PACIFIC ENERGY

2017 ANNUAL REPORT

2017 HIGHLIGHTS

RECORD REVENUES, EARNINGS AND OPERATING CASH FLOW

16% INCREASE IN CONTRACTED CAPACITY TO RECORD LEVEL

POSITIVE RESPONSE TO AFRICAN EXPANSION STRATEGY

EXCELLENT SAFETY PERFORMANCE

FURTHER GROWTH FORECAST FOR 2018 FINANCIAL YEAR

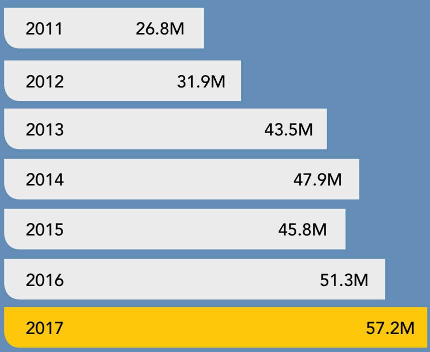
CONTENTS

GROUP CONTRACTED CAPACITY

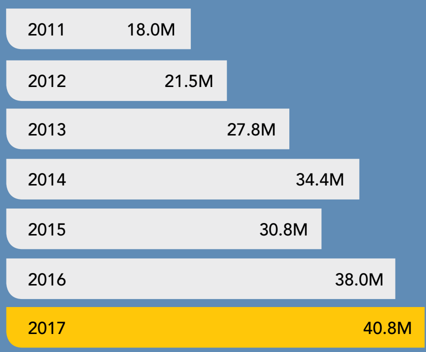
2011	148MW
2012	191MW
2013	246MW
2014	216MW
2015	210MW
2016	239MW
2017	278MW

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

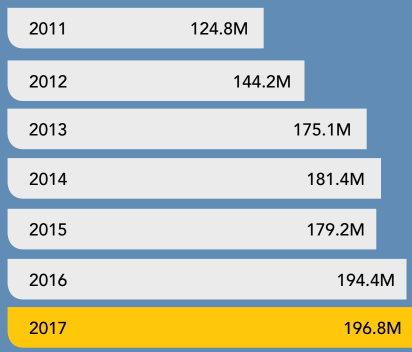
REVENUE



EBITDA



TOTAL ASSETS



DEAR SHAREHOLDERS

THE 2017 FINANCIAL YEAR SAW YOUR COMPANY DELIVER A SECOND SUCCESSIVE RECORD RESULT AS WE EXTENDED OUR TRACK RECORD OF SUCCESSFULLY DELIVERING ESSENTIAL POWER SERVICES TO REMOTE MINING OPERATIONS. DURING THE YEAR WE SECURED A 16% INCREASE IN CONTRACTED POWER AS WELL AS LAYING THE FOUNDATIONS FOR FURTHER GEOGRAPHICAL GROWTH OF OUR KPS BUSINESS WITH THE ESTABLISHMENT OF LOCAL FACILITIES, MANAGEMENT AND CAPABILITIES IN AFRICA.

FINANCIAL RESULT

The Company delivered a 9% increase in underlying EBITDA for the year ended 30 June 2017 to $40.0 million on revenues of $57.2 million. Net profit after tax was up by 6% to $16.6 million and net cash from operating activities increased by 13% to $35.0 million.

The increased revenue, cash flow and profit results represent record levels for the Company, with growth generated primarily from completing construction on a number of new projects, as well as benefiting from a full year's contributions from investments in new capacity commissioned part way through last year.

Dividends have remained unchanged at 2.5 cents per share fully franked.

The historical context of the Company's performance in recent years can be seen in the graphs at the top of the page. These graphs demonstrate the Company's continuing resilience and reliability as well as an ability to deliver steady growth, in both upward and downward cycles of the natural resources sector.

CONTRACTS

In the past year the Company was awarded 39MW of new contracts and contract expansions – a 16% increase from 30 June 2016. This reflects the continuing confidence of our existing customers, as well as new customers, in the Company's ability and experience in generating 24/7 remote electricity with benchmark fuel efficiency and reliability.

A number of new power stations and expansions at existing power stations were either built or secured during the year. These were as follows:

- An 8 year extension from St Barbara Ltd of the electricity supply contract for the Gwalia gold mine referred to above;
- A 12 month extension from Newmont Tanami Pty Ltd of the existing electricity supply contract for the Dead Bullock Soak power station and the Granites milling operations power station, both located in the Northern Territory;
- Metals X Ltd's wholly owned subsidiary, Avoca Mining Pty Ltd for a 6 month extension of the existing electricity supply contract at the Higginsville Gold Operation;

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

UNDERLYING EBITDA[1]

2011	18.0M
2012	21.5M
2013	27.8M
2014	34.4M
2015	30.8M
2016	36.8M
2017	40.0M

OPERATING CASH FLOW

2011	15.2M
2012	21.7M
2013	22.6M
2014	24.8M
2015	25.2M
2016	30.9M
2017	35.0M

DIVIDENDS

2011	0C
2012	0C
2013	1.0C
2014	2.5C
2015	2.5C
2016	2.5C
2017	2.5C

[1] Underlying EBITDA represents reported EBITDA minus profit on sale of listed investment

- Westgold Resources Ltd for a 5 year contract at the Fortnum Gold Project;
- A two year extension from OM Holdings Ltd of the electricity supply contract for the Bootu-Creek Manganese Mine; and
- Altura Mining Ltd for an 11MW power station pursuant to a new 5 year electricity supply contract at the Pilgangoora Lithium Project.

Earnings from the above new capacity as well as from further new installations in FY18 will underwrite further growth for the Company going forward.

OPERATIONS

Operationally our dedicated and experienced staff worked exceptionally hard in the field to complete the new power stations and expansions, as well as maintain our existing power stations to a benchmark standard.

This was done in a safe and efficient manner and it was particularly pleasing to see solid results in our safety performance during the year.

Building, operating and maintaining power stations in remote mining environments often presents unique challenges and we are fortunate to have long term employees with significant experience and understanding in dealing with the range of challenges that arise.

Our expertise extends to multiple fuel technologies, including:

- Diesel
- Gas
- Dual fuel (combination of diesel and gas)
- Waste heat recovery
- Hydro
- Solar (through our alliance with global renewables leader, juwi Renewable Energy).

Through our deep industry experience we have accumulated significant intellectual property, developed numerous innovations and introduced various technologies to maximise the performance of our power generation equipment across the above fuel sources. The end result is that we build to a benchmark standard, not down to a price, ensuring superior reliability and performance.

FINANCIAL POSITION

Following another year of pleasing results the Company remains in a sound financial position.

Cash flow from operations of $35 million fully funded the Company's capex requirements of $19 million, consisting of $13 million of growth and $6 million of maintenance capex.

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

The robust level of cash generated from operations also enabled debt to be progressively reduced during the year. At 30 June 2017 the Company's net gearing (net debt : net tangible assets) had reduced from 32% to 23%, which is both comfortable and conservative. At the date of this report, the Company has approximately $24 million of undrawn financing facilities and cash reserves, positioning it well to capitalise on growth opportunities that present.

OUTLOOK

Further growth in the new financial year and in FY19 is expected to come from bringing remaining contracted capacity on line in the coming months, as well as from several expansion opportunities that the Company is working on with existing clients and from projects that the Company secures with new customers.

The Company notes that the resource industry outlook is very positive, with some newer commodities and products in demand, which will benefit the market.

Management continues to review acquisition and investment opportunities to build the Company's scale and profitability, both within its existing markets and also in the broader energy markets.

The Company remains in very good financial health with conservative gearing, solid operating cash flows, reliable long-term annuity type income streams and a healthy balance sheet.

SAFETY AND STAFF

We are fortunate to have an exceptional team of dedicated staff members who often work in challenging conditions. On behalf of the Board of Directors we commend and thank our team for their outstanding continuing contributions.

Cliff Lawrenson
Chairman

Jamie Cullen
Managing Director

FINANCIAL REPORT CONTENTS

DIRECTORS' REPORT

For the year ended 30 June 2017

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 2017 and the auditor's report thereon.

1. DIRECTORS AND OFFICERS

The names and details of the company's directors in office during the financial year and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

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.

Mr Lawrenson has been the Managing Director of Atlas Iron Limited since January 2017. Prior to this he was Managing Director of early-stage phosphate producer Avenira Limited (formerly Minemakers Limited) from 2012 until he ended that role in January 2017. Mr Lawrenson was formerly also 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 Avenira Limited (May 2012 to January 2017).

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

James D D Cullen

Chief Executive Officer and Managing Director
B Com, CA, F Fin, FAICD, AIGA, ACIS

Mr Cullen is a qualified Chartered Accountant who, prior to joining the Company, spent approximately 20 years as CEO of two ASX-listed mining services companies, each commencing in the microcap space and growing significantly in market capitalisation before being acquired under formal takeover offers.

He has extensive commercial and practical experience in growing businesses domestically and internationally, both organically and through acquisitions. Mr Cullen also has considerable financial and corporate governance experience, has served as a director of several listed companies and is a board member of two not for profit organisations.

In the ten years prior to his CEO roles, Mr Cullen was a finance executive in the motion picture industry in Los Angeles and before that was with PricewaterhouseCoopers in Australia and the USA.

