125)
The above finance income and finance costs include the following interest income and expense in respect of assets (liabilities) not at fair value through profit or loss:		
Total interest income on financial assets	323	278
Total interest expense on financial liabilities	(2,543)	(2,403)

8. Impairment expense

In thousands of AUD	*Notes*	2014	2013
Impairment of financial assets[1]	14	1,527	2,850
Impairment of intangible assets[2]	11	515	-
Total impairment expense		2,042	2,850

[1] On 16 August 2013, one of the Group's customers, GMK Exploration Pty Ltd, was placed into Administration. An impairment provision of $1.5 million was raised against the $1.8 million owing by this customer, which consisted approximately $0.2 million in unpaid electricity and a $1.6 million termination payment.

On 28 March 2013, one of the Group's customers, Navigator (Bronzewing) Pty Ltd, was placed into Administration. An impairment provision has been raised for all amounts owing by this customer at 28 March 2013, which consisted of approximately $0.3 million in unpaid electricity and a $2.5 million termination payment. The total amount receivable of $2.8 million was written off in full during the 2013 financial year as the amount is not considered recoverable.

[2] During the year, one of the Group's customers, Xstrata Nickel Australasia operations Pty Ltd, terminated its power supply contracts with the Group. An impairment provision has been raised against the customer relationship intangible assets and the total of $0.5 million written off in full.

9. Income tax expense

In thousands of AUD	2014	2013
Current tax liability		
Current period	5,452	4,482
Adjustments for prior periods	(220)	(33)
	5,232	4,449
Deferred tax expense		
Origination and reversal of temporary differences	855	163
Adjustments for prior periods	435	(3,016)
	1,290	(2,853)
Total income tax expense	6,522	1,596
Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the period before tax	21,212	14,669
Income tax using the company's domestic tax rate of 30% (2013: 30%)	6,364	4,401
Non-deductible expenses	21	237
Effect of lower rate of tax on overseas income	(50)	8
Under/(over) provision in respect of prior years	187	(3,050)
Aggregate income tax expense	6,522	1,596

Notes to the consolidated financial statements

For the year ended 30 June 2014

9. Income tax expense (continued)

Income tax recognised directly in equity

In thousands of AUD	Before tax	Tax (expense) benefit	Net of tax 2014	Before tax	Tax (expense) benefit	Net of tax 2013
Share transaction costs	(15)	4	(11)	(3)	1	(2)
Income tax on income and expense recognised directly in equity	(15)	4	(11)	(3)	1	(2)

Income tax recognised in other comprehensive income

In thousands of AUD	Before tax	Tax (expense) benefit	Net of tax 2014	Before tax	Tax (expense) benefit	Net of tax 2013
Foreign currency translation differences for foreign operations	(5)	-	(5)	5	-	5
Cash flow hedges	-	-	-	14	-	14
	(5)	-	(5)	19	-	19

10. Property, plant and equipment

In thousands of AUD	Power generation assets	Land & buildings	Office equipment	Total
Cost				
Balance at 1 July 2012	107,562	5,767	381	113,710
Additions	34,727	350	34	35,111
Disposals	(25)	-	-	(25)
Balance at 30 June 2013	142,264	6,117	415	148,796
Balance at 1 July 2013	142,264	6,117	415	148,796
Additions	8,011	6,445	28	14,484
Disposals	-	-	-	-
Balance at 30 June 2014	150,275	12,562	443	163,280
Depreciation and impairment losses				
Balance at 1 July 2012	(18,976)	-	(215)	(19,191)
Depreciation for the period	(6,759)	(1)	(48)	(6,808)
Accumulated depreciation on assets disposed	9	-	-	9
Balance at 30 June 2013	(25,726)	(1)	(263)	(25,990)
Balance at 1 July 2013	(25,726)	(1)	(263)	(25,990)
Depreciation for the period	(8,476)	-	(56)	(8,532)
Accumulated depreciation on assets disposed	-	-	-	-
Balance at 30 June 2014	(34,202)	(1)	(319)	(34,522)
Carrying amounts				
At 1 July 2012	88,586	5,767	166	94,519
At 30 June 2013	116,538	6,116	152	122,806
At 1 July 2013	116,538	6,116	152	122,806
At 30 June 2014	116,073	12,561	124	128,758