During the three years prior to the end of the year, Mr Cullen was a director of Resource Equipment Limited (May 2008 to July 2014), A1 Consolidated Gold Ltd (May 2015 to date) and Chesapeake Capital Ltd (June 2015 to date).

Mr Cullen has been a director since 1 June 2015.

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 over 50 years and the contract power generation business for over 30 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.

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

Mr Foster has been involved in the financial services industry for more than 25 years. He is the founder and Chief Executive Officer of Foster Stockbroking Pty Ltd, which was established in 1991 and holds an Australian Financial Services Licence. Mr Foster has considerable experience in stockbroking encompassing equities research, dealing and advising in listed securities, as well as experience in advising companies on investment banking related matters such as raising new capital and Initial Public Offerings.

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.

Linton J Putland
Non-Executive Director
B.Eng (Mining), MSc (Min. Economics), MAusIMM, GAICD

Mr Putland holds degrees in mining engineering (Bachelor of Engineering, Western Australian School of Mines) and a Master's in Science (Mineral Economics, Western Australian School of Mines) and has over 30 years' experience in mining operations, joint ventures and corporate management, both in Australia and overseas, over a wide range of commodities.

Mr Putland is principal of LJ Putland & Associates, a private mining consultancy company, which was founded in 2002, and provides advisory and consultancy services in project and company evaluation and due diligence appraisals with a focus on corporate growth. During this period he has also been Managing Director of a privately owned exploration company, with joint venture interests in southern Africa.

Prior to this he held corporate and senior management roles in IAMGOLD, AurionGold, Delta Gold and Pancontinental Mining.

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

Mr Putland is a member of the Audit Committee and has been a director since 18 October 2016.

Michael P Kenyon
Chief Financial Officer and Company Secretary
B.Bus, CA, GAICD, CSA (Cert.)

Mr Kenyon is a Chartered Accountant and holds a Bachelor of Business degree from the Edith Cowan University. He is also a graduate member of the Australian Institute of Company Directors and has over 20 years' experience in senior Finance roles within public companies.

Adela J Ciupryk
Company Secretary (resigned 9 August 2017)
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.

1. DIRECTORS AND OFFICERS (CONTINUED)

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.

2. INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of Pacific Energy Limited were:

Director	Ordinary shares	Options over ordinary shares
C Lawrenson	1,020,000	-
J Cullen	-	5,000,000
K Hall	184,786,982	-
S Foster	4,063,442	-
L Putland	-	-

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:

	Board meetings		Audit Committee meetings	
Director	Held	Attended	Held	Attended
C Lawrenson	8	8	-	-
J Cullen	8	8	2	2
K Hall	8	8	-	-
S Foster	8	8	2	2
L Putland	7	7	-	-
L Rozman	1	1	-	-
G Dick (Alternate Director for L Rozman)	1	1	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

4. PRINCIPAL ACTIVITIES

The principal activities of the Group during the twelve months to 30 June 2017 were the investment in power generation and related infrastructure, either in operation or being assessed for future development.

5. OPERATING AND FINANCIAL REVIEW

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 272MW; and Pacific Energy Victorian Hydro, which includes the generation of electricity from two hydro power stations in Victoria with a combined capacity of 6MW. During the year KPS Power Africa (Pty) Ltd was in the Republic of South Africa to replicate the Kalgoorlie Power Systems Australian business activities, with a focus on select African countries.

DIRECTORS' REPORT

For the year ended 30 June 2017

REVIEW OF FINANCIAL RESULTS

Consolidated entity (or Group) net profit after tax for the year ended 30 June 2017 was $16.6 million compared with a net profit after tax of $15.7 million for the year ended 30 June 2016.

The table below provides a comparison of the key results for the year ended 30 June 2017 to the preceding year ended 30 June 2016:

Statement of profit or loss	% Change	2017 $'000	2016 $'000
Revenue from operations	11%	57,176	51,337
EBITDA	7%	40,835	37,987
Reported profit after tax attributable to members	6%	16,601	15,732
Underlying EBITDA	9%	40,019	36,750

[1] Underlying EBITDA equates to EBITDA before profit on sale of other assets and investments (refer Note 5).

EBITDA PERFORMANCE

Underlying EBITDA[1] for the year ended 30 June 2017 was $40.0 million (2016: $36.8 million). The strong growth was generated primarily from new multi-year power contracts and expansions of existing contracts, as well as from overhead savings and cost control measures.

FINANCIAL POSITION

The company's net assets increased by 6% compared to the prior year, primarily attributable to the company's net profit after tax of $16.6 million.

Property, plant and equipment increased by 3% in 2017, reflecting the capital expenditure investment in new assets and refurbishment of existing assets required to complete and commission 39MW of new generation capacity installed by the KPS segment during the year.

The capital expenditure was predominately funded from cash reserves and some utilisation of the Company's bank facility. As a result, net borrowings decreased from $36.3 million at 30 June 2016 to $27.7 million at 30 June 2017, representing a 23% ratio of net borrowings to net tangible assets.

The company's working capital position remains steady albeit considerably lower than last financial year as a result of the significant capital expenditure that occurred during the year. Current cash and cash equivalents decreased by 12% compared to the prior period. Trade receivables have decreased by 4% compared to the prior period, and none of the Group's customers are in arrears at 30 June 2017.

EARNINGS PER SHARE

Based on 370,543,113 weighted average ordinary shares on issue during the year ended 30 June 2017 the result represents a basic profit after tax attributable to members per share of 4.48 cents compared with a basic profit after tax attributable to members of 4.25 cents per share for the year ended 30 June 2016. This represents a 5% increase.

INDUSTRY AND GEOGRAPHIC EXPOSURES

The Group is exposed to the Australian mining industry and within that, predominantly exposed to the gold sector with 85% (2016: 82%) of the Group's revenues for the year ended 30 June 2017 generated from power stations located at gold projects. On a geographic basis, the Group is predominantly exposed to Western Australia, with 83% (2016: 76%) of the Group's revenue originating in that state. In June 2016 the Company established an office in the Republic of South Africa to pursue power station contracts on the African continent. No revenue was recorded for the year ended 30 June 2017.

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

REVIEW OF OPERATIONS

Kalgoorlie Power Systems

Pacific Energy's core activity comprises the operations of the Kalgoorlie Power Systems business ("KPS") 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 272MW. Most of the Electricity Supply Contracts between KPS and its customers are of long duration, with the weighted average remaining contractual life of KPS contracts at 30 June 2017 being 4 years.

New Power Station Construction and Commission
During the year KPS completed and commissioned the following construction projects;

- The 5MW diesel fuelled power station for Westgold Resources Ltd at the Fortnum Gold Project located in Western Australia;
- The 4MW diesel fuelled power station restart for OM Holdings Ltd at the Bootu-Creek Manganese Mine located in the Northern Territory;
- The 3.75MW expansion of the existing 16MW KPS power station at the Gwalia gold mine for St Barbara Ltd;
- The 5MW expansion of the existing 21.5MW KPS power station at the DeGrussa Copper-Gold Mine for Sandfire Resources NL;
- The 3.5MW expansion of the existing 23.5MW KPS power station at the Dead Bullock Soak gold mine for Newmont Tanami Pty Ltd; and
- The 1.5MW expansion of the existing 3.5MW KPS power station at the Andy Well Gold Project for Doray Minerals Ltd.

New Power Station Contracts and Contract Extensions
From 1 July 2016 to the date of this report, KPS secured contracts for new power stations and contract extensions for the following clients:

- A 8 year extension from St Barbara Ltd of the electricity supply contract for the Gwalia gold mine referred to above;
- A 12 month extension from Newmont Tanami Pty Ltd of the existing electricity supply contract for the Dead Bullock Soak power station and the Granites milling operations power station, both located in the Northern Territory;
- Metals X Ltd's wholly owned subsidiary, Avoca Mining Pty Ltd for a 6 month extension of the existing electricity supply contract at the Higginsville Gold Operation;
- Westgold Resources Ltd for a 5 year contract at the Fortnum Gold Project referred to above;
- A two year extension from OM Holdings Ltd of the electricity supply contract for the Bootu-Creek Manganese Mine referred to above; and
- Altura Mining Ltd for an 11MW power station pursuant to a new 5 year contract at the Pilgangoora Lithium Project.

Contract Expiry
During the period, no Electricity Supply Contracts with customers concluded.

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 power purchase agreement for Blue Rock is able to be terminated by either party with six months' notice. As a result, the company has registered as a Small Aggregated Generator in the National Electricity Market for its operations at Blue Rock Dam to sell the electricity generated if the power purchase agreement is terminated at any time. The company holds a long term power purchase agreement for its Cardinia operations. The company also holds long term water rights required to operate both the Blue Rock and Cardinia power stations.

The Cardinia hydro power station performed well above budget and the Blue Rock hydro power station was in line with budget during the 2017 financial year. Renewable energy generation by Cardinia and Blue Rock totalled 9.7GWh (2016: 16.8GWh) and 10.0GWh (2016: 8.9GWh) respectively. The generation performance of these hydro power stations is entirely dependent on water flows made available by the relevant water authority suppliers.

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 year.

Matters subsequent to the end of the financial year

Apart from the dividend declared as disclosed below, no other matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future years.

Likely developments

The Group will continue to pursue new power station developments in Australia and internationally, including Africa through the established operation in South Africa, as well as pursuing opportunities in the broader energy and infrastructure market.

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.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

6. DIVIDENDS

Dividends paid during the financial year were as follows:

	2017 $'000	2016 $'000
Final dividend for the year ended 30 June 2016 of 1.5 cents per ordinary share (2015: 1.5 cents)	5,554	5,545
Interim dividend for the year ended 30 June 2017 of 1.0 cent per ordinary share (2016: 1.0 cent)	3,708	3,701
	9,262	**9,246**

On 23 August 2017 the directors declared a fully franked, final dividend for the year ended 30 June 2017 of 1.5 cents per ordinary share to be paid on 12 October 2017, a total estimated distribution of $5,576,822 based on the number of ordinary shares on issue at 23 August 2017.

7. 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.

7.1 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.

7. REMUNERATION REPORT – AUDITED (CONTINUED)

7.1 PRINCIPLES OF COMPENSATION (CONTINUED)

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 their 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.

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:

	2017	2016	2015	2014
EBITDA ($'000)	40,835	37,987	30,833	34,380
Dividend per share (cents)[1]	2.5	2.5	2.5	2.5
Change in share price ($)	0.25	0.06	(0.07)	0.10

[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 or shares 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:

J Cullen, Chief Executive Officer & Managing Director

(a) Term of agreement – commencing 1 June 2015 with indefinite duration;

(b) Base salary of $495,000 per annum inclusive of superannuation;

(c) Annual cash bonus payment of up to 20% of base salary upon the achievement of Key Performance Indicators to be agreed with the Board.

(d) Share options as detailed in this Remuneration report;

(e) Is capable of termination by both parties on six months' notice; and

(f) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

K Hall, Executive Director

(a) Term of agreement – commencing 8 May 2009 with indefinite duration;

(b) Consulting fees of $240,000 per annum;

(c) Base directors fees of $45,000 per annum exclusive of superannuation; and

(d) Is capable of immediate termination by mutual agreement of the parties.

M Kenyon, Chief Financial Officer & Company Secretary

(a) Term of agreement – commencing 23 May 2016 with indefinite duration;

(b) Consulting fees of $325,000 per annum; payable on a day rate basis

(c) Is capable of termination by both parties on one months' notice; and

(d) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

R Pascoe, General Manager KPS (commenced 10 May 2017)

(a) Term of agreement – commencing 10 May 2017 with indefinite duration;

(b) Base salary of $300,000 per annum exclusive of superannuation;

(c) Annual cash bonus payment of up to 20% of base salary upon the achievement of Key Performance Indicators to be agreed with the Managing Director.

(d) Share options as detailed in this Remuneration report;

(e) Is capable of termination by both parties on three months' notice; and

(f) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

A Ciupryk, Joint Company Secretary (resigned 9 August 2017)

(a) Term of agreement – commencing 30 March 2009 with indefinite duration;

(b) Base salary of $250,000 per annum plus superannuation until 22 May 2016 in the capacity of Chief Financial Officer;

(c) Is capable of termination by both parties on one months' notice; and

(d) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

7. REMUNERATION REPORT – AUDITED (CONTINUED)

7.2 DIRECTORS' AND KEY MANAGEMENT PERSONNEL'S 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 2017 are as follows:

In AUD		Short-term Salary & fees $	Short-term Cash bonus $	Non-monetary $	Post-employment Superannuation $	Other long-term benefits Long service leave $	Share-based payments Shares & Options $	Termination payments $	Total $	Performance related %	Value of options as proportion of remuneration %
Non-Executive Directors											
C Lawrenson	2017	85,000	-	-	8,075	-	-	-	93,075	-	-
	2016	85,000	-	-	8,075	-	-	-	93,075	-	-
S Foster	2017	55,000	-	-	5,225	-	-	-	60,225	-	-
	2016	55,000	-	-	5,225	-	-	-	60,225	-	-
L Putland	2017	31,558	-	-	2,998	-	-	-	34,556	-	-
	2016	-	-	-	-	-	-	-	-	-	-
Executive Directors											
J Cullen	2017	480,023	99,000	-	26,400	-	83,900	-	689,323	14.4%	12.2%
	2016	473,530	-	-	26,400	-	146,192	-	646,122	-	22.6%
K Hall	2017	285,000	-	-	4,275	-	-	-	289,275	-	-
	2016	285,000	-	-	4,275	-	-	-	289,275	-	-
Executives											
M Kenyon (CFO & Joint Company Secretary)	2017	138,211	-	-	-	-	-	-	138,211	-	-
	2016	16,341	-	-	-	-	-	-	16,341	-	-
A Ciupryk (Joint Company Secretary)	2017	12,082	45,662	-	4,338	-	55,149	-	117,231	39.0%	-
	2016	135,925	-	-	13,130	2,542	-	-	151,597	-	-
R Pascoe (GM, KPS)	2017	47,120	-	-	4,129	-	11,356	-	62,605	-	18.1%
	2016	-	-	-	-	-	-	-	-	-	-
Former											
L Rozman (Non-Executive Director)	2017	12,483	-	-	-	-	-	-	12,483	-	-
	2016	45,000	-	-	-	-	-	-	45,000	-	-
G Dick (Non-Executive Director)	2017	-	-	-	-	-	-	-	-	-	-
	2016	-	-	-	-	-	-	-	-	-	-
D Manning (GM, KPS)	2017	177,143	42,500	-	29,331	-	(63,479)	101,935	287,430	14.8%	n/a
	2016	327,985	30,000	22,783	31,350	-	102,715	-	514,833	5.8%	20.0%
Total	**2017**	**1,323,620**	**187,162**	**-**	**84,771**	**-**	**86,926**	**101,935**	**1,784,414**	**10.5%**	**1.8%**
Total	**2016**	**1,423,781**	**30,000**	**22,783**	**88,455**	**2,542**	**248,907**	**-**	**1,816,468**	**1.7%**	**13.7%**

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

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

(b) Ms Ciupryk was on parental leave from 22 May 2016 and resigned as company secretary on 9 August 2017;

(c) Mr Manning resigned on 17 February 2017;

(d) Mr Kenyon was appointed on 23 May 2016;

(e) Mr Rozman and Mr Dick resigned as Executive Directors on 11 October 2016;

(f) Mr Pascoe was appointed on 10 May 2017; and

(g) The fair value of the options is calculated at the date of grant using the Black-Scholes 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.

7.3 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

Details on options over ordinary shares in the company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

	Number of options	Grant date	Fair value of option at grant date ($)	Exercise price per option ($)	Expiry date	Vesting date	Number of options vested during 2017
J Cullen	1,000,000	14 May 2015	$0.0629	$0.55	2 June 2020	14 May 2016	1,000,000
	2,000,000	14 May 2015	$0.0556	$0.60	2 June 2020	14 May 2017	2,000,000
	2,000,000	14 May 2015	$0.0494	$0.65	2 June 2020	14 May 2018	-
R Pascoe	1,000,000	3 May 2017	$0.0846	$0.80	31 March 2021	10 May 2019	-
	1,000,000	3 May 2017	$0.0775	$0.90	31 March 2022	10 May 2020	-

The options were provided at no cost to the recipients.

Since the end of the financial year no options over ordinary shares have been granted to key management personnel.

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, there were no shares issued on the exercise of options previously granted as compensation.

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2017 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)	Exercised in period $(c)	Lapsed in period $(d)
J Cullen	-	-	-	-
R Pascoe	162,000	-	-	-
D Manning	-	101,000	102,000	-

7. REMUNERATION REPORT – AUDITED (CONTINUED)

7.3 EQUITY INSTRUMENTS (CONTINUED)

(a) The value of options granted in the period is the fair value of the options calculated at grant date using the Black-Scholes 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.

(b) The value of options cancelled in the period is the fair value of the options calculated at grant date using the Black-Scholes 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 Black-Scholes option valuation model assuming the performance criteria had been achieved.

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:

	Balance at the start of the year	Granted as compen-sation	Exercised	Cancelled	Balance at the end of the year	Vested during the year	Vested and exercisable at the end of the year
2017							
J Cullen	5,000,000	-	-	-	5,000,000	2,000,000	3,000,000
R Pascoe	-	2,000,000	-	-	2,000,000	-	-
D Manning	2,000,000	-	(1,000,000)	(1,000,000)	-	-	-
2016							
J Cullen	5,000,000	-	-	-	5,000,000	1,000,000	1,000,000
D Manning	2,000,000	-	-	-	2,000,000	1,000,000	1,000,000

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:

	Balance at the start of the year	Purchases	Received on exercise of options	Received other	Sales	Balance at the end of the year
2017						
C Lawrenson	1,020,000	-	-	-	-	1,020,000
S Foster	4,063,442	-	-	-	-	4,063,442
K Hall	184,786,912	-	-	-	-	184,786,912
A Ciupryk	-	-	-	108,135	-	108,135
2016						
C Lawrenson	1,020,000	-	-	-	-	1,020,000
S Foster	4,063,442	-	-	-	-	4,063,442
K Hall	184,718,244	68,668	-	-	-	184,786,912

108,135 shares were granted to Ms Ciupryk during the reporting period as compensation. No shares were issued to key management personnel during the year ended 30 June 2016.

8. SHARE OPTIONS

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 options
31 March 2021	$0.80	1,000,000
31 March 2022	$0.90	1,000,000
2 June 2020	$0.55	1,000,000
2 June 2020	$0.60	2,000,000
2 June 2020	$0.65	2,000,000
		7,000,000

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 did not issue ordinary shares as a result of the exercise of options (there are no amounts unpaid on the shares issued).

9. INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

The company has indemnified the directors and executive officers of the company for costs incurred, in their capacity as a director or executive officer, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executive officers of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

10. NON-AUDIT SERVICES

During the period Crowe Horwath, the company's auditor, did not perform any non-audit services for the company.

11. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after the director's report and forms part of the directors' report for the financial year ended 30 June 2017.

12. ROUNDING OFF

The company is of a kind referred to in ASIC Legislative Instrument 2016/191 dated 24 March 2016 and in accordance with that Legislative Instrument, 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:

Chief Executive Officer & Managing Director
Dated this 25th day of August 2017

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 2017, 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, 25th August 2017

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

In thousands of AUD	Notes	30 June 2017	30 June 2016
Revenue		57,176	51,337
Other income	5	852	1,588
Consumables and spare parts		(4,762)	(3,811)
Employee benefits expense	6	(8,594)	(7,619)
Impairment of assets	8	35	(115)
Other expenses		(3,872)	(3,393)
Earnings before interest, tax, depreciation and amortisation		**40,835**	**37,987**
Depreciation and amortisation		(15,695)	(13,910)
Results from operating activities		**25,140**	**24,077**
Financial income		106	157
Financial expenses		(1,742)	(2,028)
Net financing expense	7	**(1,636)**	**(1,871)**
Profit before income tax		**23,504**	**22,206**
Income tax expense	9	(6,903)	(6,474)
Profit for the year		**16,601**	**15,732**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		(6)	10
Effective portion of changes in fair value of cash flow hedges, net of tax		(113)	(202)
Other comprehensive income for the year, net of income tax		**(119)**	**(192)**
Total comprehensive income for the year		**16,482**	**15,540**
Profit attributable to:			
Equity holders of the company		16,601	15,732
Profit for the year		**16,601**	**15,732**
Total comprehensive income attributable to:			
Equity holders of the company		16,482	15,540
Total comprehensive income for the year		**16,482**	**15,540**
Earnings per share:			
Basic earnings per share (cents)	17	4.48	4.25
Diluted earnings per share (cents)	17	4.48	4.25

The notes on pages 23 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

In thousands of AUD	Notes	30 June 2017	30 June 2016
Assets			
Cash and cash equivalents	15(a)	5,019	5,707
Trade and other receivables	14	6,312	6,569
Inventory	13	1,261	752
Other investments, including derivatives	23	-	1,200
Total current assets		**12,592**	**14,228**
Cash and cash equivalents	15(a)	103	103
Property, plant and equipment	10	160,011	154,875
Intangible assets	11	24,132	25,228
Total non-current assets		**184,246**	**180,206**
Total assets		**196,838**	**194,434**
Liabilities			
Trade and other payables	22	3,783	3,052
Employee benefits	19	819	475
Provisions	21	1,381	1,350
Current tax liabilities		302	1,247
Loans and borrowings	18	6,869	5,835
Total current liabilities		**13,154**	**11,959**
Loans and borrowings	18	25,892	36,145
Provisions	21	772	691
Employee benefits	19	129	248
Derivative financial instruments	23	265	152
Deferred tax liabilities	12	11,528	8,402
Total non-current liabilities		**38,586**	**45,638**
Total liabilities		**51,740**	**57,597**
Net assets		**145,098**	**136,837**
Equity			
Share capital	16	111,472	110,318
Reserves		(159)	173
Retained earnings		33,785	26,346
Total equity		**145,098**	**136,837**

The notes on pages 23 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

Attributable to equity holders of the company

In thousands of AUD	Share capital	Translation reserve	Hedging reserve	Option & Rights reserves	Accumulated profit / (loss)	Total equity
Balance at 1 July 2015	**110,148**	**(1,218)**	**50**	**225**	**20,919**	**130,124**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	15,732	15,732
Foreign currency translation differences for foreign operations	-	1,218	-	-	(1,208)	10
Effective portion of change in FV of cash flow hedge, net of tax	-	-	(202)	-	-	(202)
Total other comprehensive income	-	1,218	(202)	-	(1,208)	(192)
Total comprehensive income for the period	**-**	**1,218**	**(202)**	**-**	**14,524**	**15,540**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(9,246)	(9,246)
Issue of ordinary shares, net of transaction costs and tax	170	-	-	-	-	170
Equity settled shared based payment transactions	-	-	-	249	-	249
Share options lapsed	-	-	-	(149)	149	-
Total transactions with owners	170	-	-	100	(9,097)	(8,827)
Balance at 30 June 2016	**110,318**	**-**	**(152)**	**325**	**26,346**	**136,837**
Balance at 1 July 2016	**110,318**	**-**	**(152)**	**325**	**26,346**	**136,837**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	16,601	16,601
Foreign currency translation differences for foreign operations	-	(6)	-	-	-	(6)
Effective portion of change in FV of cash flow hedge, net of tax	-	-	(113)	-	-	(113)
Total other comprehensive income	-	(6)	(113)	-	-	(119)
Total comprehensive income for the period	**-**	**(6)**	**(113)**	**-**	**16,601**	**16,482**
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(9,261)	(9,261)
Share options exercised, net of transaction costs and tax	690	-	-	(102)	-	588
Issue of ordinary shares, net of transaction costs and tax	54	-	-	-	-	54
Issue of share options and rights	-	-	-	472	-	472
Share rights exercised, net of transaction costs and tax	410	-	-	(394)	-	16
Share options lapsed and written back	-	-	-	(189)	99	(90)
Total transactions with owners	1,154	-	-	(213)	(9,162)	(8,221)
Balance at 30 June 2017	**111,472**	**(6)**	**(265)**	**112**	**33,785**	**145,098**

The notes on pages 23 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

In thousands of AUD	Notes	30 June 2017	30 June 2016
Cash flows from operating activities			
Receipts from customers		57,503	50,489
Payments to suppliers and employees		(16,341)	(13,215)
Interest received		106	157
Interest paid		(1,559)	(1,829)
Income taxes paid		(4,698)	(4,683)
Net cash provided by operating activities	15(b)	**35,011**	**30,919**
Cash flows from investing activities			
Purchase of property, plant and equipment		(19,581)	(37,466)
Purchase of other assets and investments		-	(500)
Proceeds from the sale of property, plant and equipment		1	16
Proceeds from the sale of other assets and investments		2,016	537
Payments relating to new electricity supply contracts		(73)	(61)
Net cash used in investing activities		**(17,637)**	**(37,474)**
Cash flows from financing activities			
Proceeds from borrowings		3,166	13,500
Repayment of borrowings		(12,518)	(8,224)
Proceeds from issue of shares		600	-
Dividends paid		(9,261)	(9,246)
Payment of transaction costs		(42)	(30)
Net cash used in financing activities		**(18,055)**	**(4,000)**
Net decrease in cash and cash equivalents		**(681)**	**(10,555)**
Cash and cash equivalents at the beginning of the financial period		5,707	16,252
Exchange rate movements		(7)	10
Current cash and cash equivalents at the end of the financial period	15(a)	**5,019**	**5,707**

The notes on pages 23 to 57 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2017

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 338 Gnangara Road, Landsdale, WA 6065. The consolidated financial statements of the company as at and for the twelve months ended 30 June 2017 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 23 August 2017.

(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 new, revised or amended Accounting Standards and Interpretations that are not mandatory have not been early adopted.

(C) BASIS OF MEASUREMENT

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss and derivative financial instruments.

(D) FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Australian dollars, which is the company's functional currency.

(E) ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Legislative Instrument 2016/191 dated 24 March 2016 and in accordance with that Legislative Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(F) 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.

2. BASIS OF PREPARATION (CONTINUED)

(F) USE OF CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

(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 2017 was $2.2 million (2016: $2.0 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 Black-Scholes 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.

(iv) 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

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL INSTRUMENTS (CONTINUED)

(i) Non-derivative financial assets (continued)

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.

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, 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.

(iv) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Cash flow hedges
Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, the amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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. 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 one month through to 15 years. Customer relationships are amortised over the anticipated life of mine to which the contract relates. The length of each customer relationship is different and varies from 9 to 11 years. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and unwinding of the discount on provisions. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) INCOME TAX (CONTINUED)

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.

(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) OPERATING SEGMENTS

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Maker ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

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.

Segment results that are reported to the CODM 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*

  This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI').

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED (CONTINUED)

- *AASB 9 Financial Instruments (continued)*

  For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2018 and make an assessment of its effect over the next 12-months.

- *AASB 15 Revenue from Contracts with Customers*

  This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 and make an assessment of its effect during the next 12-months.

- *AASB 16 Leases*

  This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 and make an assessment of its effect during the next 12-months.

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 operating segment is based on the internal reports that are reviewed and used by the Group's Chief Executive Officer (who is identified as the Chief Operating Decision Maker ('CODM')) on at least a quarterly basis to assess performance and to determine the allocation of resources. There is no aggregation of operating segments.

Other operations include Hydro Power Generation which does not meet any of the quantitative thresholds for determining reportable segments in 2017.