11. Intangible assets

In thousands of AUD	*Notes*	Goodwill	Electricity supply contracts	Customer relation-ships	Distrib-ution licence	Total
Cost						
Balance at 1 July 2012		22,080	21,799	6,897	1,637	52,413
Additions		-	72	-	-	72
Balance at 30 June 2013		22,080	21,871	6,897	1,637	52,485
Balance at 1 July 2013		22,080	21,871	6,897	1,637	52,485
Additions		-	4	-	-	4
Balance at 30 June 2014		22,080	21,875	6,897	1,637	52,489
Amortisation and impairment losses						
Balance at 1 July 2012		(899)	(12,398)	(2,130)	(537)	(15,964)
Amortisation for the period		-	(3,221)	(678)	(338)	(4,237)
Balance at 30 June 2013		(899)	(15,619)	(2,808)	(875)	(20,201)
Balance at 1 July 2013		(899)	(15,619)	(2,808)	(875)	(20,201)
Amortisation for the period		-	(1,510)	(568)	(338)	(2,416)
Impairment for the period	8	-	-	(515)	-	(515)
Balance at 30 June 2014		(899)	(17,129)	(3,891)	(1,213)	(23,132)
Carrying amounts						
at 1 July 2012		21,181	9,401	4,767	1,100	36,449
at 30 June 2013		21,181	6,252	4,089	762	32,284
at 1 July 2013		21,181	6,252	4,089	762	32,284
at 30 June 2014		21,181	4,746	3,006	424	29,357

Amortisation and impairment charge
Amortisation of intangible assets is recognised in depreciation and amortisation expense on the statement of profit or loss. Impairment of intangible assets is recognised in impairment expense on the statement of profit or loss.

Goodwill
For the purposes of impairment testing, goodwill is allocated to the Group's operating segments which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 4.

Impairment testing for cash-generating units containing goodwill
The aggregate carrying amounts of goodwill allocated to each unit are as follows:

In thousands of AUD	2014	2013
KPS Power Generation	21,181	21,181
	21,181	21,181

KPS Power Generation
The recoverable amount of the KPS Power Generation cash-generating unit was based on its value in use. The recoverable amount of the unit was determined to be higher than its carrying value and as such no impairment loss was recognised.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. The calculation of the value in use was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results and the budget for the financial year ended 30 June 2014. Cash flows beyond this period have been extrapolated using a constant growth rate of 3% per annum as a proxy for CPI indexation;
- The useful life of the cash generating unit has been estimated as 12 years, being the average remaining life of generators currently installed;
- Operating costs have been estimated as a percentage of sales;
- A pre-tax discount rate of 13.4% was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on the midpoint of a possible range of debt leveraging of 40% at an interest rate of 5.6%.

The values assigned to the key assumptions represent management's assessment of future trends in the remote power generation industry and are based on both external sources and internal sources (historical data).

12. Deferred tax assets and liabilities

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In thousands of AUD	2014	2013
Revenue losses	-	-
Capital losses	1,404	1,404
	1,404	1,404

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits there from.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2014	2013	2014	2013	2014	2013
Trade and other receivables	-	-	(68)	(14)	(68)	(14)
Property, plant and equipment	-	-	(5,140)	(4,196)	(5,140)	(4,196)
Trade and other payables	776	755	-	-	776	755
Impairment charge	1,861	1,861	-	-	1,861	1,861
Intangible assets	-	-	(2,453)	(3,331)	(2,453)	(3,331)
Business related costs	821	1,689	(1,978)	(1,895)	(1,157)	(206)
Tax loss carry-forwards	90	139	-	-	90	139
Tax assets / (liabilities)	3,548	4,444	(9,639)	(9,436)	(6,091)	(4,992)
Set off of tax	(3,548)	(4,444)	3,548	4,444	-	-
Net tax liabilities	-	-	(6,091)	(4,992)	(6,091)	(4,992)

Movement in temporary differences during the year

In thousands of AUD	Balance 1 July 2012	Recog-nised in profit or loss	Recog-nised directly in equity	Recog-nised in other compreh-ensive income	Balance 30 June 2013	Recog-nised in profit or loss	Recog-nised directly in equity	Recog-nised in other compreh-ensive income	Balance 30 June 2014
Trade and other receivables	(2)	(12)	-	-	(14)	(54)	-	-	(68)
Property, plant and equipment	(3,525)	(671)	-	-	(4,196)	(944)	-	-	(5,140)
Trade and other payables	640	115	-	-	755	21	-	-	776
Impairment charge	1,861	-	-	-	1,861	-	-	-	1,861
Intangible assets	(5,782)	2,451	-	-	(3,331)	878	-	-	(2,453)
Business related costs	(1,207)	1,000	1	-	(206)	(955)	4	-	(1,157)
Tax loss carry-forwards	169	(30)	-	-	139	(49)	-	-	90
	(7,846)	2,853	1	-	(4,992)	(1,103)	4	-	(6,091)

12. Deferred tax assets and liabilities (continued)

Movement in unrecognised deferred tax assets and liabilities during the year

In thousands of AUD	Balance 1 July 2012	Additions	Recognition	Balance 30 June 2013	Additions	Recognition	Balance 30 June 2014
Revenue losses	-	-	-	-	-	-	-
Capital losses	1,393	11	-	1,404	-	-	1,404
	1,393	11	-	1,404	-	-	1,404

13. Inventories

In thousands of AUD	2014	2013
Spare parts held for use – cost	869	877
	869	877

During the year to 30 June 2014, changes to the levels of spare parts held for use recognised as cost of sales amounted to $8,000 (2013: $191,000). There were no write-downs of inventories during the year.