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 as included in the internal management reports that are reviewed by the Group's CEO. Segment earnings before interest, income tax, depreciation and amortisation is 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		Intersegment eliminations/ unallocated		Total	
In thousands of AUD	2017	2016	2017	2016	2017	2016	2017	2016
External revenues	56,194	50,086	982	1,251	-	-	57,176	51,337
EBITDA	42,906	39,611	451	676	(2,522)	(2,300)	40,835	37,987
Interest income	96	99	4	2	6	56	106	157
Finance costs	(1,735)	(2,028)	-	-	(7)	-	(1,742)	(2,028)
Depreciation and amortisation	(15,362)	(13,588)	(319)	(308)	(14)	(14)	(15,695)	(13,910)
Profit before income tax	25,905	24,094	136	370	(2,537)	(2,258)	23,504	22,206
Income tax expense	(7,795)	(7,300)	(41)	(111)	933	937	(6,903)	(6,474)
Capital expenditure	(19,671)	(37,449)	(8)	(149)	(55)	(5)	(19,734)	(37,603)

MAJOR CUSTOMERS

Revenues from four customers in the KPS Power Generation segment represents approximately 66% (2016: 63% from four customers) of the Group's total revenues (each customer greater than 10% individually).

5. OTHER INCOME

In thousands of AUD	2017	2016
Gain on other assets and investments	816	1,237
Gain on sale of property, plant and equipment	-	14
Other income	36	337
	852	1,588

6. EMPLOYEE BENEFITS EXPENSE

In thousands of AUD	Notes	2017	2016
Wages and salaries		7,050	6,136
Employment related taxes and insurances		403	596
Contributions to defined contribution plans		380	309
Equity-settled share-based payment transactions	20	439	422
Other employment related expenses		99	29
Increase/ (decrease) in leave liabilities		223	127
		8,594	7,619

7. FINANCE INCOME AND FINANCE COSTS

RECOGNISED IN PROFIT OR LOSS

In thousands of AUD	2017	2016
Interest income on bank deposits	106	157
Interest expense on financial liabilities measured at amortised cost	(1,559)	(1,829)
Unwinding of discount on decommissioning cost provision	(31)	(48)
Other finance costs	(152)	(151)
Net finance costs recognised in profit or loss	(1,636)	(1,871)
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	106	157
Total interest expense on financial liabilities	(1,742)	(2,028)

8. IMPAIRMENT EXPENSE

In thousands of AUD	2017	2016
Impairment of financial assets[1]	(35)	115
Total impairment expense	(35)	115

[1] During the prior year, one of the Group's customers, OM (Manganese) Ltd, placed their operations into Care and Maintenance and the company was subsequently placed into Voluntary Administration on 4 January 2016. An impairment provision was raised for all amounts owing by this customer, which consisted of approx. $0.1M of unpaid electricity charges.

9. INCOME TAX EXPENSE

In thousands of AUD	2017	2016
Current tax expense		
Current period	4,583	5,834
Adjustments for prior periods	(832)	(900)
	3,751	4,934
Deferred tax expense		
Origination and reversal of temporary differences	2,230	640
Adjustments for prior periods	922	900
	3,152	1,540
Total income tax expense	6,903	6,474
Numerical reconciliation between tax expense and pre-tax net profit		
Profit for the period before tax	23,504	22,206
Income tax using the company's domestic tax rate of 30% (2016: 30%)	7,051	6,662
Non-deductible / (assessable) items	29	(39)
Deferred taxes derecognised upon dissolution	-	(172)
Effect of lower rate of tax on overseas income	124	22
Capital (profits) / losses not subject to income tax	(391)	-
Under/(over) provision in respect of prior years	90	1
Aggregate income tax expense	6,903	6,474

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

	2017			2016		
In thousands of AUD	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Share transaction costs	(24)	7	(17)	(5)	2	(3)
Income tax on income and expense recognised directly in equity	(24)	7	(17)	(5)	2	(3)

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

	2017			2016		
In thousands of AUD	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Foreign currency translation differences for foreign operations	(6)	-	(6)	10	-	10
Cash flow hedges	(113)	-	(113)	(202)	-	(202)
	(119)	-	(119)	(192)	-	(192)

10. PROPERTY, PLANT AND EQUIPMENT

In thousands of AUD	Power generation assets	Land & buildings	Office equipment	Total
Cost				
Balance at 1 July 2015	159,005	13,019	702	172,726
Additions	37,495	19	28	37,542
Disposals	(4)	-	(136)	(140)
Balance at 30 June 2016	196,496	13,038	594	210,128
Balance at 1 July 2016	196,496	13,038	594	210,128
Additions	19,536	31	94	19,661
Disposals	(24)	-	-	(24)
Balance at 30 June 2017	216,008	13,069	688	229,765
Depreciation and impairment losses				
Balance at 1 July 2015	(43,004)	(186)	(323)	(43,513)
Depreciation for the period	(11,534)	(265)	(79)	(11,878)
Accumulated depreciation on assets disposed	2	-	136	138
Balance at 30 June 2016	(54,536)	(451)	(266)	(55,253)
Balance at 1 July 2016	(54,536)	(451)	(266)	(55,253)
Depreciation for the period	(14,179)	(266)	(81)	(14,526)
Accumulated depreciation on assets disposed	25	-	-	25
Balance at 30 June 2017	(68,690)	(717)	(347)	(69,754)
Carrying amounts				
At 1 July 2015	116,001	12,833	379	129,213
At 30 June 2016	141,960	12,587	328	154,875
At 1 July 2016	141,960	12,587	328	154,875
At 30 June 2017	147,318	12,352	341	160,011

11. INTANGIBLE ASSETS

In thousands of AUD	Goodwill	Electricity supply contracts	Customer relationships	Distribution licence	Total
Cost					
Balance at 1 July 2015	22,080	21,977	6,897	1,637	52,591
Additions	-	61	-	-	61
Balance at 30 June 2016	22,080	22,038	6,897	1,637	52,652
Balance at 1 July 2016	22,080	22,038	6,897	1,637	52,652
Additions	-	73	-	-	73
Balance at 30 June 2017	22,080	22,111	6,897	1,637	52,725
Amortisation and impairment losses					
Balance at 1 July 2015	(899)	(18,533)	(4,408)	(1,552)	(25,392)
Amortisation for the period	-	(1,430)	(517)	(85)	(2,032)
Balance at 30 June 2016	(899)	(19,963)	(4,925)	(1,637)	(27,424)
Balance at 1 July 2016	(899)	(19,963)	(4,925)	(1,637)	(27,424)
Amortisation for the period	-	(652)	(517)	-	(1,169)
Balance at 30 June 2017	(899)	(20,615)	(5,442)	(1,637)	(28,593)
Carrying amounts					
at 1 July 2015	21,181	3,444	2,489	85	27,199
at 30 June 2016	21,181	2,075	1,972	-	25,228
at 1 July 2016	21,181	2,075	1,972	-	25,228
at 30 June 2017	21,181	1,496	1,455	-	24,132

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 cash generating units ("CGU") 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	2017	2016
KPS Power Generation	21,181	21,181
	21,181	21,181

11. INTANGIBLE ASSETS (CONTINUED)

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 cash-generating 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 2017. Cash flows beyond this period have been extrapolated using a constant growth rate of 2.1% per annum as a proxy for CPI indexation;
- The useful life of the CGU 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; and
- A pre-tax discount rate of 10.8% (2016: 10.5%) 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 42.5% at an interest rate of 4.4%.

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). Management believes that reasonable changes in the key assumptions on which the recoverable amount of the KPS Power Generation cash-generating unit was based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

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	2017	2016
Capital losses	1,252	1,252
	1,252	1,252

The capital losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of the capital losses because it is not probable that future capital gains will be available against which the Group can utilise the benefits therefrom.

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of AUD	2017	2016	2017	2016	2017	2016
Trade and other receivables	1	-	(7)	(1)	(6)	(1)
Property, plant and equipment	-	1	(11,641)	(7,897)	(11,641)	(7,896)
Other investments	-	-	-	(264)	-	(264)
Trade and other payables	965	923	-	-	965	923
Intangible assets	-	-	(885)	(1,214)	(885)	(1,214)
Business related costs	39	49	-	-	39	49
Tax loss carry-forwards	-	1		-	-	1
Tax assets / (liabilities)	1,005	974	(12,533)	(9,376)	(11,528)	(8,402)
Set off of DTA / DTL	(1,005)	(974)	1,005	974	-	-
Net tax liabilities	-	-	(11,528)	(8,402)	(11,528)	(8,402)

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

In thousands of AUD	Balance 1 July 2015	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Balance 30 June 2016	Recognised in profit or loss	Recognised directly in equity	Recognised in other comprehensive income	Balance 30 June 2017
Trade and other receivables	7	(8)	-	-	(1)	(5)	-	-	(6)
Property, plant and equipment	(5,759)	(2,137)	-	-	(7,896)	(3,744)	-	-	(11,640)
Other investments	-	(264)	-	-	(264)	264	-	-	-
Trade and other payables	766	157	-	-	923	42	-	-	965
Impairment charge	1,808	(1,808)	-	-	-	-	-	-	-
Intangible assets	(1,806)	592	-	-	(1,214)	329	-	-	(885)
Business related costs	(1,928)	1,976	1	-	49	(35)	24	-	38
Tax loss carry-forwards	47	(46)	-	-	1	(1)	-	-	-
	(6,865)	(1,538)	1	-	(8,402)	(3,150)	24	-	(11,528)

MOVEMENT IN UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

In thousands of AUD	Balance 1 July 2015	Additions	Recognition	Balance 30 June 2016	Additions	Recognition	Balance 30 June 2017
Revenue losses	-	-	-	-	-	-	-
Capital losses	1,404	-	(152)	1,252	-	-	1,252
	1,404	-	(152)	1,252	-	-	1,252

13. INVENTORIES

In thousands of AUD	2017	2016
Oil and spare parts held for use – cost	1,261	752
	1,261	752

During the year to 30 June 2017, changes to the levels of oil and spare parts held for use recognised as cost of sales amounted to $508,000 (2016: $3,000). There were no write-downs of inventories during the year.