14. Trade and other receivables

In thousands of AUD	2014	2013
Current		
Trade receivables	6,235	6,417
Other receivables and prepayments	350	526
	6,585	6,943
Non-current		
Other receivables and prepayments	88	88
	88	88

Provision for impairment of receivables

Current other receivables are non-interest bearing and generally on 30-day terms. Trade and other receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or other receivable is impaired.

Movement in the provision for impairment of receivables is as follows:

In thousands of AUD	*Notes*	Opening balance 1 July 2012	Charge for the year	Amounts written off	Closing balance 30 June 2013	Charge for the year	Amounts written off	Closing balance 30 June 2014
Current								
Trade receivables[1]	8	-	(2,850)	2,850	-	(1,527)	-	(1,527)
		-	(2,850)	2,850	-	(1,527)	-	(1,527)

Credit risk

The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. Approximately 43% of the Group's revenue from electricity generation is attributable to sales transactions with three customers (each individually greater than 10%) (2013: 27% from two customers). 100% of revenue from electricity generation is attributable to Australia.

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Carrying amount	
In thousands of AUD	2014	2013
Australia	6,235	6,417

14. Trade and other receivables (continued)

The following table details the Group's trade and other receivables exposed to credit risk with ageing analysis and impairment provided for thereon. Amounts are considered as "past due" when the debt has not been settled, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

In thousands of AUD	Gross amount	Past Due and Impaired	Past Due but Not Impaired <30	31-60	61-90	>90	Within Initial Trade Terms
2014							
Trade and term receivables	6,235	-	-	10	-	313	5,912
Other receivables	438	-	-	-	-	-	438
Total	6,673	-	-	10	-	313	6,350
2013							
Trade and term receivables	6,417	-	22	54	-	-	6,341
Other receivables	614	-	-	-	-	-	614
Total	7,031	-	22	54	-	-	6,955

15(a). Cash and cash equivalents

In thousands of AUD	2014	2013
Current		
Bank balances	15,611	11,981
Non-current		
Bank balances[1]	103	103
Total cash	15,714	12,084

[1] Non current bank balances consists of a restricted cash balance of $103,000 at 30 June 2014 (2013: $103,000), comprising a bank guarantee.

15(b). Reconciliation of cash flows from operating activities

In thousands of AUD	2014	2013
Cash flows from operating activities		
Profit for the period	14,690	13,073
Adjustment for:		
Depreciation	8,532	6,808
Amortisation of intangible assets	2,416	4,237
Impairment of intangible assets	515	-
Other financing costs	253	208
Loss on disposal of property, plant and equipment	-	6
Unwind discount on provision for decommissioning costs	53	64
Income tax expense	6,522	1,596
Employee share and option expense	63	782
Operating profit before changes in working capital and provisions	**33,044**	**26,774**
Change in inventories	9	(191)
Change in trade and other receivables	357	(2,115)
Change in trade and other payables	(989)	(3)
Change in employee entitlements	87	44
Income tax paid	(7,686)	(1,903)
Net cash from operating activities	**24,822**	**22,606**

16. Capital and reserves

Share capital

In thousands of AUD	Number of shares ('000) 2014	2013	Share capital ($'000) 2014	2013
On issue at the beginning of the period	363,427	355,556	106,980	102,493
Employee share scheme	398	371	165	174
Share options exercised	2,500	7,500	1,288	4,327
Share buy-back	(113)	-	(53)	-
Transaction costs, net of tax effect	-	-	(6)	(14)
On issue at 30 June - fully paid	366,212	363,427	108,374	106,980

Issuance of ordinary shares

During the year, the Pacific Energy Group issued 2,898,302 and bought back 112,993 Pacific Energy Shares.

Of the total issued:
- 398,302 were issued to employees under the Pacific Energy Employee Share Plan; and
- 2,500,000 were issued upon the exercise of employee options.

Of the total bought back;
- 112,993 were bought back via on-market buy-back.

All issued ordinary shares are fully paid. The Group has also issued share options (see Note 20). The company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the company's net investment in a foreign subsidiary.

17. Earnings per share

The following reflects the income used in the basic and diluted earnings per share computations:

Basic earnings per share

Profit attributable to ordinary shareholders

In thousands of AUD	2014	2013
Net profit from continuing operations attributable to ordinary shareholders	14,690	13,073
Loss attributable to discontinued operations	-	-
Net profit attributable to ordinary shareholders	14,690	13,073

Weighted average number of ordinary shares

In thousands of shares	2014	2013
Issued ordinary shares at the beginning of the period	363,427	355,556
Effect of shares issued in employee share scheme	262	215
Effect of shares issued on exercise of options	1,074	3,295
Effect of shares bought back via on-market buy-back	(2)	-
Weighted average number of ordinary shares at the end of the period	364,761	359,066

17. Earnings per share (continued)

Diluted earnings per share

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	2014	2013
Net profit from continuing operations attributable to ordinary shareholders	14,690	13,073
Loss attributable to discontinued operations	-	-
Net profit attributable to ordinary shareholders	14,690	13,073

Weighted average number of ordinary shares (diluted)

In thousands of shares	2014	2013
Issued ordinary shares at the beginning of the period (basic)	363,427	355,556
Effect of shares issued in employee share scheme (basic)	262	215
Effect of shares issued on exercise of options (basic)	1,074	3,295
Effect of shares bought back via on-market buy-back	(2)	-
Effect of share options on issue	220	676
Weighted average number of ordinary shares (diluted) at the end of the period	364,981	359,742

18. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 23.

In thousands of AUD	2014	2013
Current liabilities		
Secured bank loan	7,142	-
Hire purchase facility	3,436	4,162
	10,578	4,162
Non-current liabilities		
Secured bank loan	31,842	34,732
Hire purchase facility	529	3,990
	32,371	38,722
	42,949	42,884

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

			2014		2013	
In thousands of AUD	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	BBSY[1]+2.2–3.0%	2016	39,300	38,984	25,300	24,732
Working capital facility	BBSY[1]+2.0%	2016	-	-	10,000	10,000
Total interest-bearing liabilities			39,300	38,984	35,300	34,732

[1]BBSY: Bank Bill Swap Bid Rate

Secured bank loan

In thousands of AUD	2014	2013
Carrying amount of liability at the beginning of the period	34,732	16,864
Proceeds from drawdown of loan	4,000	18,000
Transaction costs	-	(340)
Amortisation of transaction costs	252	208
Repayments	-	-
Carrying amount of liability at the end of the period	38,984	34,732

The secured bank loan and working capital facility has been provided to Pacific Energy (KPS) Pty Ltd by Commonwealth Bank of Australia (CBA) and is secured by a fixed and floating charge over the assets and undertakings of Pacific Energy (KPS) Pty Ltd and the share capital of Pacific Energy (KPS) Pty Ltd, which is a wholly owned subsidiary of Pacific Energy Limited, and a first charge and a subordination agreement over the Pacific Energy Limited shareholder loan to Pacific Energy (KPS) Pty Ltd.

At 30 June 2014, $10.0 million remained undrawn on the secured bank loan (2013: $19.7 million).

18. Loans and borrowings (continued)

Hire Purchase Facility

In thousands of AUD	2014	2013
Carrying amount of liability at the beginning of the period	8,152	12,270
Proceeds from drawdown of facilities	-	-
Repayments	(4,187)	(4,118)
Carrying amount of liability at the end of the period	3,965	8,152

The total amount drawn at 30 June 2014 was $4.0 million (2013: $8.2 million). The Equipment Finance Facilities bear interest at a weighted average rate of 7.1% and are repayable over 3-4 years.

The equipment finance facilities as drawn have been used to purchase new capital equipment by Pacific Energy (KPS) Pty Ltd.

19. Employee benefits

In thousands of AUD	2014	2013
Current		
Liability for annual leave & sick leave	330	295
Non-current		
Liability for long service leave	289	236
Total employee benefit liabilities	619	531

20. Share-based payments

Description of the share-based payment arrangements

Director and employee share option plan

Unlisted options over ordinary shares in the company are granted to key management personnel and employees as a long-term incentive component of their performance based remuneration.

As at 30 June 2014, the following options have been issued and outstanding:

Grant date / employees entitled	Number of instruments	Vesting conditions
Options granted to director on 7 December 2012	4,000,000	Immediately vested
Options granted to employees on 1 July 2013	1,100,000	Immediately vested
Total share options	5,100,000	

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2014	Number of options 2014	Weighted average exercise price 2013	Number of options 2013
Outstanding at the beginning of the period	$0.41	7,500,000	$0.41	7,700,000
Granted during the period	$0.45	1,100,000	$0.44	4,000,000
Exercised during the period	$0.36	(2,500,000)	$0.49	(2,900,000)
Cancelled during the period	$0.45	(1,000,000)	-	-
Expired during the period	-	-	$0.44	(1,300,000)
Outstanding at the end of the period	$0.44	5,100,000	$0.41	7,500,000
Exercisable at the end of the period	$0.44	5,100,000	$0.41	6,500,000

The options outstanding at 30 June 2014 have exercise prices in the range of $0.40 to $0.50 (2013: $0.30 to $0.50) and a weighted average remaining contractual life of 0.85 years (2013: 1.47 years).