14. TRADE AND OTHER RECEIVABLES

In thousands of AUD	2017	2016
Current		
Trade receivables	6,090	6,383
Other receivables and prepayments	222	186
	6,312	6,569

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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	Opening balance 1 July 2015	Charge for the year	Amounts written off	Closing balance 30 June 2016	Charge for the year	Amounts written off	Closing balance 30 June 2017
Current							
Trade receivables	(1,498)	(157)	-	(1,655)	19	1,498	(138)
	(1,498)	(157)	-	(1,655)	19	1,498	(138)

CREDIT RISK

The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. Approximately 66% of the Group's revenue from electricity generation is attributable to sales transactions with four customers (each individually greater than 10%) (2016: 63% from four 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	2017	2016
Australia	6,090	6,383

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.

			Past Due but Not Impaired				
In thousands of AUD	Gross amount	Past Due and Impaired	<30	31-60	61-90	>90	Within Initial Trade Terms
2017							
Trade and term receivables	6,090	-	-	-	-	-	6,090
Other receivables	222	-	-	-	-	-	222
Total	6,312	-	-	-	-	-	6,312
2016							
Trade and term receivables	6,383	-	-	-	-	-	6,383
Other receivables	186	-	-	-	-	-	186
Total	6,569	-	-	-	-	-	6,569

15(A). CASH AND CASH EQUIVALENTS

In thousands of AUD	2017	2016
Current		
Bank balances	5,019	5,707
Non-current		
Bank balances[1]	103	103
Total cash	5,122	5,810

[1] Non current bank balances consists of a restricted cash balance of $103,000 at 30 June 2017 (2016: $103,000), comprising a bank guarantee.

15(B). RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

In thousands of AUD	2017	2016
Cash flows from operating activities		
Profit for the period	16,601	15,732
Adjustment for:		
Depreciation	14,455	11,807
Gain on sale of property, plant & equipment	-	(14)
Amortisation of intangible assets	1,240	2,103
Gain on sale of other assets and investments	(816)	(1,237)
Impairment of assets	(35)	115
Other financing costs	152	151
Unwind discount on provision for decommissioning costs	31	48
Income tax expense	6,902	6,474
Employee share and option expense	439	422
Operating profit before changes in working capital and provisions	**38,969**	**35,601**
Change in inventories	(508)	2
Change in trade and other receivables	292	(1,185)
Change in trade and other payables	731	1,058
Change in employee entitlements	225	126
Income tax paid	(4,698)	(4,683)
Net cash from operating activities	**35,011**	**30,919**

16. CAPITAL AND RESERVES

SHARE CAPITAL

	Number of shares ('000)		Share capital ($'000)	
In thousands of AUD	2017	2016	2017	2016
On issue at the beginning of the period	370,102	369,668	110,318	110,148
Shares granted to employees	108	-	55	-
Issued under employee share scheme or rights plan	578	434	412	174
Share options exercised	1,000	-	702	-
Transaction costs, net of tax effect	-	-	(15)	(4)
On issue at 30 June - fully paid	371,788	370,102	111,472	110,318

16. CAPITAL AND RESERVES (CONTINUED)

ISSUANCE OF ORDINARY SHARES

During the year, the Company issued 577,784 shares pursuant to the Pacific Energy Limited Performance Rights Plan (see Note 20) and 108,135 shares to employees as remuneration.

All issued ordinary shares are fully paid. The Company has also issued share options and rights (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	2017	2016
Net profit from continuing operations attributable to ordinary shareholders	16,601	15,732
Net profit attributable to ordinary shareholders	16,601	15,732

Weighted average number of ordinary shares

In thousands of shares	2017	2016
Issued ordinary shares at the beginning of the period	370,102	369,668
Effect of shares issued in employee share scheme	441	257
Effect of shares issued on exercise of options	243	-
Weighted average number of ordinary shares at the end of the period	370,786	369,925

DILUTED EARNINGS PER SHARE

Profit attributable to ordinary shareholders (diluted)

In thousands of AUD	2017	2016
Net profit from continuing operations attributable to ordinary shareholders	16,601	15,732
Net profit attributable to ordinary shareholders	16,601	15,732

Weighted average number of ordinary shares (diluted)

In thousands of shares	2017	2016
Issued ordinary shares at the beginning of the period (basic)	370,102	369,668
Effect of shares issued in employee share scheme (basic)	441	257
Effect of shares issued on exercise of options (basic)	243	-
Weighted average number of ordinary shares (diluted) at the end of the period	370,786	369,925

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 24.

In thousands of AUD	2017	2016
Current liabilities		
Secured bank loan	5,850	5,835
Hire purchase facility	1,019	-
	6,869	5,835
Non-current liabilities		
Secured bank loan	23,901	36,145
Hire purchase facility	1,991	-
	25,892	36,145
	32,761	41,980

TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

In thousands of AUD	Nominal interest rate	Year of maturity	2017 Face value	2017 Carrying amount	2016 Face value	2016 Carrying amount
Secured bank loan	BBSY[1]+0.875%	2018	29,808	29,751	35,670	35,510
Acquisition loan facility	BBSY[1]+0.775%	2017	-	-	6,500	6,470
Working capital facility	BBSY[1]+0.75%	2017	-	-	-	-
Total interest-bearing liabilities			29,808	29,751	42,170	41,980

[1] BBSY: Bank Bill Swap Bid Rate

SECURED BANK LOAN

In thousands of AUD	2017	2016
Carrying amount of liability at the beginning of the period	41,980	36,056
Proceeds from drawdown of loan	-	13,500
Transaction costs	(20)	(25)
Amortisation of transaction costs	153	144
Repayments	(12,362)	(7,695)
Carrying amount of liability at the end of the period	29,751	41,980

On 19 November 2014, Pacific Energy (KPS) Pty Ltd and the Australian and New Zealand Banking Group (ANZ) entered into an agreement to refinance the existing term debt facility provided by the Commonwealth Bank of Australia, with settlement taking place on 17 December 2014.

The loan facilities provided by ANZ have a total aggregate facility limit of $63.0 million and will be repaid in equal quarterly instalments amortising down to 60% of the original drawn amount by 19 November 2017.

On 14 November 2016, Pacific Energy (KPS) Pty Ltd and the Australian and New Zealand Banking Group (ANZ) agreed to extend the agreement by varying the Termination Date to 31 July 2018 (Facilities A and B) and to 20 November 2017 (Facilities C, D and E). All other terms of the agreement continue in full force and effect.

At 30 June 2017, $19.0 million remained undrawn on the ANZ loan facilities (2016: $12.5 million undrawn on the ANZ loan facilities).

18. LOANS AND BORROWINGS (CONTINUED)

HIRE PURCHASE FACILITY

In thousands of AUD	2017	2016
Carrying amount of liability at the beginning of the period	-	528
Proceeds from drawdown of facilities	3,510	-
Repayments	(500)	(528)
Carrying amount of liability at the end of the period	3,010	-

The total amount drawn at 30 June 2017 was $3.1 million (2016: nil). The Equipment Finance Facility bears interest at a weighted average rate of 4.2% and are repayable over 3 years.

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

19. EMPLOYEE BENEFITS

In thousands of AUD	2017	2016
Current		
Liability for annual & long service leave	819	475
Non-current		
Liability for long service leave	129	248
Total employee benefit liabilities	948	723

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 2017, the following options have been issued and are outstanding:

Grant date / employees entitled	Number of instruments	Vesting conditions
Options granted to director on 14 May 2015	5,000,000	Over a period of 36 months' service
Options granted to employee on 3 May 2017	2,000,000	Over a period of 36 months' service
Total share options	7,000,000	

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

	Weighted average exercise price 2017	Number of options 2017	Weighted average exercise price 2016	Number of options 2016
Outstanding at the beginning of the period	$0.62	7,000,000	$0.60	8,500,000
Granted during the period	$0.85	2,000,000	-	-
Exercised during the period	$0.60	(1,000,000)	-	-
Cancelled during the period	$0.70	(1,000,000)	$0.50	(1,500,000)
Outstanding at the end of the period	$0.68	7,000,000	$0.62	7,000,000
Exercisable at the end of the period	$0.58	3,000,000	$0.58	2,000,000

The options outstanding at 30 June 2017 have exercise prices in the range of $0.55 to $0.90 (2016: $0.55 to $0.70) and a weighted average remaining contractual life of 3.3 years (2016: 3.7 years).

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 Black-Scholes 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
14 May 2015							
Tranche 1	2 June 2020	$0.0629	$0.55	$0.425	38%	2.36%	5.81%
Tranche 2	2 June 2020	$0.0556	$0.60				
Tranche 3	2 June 2020	$0.0494	$0.65				
3 May 2017							
Tranche 1	31 March 2021	$0.0846	$0.80	$0.670	29%	1.83%	3.40%
Tranche 2	31 March 2022	$0.0775	$0.90			2.12%	3.40%

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 performance rights

The Company has established the Pacific Energy Limited Employee Rights Plan. The rights were granted at no cost, vest immediately and are convertible to ordinary shares at the request of the holder.