20. Share-based payments (continued)

Description of the share-based payment arrangements (continued)

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the binomial option valuation methodology with the following inputs:

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Expected dividend yield
Director options							
7 December 2012							
Tranche 1	7 December 2014	$0.1217	$0.40	$0.46	32%	2.75%	Nil
Tranche 2	7 December 2015	$0.0793	$0.45				
Employee & consultant options							
27 June 2011							
Tranche 3	30 June 2015	$0.2136	$0.45	$0.41	62%	4.67%	Nil
1 July 2013							
Tranche 1	30 June 2015	$0.0701	$0.40	$0.39	30%	2.66%	Nil
Tranche 2	30 June 2015	$0.0517	$0.45				
Tranche 3	30 June 2015	$0.0379	$0.50				

Expected volatility is estimated by considering historic average share price volatility. The options are unlisted and non-transferable, however these features were not taken into account in determining fair value.

Employee share scheme

A scheme under which shares may be issued by the company to eligible employees for no cash consideration was approved by shareholders on 30 November 2011.

The number of shares that eligible employees are entitled to each year is determined with reference to the number of hours worked during the entitlement period and the duration of the employee's employment with the Group. Employees must be continuously employed by the Group for a period of at least one year to be eligible to participate in the scheme. The company issued 398,302 shares to employees under the scheme during the year (2013: 370,208 shares).

Employee expenses

In thousands of AUD	*Notes*	2014	2013
Share options granted in 2010		-	1
Share options granted in 2011		(161)	154
Share options granted in 2013		-	453
Shares granted in 2013		-	174
Share options granted in 2014		59	-
Shares granted in 2014		165	-
Total expense recognised as employee costs	6	63	782

21. Provisions

In thousands of AUD	2014	2013
Current		
Decommissioning and dismantling costs		
At the beginning of the period	985	724
Provisions made during the period	19	53
Reclassification from non-current	63	175
Provision used	(145)	-
Unwind of discount	26	33
Balance at the end of the period	948	985
Non-Current		
Decommissioning and dismantling costs		
At the beginning of the period	920	720
Provisions made during the period	86	344
Reclassification to current	(63)	(175)
Unwind of discount	27	31
Balance at the end of the period	970	920

21. Provisions (continued)

Decommissioning and dismantling costs

As a result of the acquisition of the Kalgoorlie Power Systems business in May 2009, the Group assumed decommissioning and dismantling costs in relation to the obligation to remove plant and equipment located at mine sites at the conclusion of electricity supply contracts.

22. Trade and other payables

In thousands of AUD	2014	2013
Trade payables	1,252	2,104
Non-trade payables and accrued expenses	575	712
	1,827	2,816

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 23.

23. Financial instruments

Overview

The Group's activities expose it to a variety of financial risks: credit risk (including foreign currency risk and interest rate risk), liquidity risk, market risk and operational risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects on financial performance of the Group.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Due to the size of the Group, and its low nature of risk with respect to financial risk management, the Board is of the opinion that there is no need to establish a Risk Management Committee for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Management has established a credit policy under which each new customer and counterparties to transactions are analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes the use of external ratings, when available. Such monitoring is used in assessing receivable for impairment.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the Board has otherwise assessed as being financially sound.

The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. Approximately 43% of the Group's revenue from electricity generation is attributable to sales transactions with three customers (each individually greater than 10%) (2013: 27% from two customers). 100% of revenue from electricity generation is attributable to Australia.

Details with respect to credit risk of trade and other receivables are provided in Note 14. Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 14.

23. Financial instruments (continued)

Credit risk (continued)

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

In thousands of AUD	*Notes*	2014	2013
Cash and cash equivalents	15	15,714	12,084
Trade and other receivables	14	6,673	7,031
		22,387	19,115

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group uses a forecast cash flow budget which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

	Contractual cash flows		Within 1 year		1-5 years		More than 5 years	
In thousands of AUD	2014	2013	2014	2013	2014	2013	2014	2013
Secured bank loan	(41,780)	(39,240)	(9,036)	(1,753)	(32,744)	(37,487)	-	-
Hire purchase liabilities	(4,134)	(8,758)	(3,592)	(4,625)	(542)	(4,133)	-	-
Trade and other payables	(1,827)	(2,816)	(1,827)	(2,816)	-	-	-	-
	(47,741)	(50,814)	(14,455)	(9,194)	(33,286)	(41,620)	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on office administration costs, purchases of spare parts and plant and equipment that are denominated in US dollars (USD).

The Group does not use currency hedging for office administration expenses as the receipts in USD are used to meet the liability obligations of the Group entities denominated in USD. The use of currency hedging for exposures relating to spare parts and plant and equipment purchases are assessed on a case by case basis. At 30 June 2014, the Group had not entered into any currency hedging arrangements.

The Group's exposure to foreign currency risk was as follows, based on notional amounts:

		2014		2013
In thousands of AUD	AUD	USD	AUD	USD
Trade and other receivables	6,673	-	7,031	-
Trade and other payables	(1,827)	-	(2,816)	-
Net exposure	4,846	-	4,215	-

23. Financial instruments (continued)

Currency risk (continued)

The following significant exchange rates applied during the period:

AUD	Average rate 2014	2013	Reporting date spot rate 2014	2013
USD	0.9143	1.0212	0.9419	0.9133

Sensitivity analysis

A strengthening of the AUD, as indicated below, against the US dollar at 30 June 2014 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 30 June 2013, as the reasonably possible foreign exchange rate variances were the same for both periods.

In thousands of AUD	Equity	Profit or loss
30 June 2014		
USD (5 percent strengthening)	(198)	(14)
30 June 2013		
USD (5 percent strengthening)	(190)	20

A weakening of the AUD against the above currencies at 30 June would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

The financial instruments which primarily expose the Group to interest rate risk are borrowings and cash and cash equivalents. The Group manages its exposure to changes in interest rates on borrowings by using a mix of fixed and floating rate debt, and through entering into interest rate swap transactions.

Profile

At the reporting date the interest rate profile of the Group's variable interest-bearing financial instruments was:

In thousands of AUD	Carrying amount 2014	2013
Variable rate instruments		
Financial assets	15,714	12,084
Financial liabilities	(42,949)	(42,884)
	(27,235)	(30,800)

Cash flow sensitivity for variable rate instruments

A change of 30 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

Effect In thousands of AUD	Profit or loss 30bp increase	30bp decrease	Equity 30bp increase	30bp decrease
30 June 2014				
Variable rate instruments	(71)	(71)	-	-
Interest rate swap	-	-	-	-
Cash flow sensitivity (net)	(71)	(71)	-	-
30 June 2013				
Variable rate instruments	(44)	44	-	-
Interest rate swap	4	(4)	-	-
Cash flow sensitivity (net)	(40)	40	-	-

23. Financial instruments (continued)

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisations of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the competency of personnel, adequacy of controls and risk management procedures to address the risks identified;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Capital management

The Board's policy is to maintain adequate capital so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as profit or loss for the period divided by total shareholders' equity.

The Group's debt and capital structure includes ordinary share capital and loans and borrowings. The Group is not subject to externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risk and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

The Group's debt-to-adjusted capital ratio at the end of the reporting period was as follows:

In thousands of AUD	2014	2013
Total liabilities	55,618	57,610
Less: cash and cash equivalents	(15,714)	(12,084)
Net debt	39,904	45,526
Total capital	125,753	117,472
Debt-to-capital ratio at the end of the period	0.32	0.39

Fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables and trade and other payables

Trade and other receivables and trade and other payables are short term instruments in nature whose carrying value is equivalent to fair value.

(ii) Derivatives

The fair value of interest rate swaps is determined by discounting the estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Notes to the consolidated financial statements

For the year ended 30 June 2014

23. Financial instruments (continued)

Fair values (continued)

(iii) Share-based payment transactions

The fair value of the employee share options is measured using a binomial option valuation methodology. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

The fair value of the employee shares is measured using the weighted average share price of the company's shares at measurement date.

Fair values versus carrying amounts

The fair values of financial assets and liabilities approximate to the carrying amounts shown in the balance sheet except as follows:

In thousands of AUD	2014 Carrying amount	2014 Fair value	2013 Carrying amount	2013 Fair value
Liabilities carried at amortised cost				
Secured bank loan	(38,984)	(41,780)	(34,732)	(37,519)
Hire purchase liabilities	(3,965)	(4,114)	(8,152)	(8,605)
	(42,949)	(45,894)	(42,884)	(46,124)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In thousands of AUD	Level 1 2014	Level 1 2013	Level 2 2014	Level 2 2013	Level 3 2014	Level 3 2013	Total 2014	Total 2013
Secured bank loan	-	-	(41,780)	(37,519)	-	-	(41,780)	(37,519)
Hire purchase liabilities	-	-	(4,114)	(8,605)	-	-	(4,114)	(8,605)
	-	-	(45,894)	(46,124)	-	-	(45,894)	(46,124)

There have been no transfers of assets between the Levels during the year ended 30 June 2014 or the year ended 30 June 2013.