A summary of the movements of all Company performance rights on issue is as follows:

Number of performance rights	2017	2016
Balance at the beginning of the year	-	-
Performance rights granted during the year	578	-
Performance rights exercised during the year	(501)	-
Balance at the end of the year	77	-

During the year 577,784 shares were purchased by the employee share trust. As at 30 June 2017, there were 60,892 unallocated Pacific Energy shares in trust.

EMPLOYEE EXPENSES

In thousands of AUD	Notes	2017	2016
Shares granted in 2016		-	174
Share options granted in 2016		-	248
Performance rights issued 2017		353	
Shares granted in 2017		55	-
Share options granted in 2017		31	-
Total expense recognised as employee costs	6	439	422

21.PROVISIONS

In thousands of AUD	2017	2016
Current		
Decommissioning and dismantling costs		
At the beginning of the period	1,350	905
Provisions written back during the period	-	(34)
Reclassification from non-current	49	461
Provision used	(20)	-
Unwind of discount	2	18
Balance at the end of the period	1,381	1,350
Non-Current		
Decommissioning and dismantling costs		
At the beginning of the period	691	1,012
Provisions made during the period	101	114
Reclassification to current	(49)	(461)
Unwind of discount	29	26
Balance at the end of the period	772	691

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.

The provision represents the present value of the estimated cost to decommission and dismantle the plant and equipment located at mine sites. The calculation of these expected future cash flows was based on the following key assumptions:

- Cash flows were projected based on best estimates of expected future decommissioning and dismantling costs;
- A probability factor of 50% has been used to approximate the probability of a site requiring dismantling; and
- A discount rate of 4.3% was applied in determining the present value of the estimated future cash flows.

22. TRADE AND OTHER PAYABLES

In thousands of AUD	2017	2016
Trade payables	3,194	1,963
Non-trade payables and accrued expenses	589	1,089
	3,783	3,052

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 24.

23. OTHER INVESTMENTS, INCLUDING DERIVATIVES

In thousands of AUD	2017	2016
Current asset		
Investment in Listed Shares at fair value[1]	-	1,200
Non-current liability		
Interest rate swap – cash flow hedge[2]	265	152

[1] The fair value of listed securities is established from the quoted prices in the active market of the Australian Securities Exchange for identical assets in accordance with the Level 1 of the fair value measurement hierarchy.

[2] These instruments were entered into for hedging purposes as detailed in Note 24.

24. 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 receivables 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 66% of the Group's revenue from electricity generation is attributable to sales transactions with four customers (each individually greater than 10%) (2016: 63% from four 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.

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	2017	2016
Cash and cash equivalents	15	5,122	5,810
Trade and other receivables	14	6,312	6,569
		11,434	12,379

24. FINANCIAL INSTRUMENTS (CONTINUED)

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	2017	2016	2017	2016	2017	2016	2017	2016
Secured bank loan	(30,460)	(43,602)	(6,990)	(7,443)	(23,470)	(36,159)	-	-
Hire purchase liabilities	(3,282)	-	(1,022)	-	(2,260)	-	-	-
Trade and other payables	(3,783)	(3,052)	(3,783)	(3,052)	-	-	-	-
Interest rate swaps used for hedging	(265)	(152)	(48)	(102)	(217)	(50)	-	-
	(37,790)	(46,806)	(11,843)	(10,597)	(25,947)	(36,209)	-	-

As detailed at Note 18, the nominal interest rate applicable to the secured bank loan is BBSY +0.875%.

The following table indicates the period in which the cash flows associated with derivatives that are cash flow hedges are expected to occur.

In thousands of AUD	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
30 June 2017							
Interest rate swaps	(265)	(265)	(48)	-	(86)	(131)	-
	(265)	(265)	(48)	-	(86)	(131)	-
30 June 2016							
Interest rate swaps	(152)	(152)	(46)	(56)	(50)	-	-
	(152)	(152)	(46)	(56)	(50)	-	-

The following table indicates the period in which the cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss.

In thousands of AUD	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
30 June 2017							
Interest rate swaps	(265)	(265)	(48)	-	(86)	(131)	-
	(265)	(265)	(48)	-	(86)	(131)	-
30 June 2016							
Interest rate swaps	(152)	(152)	(46)	(56)	(50)	-	-
	(152)	(152)	(46)	(56)	(50)	-	-

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 administration costs, purchases of spare parts and plant and equipment that are denominated in South African Rand (ZAR) and US dollars (USD). The Group does not use currency hedging for administration expenses as the receipts in ZAR and USD are used to meet the liability obligations of the Group entities denominated in ZAR and 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.

During the financial year ended 30 June 2017, the Group did not enter into any forward foreign currency contracts.

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	2017			2016		
In thousands of AUD	AUD	ZAR	USD	AUD	ZAR	USD
Trade and other receivables	6,312	-	-	6,569	-	-
Trade and other payables	(3,777)	(62)		(3,051)	(18)	-
Net exposure	2,535	(62)	-	3,518	(18)	-

The following significant exchange rates applied during the period:

	Average rate		Reporting date spot rate	
AUD	2017	2016	2017	2016
USD	n/a	0.7228	n/a	-
ZAR	10.2485	11.1097	10.0526	11.1344

Sensitivity analysis

A strengthening of the AUD, as indicated below, against the ZAR and USD at 30 June 2017 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 2016, as the reasonably possible foreign exchange rate variances were the same for both periods.

In thousands of AUD	Equity	Profit or loss
30 June 2017		
ZAR (5 percent strengthening)	(19)	19
USD (5 percent strengthening)	n/a	n/a
30 June 2016		
ZAR (5 percent strengthening)	(2)	2
USD (5 percent strengthening)	-	1

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.

24. FINANCIAL INSTRUMENTS (CONTINUED)

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 2017	2016
Variable rate instruments		
Financial assets	5,122	5,810
Financial liabilities	(32,848)	(41,980)
	(27,726)	(36,170)

Cash flow sensitivity for variable rate instruments

A change of 40 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.

	Profit or loss		Equity	
Effect In thousands of AUD	40bp increase	40bp decrease	40bp increase	40bp decrease
30 June 2017				
Variable rate instruments	(122)	122	-	-
Interest rate swap	-	-	(9)	9
Cash flow sensitivity (net)	(122)	122	(9)	9
30 June 2016				
Variable rate instruments	(134)	134	-	-
Interest rate swap	-	-	135	(135)
Cash flow sensitivity (net)	(134)	134	135	(135)

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	2017	2016
Total liabilities	54,428	57,597
Less: cash and cash equivalents	(5,122)	(5,810)
Net debt	49,306	51,787
Total capital	145,098	136,837
Debt-to-capital ratio at the end of the period	0.34	0.38

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 and forward exchange contracts are 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.

24. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES (CONTINUED)

(iii) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes 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 statement of financial position except as follows:

	2017		2016	
In thousands of AUD	Carrying amount	Fair value	Carrying amount	Fair value
Liabilities carried at amortised cost				
Secured bank loan	(29,751)	(30,460)	(41,980)	(43,602)
Hire purchase liabilities	(3,097)	(3,282)	-	-
	(32,848)	(33,742)	(41,980)	(43,602)

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).

	Level 1		Level 2		Level 3		Total	
In thousands of AUD	2017	2016	2017	2016	2017	2016	2017	2016
Secured bank loan	-	-	(30,460)	(43,602)	-	-	(30,460)	(43,602)
Hire purchase liabilities	-	-	(3,282)	-	-	-	(3,282)	-
Interest rate swaps used for hedging	-	-	(265)	(152)	-	-	(265)	(152)
Investment in listed shares	-	1,200	-	-	-	-	-	1,200
	-	1,200	(34,007)	(43,754)	-	-	(34,007)	(42,554)

There have been no transfers of assets between the Levels during the year ended 30 June 2017 or the year ended 30 June 2016.

25. COMMITMENTS

OPERATING LEASE COMMITMENTS

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	2017	2016
Less than one year	625	76
Between one and five years	2,050	-
Later than 5 years	-	-
	2,675	76

The Group leases offices, a workshop, a storage area and a house (accommodation for FIFO employees) under operating leases. The leases in Australia currently have terms of five years with the option to renew the lease after that date, except for the house which has a 12-month term. The leases in South Africa currently have terms of two years with the option to renew the lease after that date.

During the year ended 30 June 2017, $0.7 million was recognised as an expense in the income statement in respect of operating leases (2016: $0.7 million). The office, workshop, storage area and house 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.

CAPITAL COMMITMENTS

At 30 June 2017, the Group had no capital commitments in relation to purchases of plant and equipment.

26. RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is as follows:

In AUD	2017	2016
Short-term employee benefits	1,510,782	1,476,564
Post-employment benefits	84,771	88,455
Other long-term benefits	-	2,542
Share-based payments	86,926	248,907
Termination benefits	101,935	-
	1,784,414	1,816,468

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.

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.

26. RELATED PARTIES (CONTINUED)

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 2017 (2016: $1.5 million).

27. GROUP ENTITIES

Name of entity	Country of incorporation	Ownership Interests 2017	2016
Parent entity			
Pacific Energy Limited	Australia		
Significant subsidiaries			
Pacific Energy (Victorian Hydro) Pty Ltd	Australia	100%	100%
Pacific Energy (KPS) Pty Ltd	Australia	100%	100%
Waste Heat Recovery Systems Pty Ltd	Australia	100%	100%
KPS Power Africa (Pty) Ltd	South Africa	100%	100%
KPS Power Africa (Tanzania) Ltd	Tanzania	100%	-
Interest in trusts			
Pacific Energy Limited Employee Share Trust	Australia	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 (2016: 1.5 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 12 October 2017 out of retained earnings, but not recognised as a liability at year end is $5.6 million (2016: $5.6 million).

(B) FRANKED DIVIDENDS

The franked portions of the final dividend declared after 30 June 2017 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 2017.

In thousands of AUD	2017	2016
Franking credits available for subsequent financial years based on a tax rate of 30% (2016: 30%)	6,303	9,611
	6,303	9,611

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

(iii) 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 (2016: $2.4 million).

29. SUBSEQUENT EVENT

Apart from the dividend declared as disclosed in Note 28(a), no other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

30. AUDITORS' REMUNERATION

In AUD	2017	2016
Audit services		
Auditors of the company: Audit and review of financial reports	83,500	89,000
	83,500	89,000

31. PARENT ENTITY DISCLOSURES

	Company	
In thousands of AUD	2017	2016
Profit / (loss) for the period	234	509
Other comprehensive income	-	-
Total comprehensive income for the period	234	509
Current assets	584	1,037
Total assets	158,698	167,373
Current liabilities	8,351	9,060
Total liabilities	8,405	9,095
Shareholders' equity		
Share capital	111,472	110,318
Option reserve	112	324
Accumulated profit	37,709	47,636
Total shareholders' equity	150,293	158,278

GUARANTEES PROVIDED IN RELATION TO SUBSIDIARIES

Pacific Energy Limited provides a parent-company guarantee in respect of a Hire Purchase facility of $3.1 million that was established by Pacific Energy (KPS) Pty Ltd (see Note 18).

CONTINGENT LIABILITIES AND COMMITMENTS

At 30 June 2017, 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 2017

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

(a) the Group's financial statements and notes set out on pages 19 to 57 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 2017 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 2017.

Signed in accordance with a resolution of the directors:

Chief Executive Officer & Managing Director
Dated at Perth this 25th day of August 2017.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PACIFIC ENERGY LTD

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Pacific Energy Ltd (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated income statement, consolidated statement of 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 Director's Declaration of the Company.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001* including:

a) giving a true and fair value of the consolidated Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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Recoverable amount of property, plant and equipment (AUD $160,011,000) and intangible assets, including goodwill (AUD $24,132,000)	
Refer to Notes 10 Property, Plant and Equipment, 11 Intangible Assets, and 3(h)(ii) Impairment of non-financial assets of the financial report	
Key audit matter	**How our audit addressed the matter**
The evaluation of the recoverable amount of property, plant and equipment and intangible assets, including goodwill, is a key audit matter as: ▪ These assets represented 93.6% of the Group's total assets. ▪ The sector in which the Group's customers operate experienced difficult market conditions during the year which increased the uncertainty of forecast cash flows used in the valuation model. ▪ The evaluation of recoverable amount of these assets requires significant judgement in determining the key assumptions supporting the expected cash flows of the business and utilisation of the relevant assets. We focused on the Group's valuation methodologies and the key inputs as forecast cash flows, discount rates applied, forecast growth rates and terminal growth rates.	Our procedures included, but were not limited to: ▪ We assessed management's determination of the Cash Generating Units (CGU's) based on our understanding of the nature of the Group's business. We also analysed the internal reporting of the Group to assess how results were monitored and reported. ▪ We compared the cash flow forecasting process undertaken by the Group by assessing the precision of prior year forecast cash flows by comparing to actual outcomes. We used knowledge from this evaluation to inform our approach ▪ We challenged management's forecast cash flows based on our understanding of existing agreements in place for the forecast period. ▪ We challenged the Group's valuation methodologies, discount rates and growth rates. This included comparing the Group's inputs to external data such as economic growth projections and interest rates. ▪ We performed sensitivity analysis on the discount rate and growth rate inputs for all CGU's. ▪ We assessed management's consideration of the sensitivity to a change in key assumptions that either individually or collectively would be required for assets to be impaired and considered the likelihood of such movement in those key assumptions arising.

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Classification of Bank Debt (AUD $29,751,000)	
Refer to Note 18 Loans and borrowings of the financial report	
Key audit matter	**How our audit addressed the matter**
The classification of bank debt as current or non-current liabilities is a key audit matter as: ▪ Bank debt represented 57.5% of the Group's total liabilities. ▪ Bank facilities include covenants that influence the classification and presentation of bank debt. The Group's bank debt is held through three facilities.	Our procedures included, but were not limited to: ▪ We reviewed the facility agreements that were in place at balance date. ▪ We reviewed management's assessment of compliance with the covenant requirements. ▪ We assessed whether the classification and presentation of bank debt is in accordance with Australian Accounting Standards.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report and securities information included in the annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities

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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, discussing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material

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misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for the audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We are also required to provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may be reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit

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matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Pacific Energy Ltd for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

Crowe Horwath Perth

CROWE HORWATH PERTH

Sean McGurk

SEAN MCGURK
Partner

Signed at Perth, 25th August 2017

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ASX ADDITIONAL INFORMATION

For the year ended 30 June 2017

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. The information is current as at 13 September 2017.

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

Shareholder	Number of fully paid shares	Percentage of fully paid shares
Sept Pty Ltd <Hall Family Fund A/C>	176,718,244	47.73
J P Morgan Nominees Australia Limited	36,459,066	9.81
National Nominees Limited	23,198,065	6.24
Citicorp Nominees Pty Limited	19,063,106	5.13
HSBC Custody Nominees (Australia) Limited	17,294,119	4.65
RBC Investor Services Australia Nominees Pty Limited <VFA A/C>	15,412,189	4.15
Mr Kenneth Joseph Hall <Hall Park A/C>	8,000,000	2.15
BNP Paribas Noms Pty Ltd <DRP>	6,553,664	1.76
RBC Investor Services Australia Nominees Pty Limited <MBA A/C>	6,315,905	1.70
BNP Paribas Noms Pty Ltd <DRP>	5,087,558	1.37
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	3,028,814	0.81
Cleveland Investment Global Limited	2,000,000	0.54
Renewable Initiative Pty Limited	1,866,433	0.50
Bond Street Custodians Limited <Forager Wholesale Value FD>	1,698,134	0.46
E-Tech Capital Pty Ltd <ASF Super Fund A/C>	1,471,134	0.40
Botsis Super Pty Ltd <Phil & Pam Botsis S/Fund A/C>	1,388,798	0.37
Mr Brady Norman Hall <BJM Family A/C>	1,070,000	0.29
Chemco Superannuation Fund Pty Ltd <Chemco Super Fund No 2 A/C>	1,000,000	0.27
Mr Trevor Coulter + Staples Rodway Trustee Company Ltd <Simon Coulter No 1 A/C>	1,000,000	0.27
Solution Management Pty Ltd <Lawrenson Family A/C>	1,000,000	0.27
Total Top 20	**329,625,229**	**88.66**

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Ordinary Share Capital

371,788,117 fully paid ordinary shares are held by 1,910 individual shareholders.
All issued ordinary shares carry one vote each.

Options

7,000,000 unlisted options are held by 2 individual option holders.
Unlisted options have no voting rights.

Following is a distribution schedule of the number of holders in each class of equity securities:

Categories	Number of holders of ordinary shares	Number of holders of unquoted options
1 - 1,000	276	0
1,001 - 5,000	540	0
5,001 - 10,000	314	0
10,001 - 100,000	697	0
100,001 and over	83	2
	1,910	**2**

The number of shareholders holding less than a marketable parcel of ordinary shares is 233.

SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporation Act 2001 are:

Shareholder	Note	Number of fully paid shares	Percentage of fully paid shares
Kenneth Hall	(1)	184,718,244	49.68%
IOOF Holdings Limited	(2)	28,044,544	7.54%
Commonwealth Bank of Australia	(2)	19,561,246	5.26%

Note: (1) Includes Kenneth Hall controlled entities Sept Pty Ltd and Mr Kenneth Joseph Hall <Hall Park A/C>
(2) The substantial holding notice provides the relevant interests of the company's related bodies corporate.

CORPORATE DIRECTORY

Pacific Energy Ltd
ABN 22 009 191 744

DIRECTORS

Mr M Cliff Lawrenson
Non-Executive Chairman

Mr James Cullen
CEO & Managing Director

Mr Kenneth J Hall
Executive Director

Mr A Stuart Foster
Non-Executive Director

Mr Linton Putland
Non-Executive Director

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POSTAL ADDRESS

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COMPANY SECRETARY

Mr Michael Kenyon

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AUDITOR

Crowe Horwath
Level 6, 256 St Georges Terrace
Perth WA 6000
Australia

STOCK EXCHANGE LISTING

Australian Securities Exchange

ASX CODE: PEA

PACIFICENERGY

Pacific Energy Limited
- and its controlled entities -
ABN 22 009 191 744

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