24. Commitments

Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2014	2013
Less than one year	148	185
Between one and five years	-	85
Later than 5 years	-	-
	148	270

The Group leases two offices, a workshop and storage areas under operating leases. The leases currently have terms of six months, except for the company's head office which has a remaining lease term of 8 months with the option to renew the lease after that date, and the storage areas which are leased on a month-to-month basis. Lease payments are not adjusted.

During the year ended 30 June 2014, $1.2 million was recognised as an expense in the income statement in respect of operating leases (2013: $1.0 million). The office, workshop and storage area leases are combined leases of land and buildings. Since the land title does not pass and the Group does not participate in the residual value of the building, it was determined that substantially all the risks and rewards of the building are with the landlord. As such, the Group determined that the leases are operating leases.

24. Commitments (continued)

Capital commitments

At 30 June 2014, the Group had capital commitments of $2.5 million in relation to purchases of plant and equipment. This amount is expected to be paid during the financial year ended 30 June 2015.

25. Contingencies

Details of contingent assets and contingent liabilities of future payments/receipts that are not considered remote are set out below. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

Contingent asset

PT. Citra Ganesha Marga Nusantara (CGMN) (Indonesia)

On 6 May 2011 the consolidated group sold its shareholding in Trafalgar House Construction (Jersey) Limited (THC), which owns 53% of PT. Citra Ganesha Marga Nusantara (CGMN), a joint venture with PT. Jasa Marga Persero (Jasa Marga), the Indonesian Government majority owned toll road owner and operator.

CGMN has an outstanding claim (CGMN Claim) against Jasa Marga for compensation resulting from the termination by Jasa Marga of a 27 year concession to own and operate the Cikampek toll road. CGMN believes the value of these claims to be in the region of US$250m.

The share sale agreement includes a provision that if a compensation arrangement is settled in respect of the CGMN Claim, Pacific Energy Limited will receive 30% of such compensation after deducting the costs incurred by the new shareholder of THC in pursuing the CGMN Claim.

26. Related parties

Key management personnel compensation

The key management personnel compensation is as follows:

In AUD	2014	2013
Short-term employee benefits	1,278,334	1,561,575
Post-employment benefits	73,224	102,365
Share-based payments	-	607,084
	1,351,558	2,271,024

Individual directors and executives compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Pacific Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2013	Granted as compens-ation	Exercised	Cancelled	Held at 30 June 2014	Vested during the year	Vested and exercisable at 30 June 2014
Directors							
Mr A Boyd	4,000,000	-	-	-	4,000,000	-	4,000,000
Mr K Hall	-	-	-	-	-	-	-
Mr M C Lawrenson	1,000,000	-	(1,000,000)	-	-	-	-
Executives							
Mr G Ladbrook	2,000,000	-	(1,000,000)	(1,000,000)	-	-	-

26. Related parties (continued)

Options and rights over equity instruments (continued)

	Held at 1 July 2012	Granted as compens -ation	Exercised	Lapsed	Held at 30 June 2013	Vested during the year	Vested and exercisable at 30 June 2013
Directors							
Mr A Boyd	2,000,000	4,000,000	(2,000,000)	-	4,000,000	4,000,000	4,000,000
Mr K Hall	4,000,000	-	(4,000,000)	-	-	-	-
Mr M C Lawrenson	1,000,000	-	-	-	1,000,000	-	1,000,000
Executives							
Mr G Ladbrook	3,000,000	-	(600,000)	(400,000)	2,000,000	1,000,000	1,000,000

Other key management personnel and director transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

There were no loans made to any key management personnel.

Movements in shares

The movement during the reporting period in the number of ordinary shares in Pacific Energy Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2013	Purchases	Received on exercise of options	Received other	Sales	Held at 30 June 2014
Directors						
Mr M C Lawrenson	20,000	-	1,000,000	-	-	1,020,000
Mr A Boyd	5,133,332	-	-	-	-	5,133,332
Mr A S Foster	4,063,442	-	-	-	-	4,063,442
Mr K Hall	184,718,244	-	-	-	-	184,718,244
Mr L Rozman	-	-	-	-	-	-
Mr G Dick	-	-	-	-	-	-
Mr G Ladbrook	600,000	-	1,000,000	-	(1,600,000)	-
Ms A J Ciupryk	-	-	-	-	-	-
Mr G J Walsh	-	-	-	-	-	-

	Held at 1 July 2012	Purchases	Received on exercise of options	Received other	Sales	Held at 30 June 2013
Directors						
Mr M C Lawrenson	20,000	-	-	-	-	20,000
Mr A Boyd	5,133,332	-	2,000,000	-	(2,000,000)	5,133,332
Mr A S Foster	4,063,442	-	-	-	-	4,063,442
Mr K Hall	180,718,244	-	4,000,000	-	-	184,718,244
Mr L Rozman	-	-	-	-	-	-
Mr G Dick	-	-	-	-	-	-
Mr G Ladbrook	-	-	600,000	-	-	600,000
Ms A J Ciupryk	-	-	-	-	-	-

No shares were granted to key management personnel during the reporting period as compensation during the year ended 30 June 2014 or in the year ended 30 June 2013.

Subsidiaries

All inter-company loans and receivables are eliminated on consolidation and are interest free with no set repayment terms except for a loan between Pacific Energy (KPS) Pty Ltd and Pacific Energy Limited. Management fees of $1.5 million were paid by Pacific Energy (KPS) Pty Ltd to Pacific Energy Limited during the year ended 30 June 2014 (2013: $1.5 million).

27. Group entities

Name of entity	Country of incorporation	Ownership Interests 2014	2013
Parent entity			
Pacific Energy Limited	Australia		
Significant subsidiaries			
Pacific Energy (Victorian Hydro) Pty Ltd	Australia	100%	100%
Ausi Iron NL	Australia	100%	100%
Pacific Energy (Biomass) Pty Ltd	Australia	100%	100%
Pacific Energy (KPS) Pty Ltd	Australia	100%	100%
SpiritWest Bioenergy Pty Ltd	Australia	100%	100%
Waste Heat Recovery Systems Pty Ltd	Australia	100%	100%
Project Global Limited	Bermuda	100%	100%
Atlantic Pacific Infrastructure Limited	Bermuda	100%	100%

28. Dividends

(a) Dividends not recognised at year end

Since the end of the financial year the Directors have declared a final dividend of 1.5 cents (2013: 1.0 cents) per fully paid ordinary share, fully franked based on a tax rate of 30%. The aggregate amount of the dividend to be paid on 24 September 2014 out of retained earnings, but not recognised as a liability at year end is $5.5 million (2013: $3.6 million).

(b) Franked Dividends

The franked portions of the final dividend declared after 30 June 2014 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ended 30 June 2014.

In thousands of AUD	2014	2013
Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%)	8,104	5,826
	8,104	5,826

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted where applicable for:

(i) franking credits that will arise from the payment of the amount of the provision for income tax;
(ii) franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period; and
(i) franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

The consolidated amounts include franking credits that would be available to the company if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the final dividend declared by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $2.4 million (2013: $1.6 million).

29. Subsequent event

There have been no events subsequent to balance sheet which would have a material effect on the Group's financial statements at 30 June 2014.

30. Auditors' remuneration

In AUD	2014	2013
Audit services		
Auditors of the company:		
Audit and review of financial reports	91,000	103,530
	91,000	103,530

31. Parent entity disclosures

In thousands of AUD	Company 2014	2013
Profit for the period	16,152	14,506
Other comprehensive income	-	-
Total comprehensive income for the period	16,152	14,506
Current assets	4,780	6,604
Total assets	166,682	158,626
Current liabilities	12,552	14,276
Total liabilities	12,653	14,345
Shareholders equity		
Share capital	108,375	106,980
Option reserve	512	1,014
Accumulated profit	45,142	36,287
Total shareholders equity	154,029	144,281

Guarantees provided in relation to subsidiaries

During the year ended 30 June 2011, Pacific Energy Limited provided a parent-company guarantee in respect of a Hire Purchase facility of $12 million that was established by Pacific Energy (KPS) Pty Ltd (see Note 18).

Contingent liabilities and commitments

At 30 June 2014, the company does not have any contingent liabilities, or any contractual commitments for the acquisition of property, plant or equipment.

Directors' declaration
For the year ended 30 June 2014

1 In the opinion of the directors of Pacific Energy Limited:

(a) the Group's financial statements and notes set out on pages 20 to 55 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance, for the financial period ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australia Accounting Interpretations) and the Corporations Regulations 2001;

(b) the financial report also complies with International Financial Reporting Standards as set out in Note 2(a);

(c) the remuneration disclosures that are contained in the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001.

(d) there are reasonable grounds to believe that the company will be able to pay its debts and when they become due and payable.

2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer & Managing Director and Chief Financial Officer for the year ended 30 June 2014.

Signed in accordance with a resolution of the directors:

A H Boyd
Chief Executive Officer & Managing Director

Dated at Perth this 12th day of August 2014.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PACIFIC ENERGY LTD AND ITS CONTROLLED ENTITIES

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

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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

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

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

Opinion
In our opinion:

(a) the financial report of Pacific Energy Ltd. is in accordance with the *Corporations Act 2001*, including:

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

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Independent audit report
For the year ended 30 June 2014

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A 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.

Opinion

In our opinion, the Remuneration Report of Pacific Energy Ltd. for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Crowe Horwath Perth

CROWE HORWATH PERTH

Sean McGurk

SEAN MCGURK
Partner

Signed at Perth, 12 August 2014

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