Pacific Energy Limited (PEA)

22 009 191 744

Appendix 4D – Half Year Report for six months ended 31 December 2017

1. Details of reporting periods:

Current reporting period : Six (6) months to 31 December 2017

Previous corresponding period : Six (6) months to 31 December 2016

2. Results for announcement to the market:

	Six Months 31 December 2017 $'000	Six Months 31 December 2016 $'000	% Change
Revenues	**29,968**	29,019	3%
Profit after tax	**8,034**	9,006	(11%)
Profit after tax attributable to members.	**8,034**	9,006	(11%)

Commentary on the above figures is included in the accompanying ASX Announcement and the attached Interim Financial Report for the half year ended 31 December 2017.

Dividends / distributions	Amount per security (cents)	Franked amount per security (cents)	Amount $'000	Amount per security of foreign sourced dividends (cents)	Record date	Date paid / payable
Interim dividend – current period	**1.0**	**1.0**	**3,702**	**-**	**28-Mar-18**	**13-Apr-18**
Interim dividend – previous period	**1.0**	**1.0**	**3,702**	**-**	**6-Mar-17**	**10-Apr-17**

3. Statement of comprehensive income

Refer to attached Interim Financial Report for the half year ended 31 December 2017.

4. Statement of financial position

Refer to attached Interim Financial Report for the half year ended 31 December 2017.

This Appendix 4D Half Year Report is provided to the ASX under Listing Rule 4.3B and should be read in conjunction with the accompanying Interim Financial Report for the half year ended 31 December 2017.

5. Statement of cash flows

Refer to attached Interim Financial Report for the half year ended 31 December 2017.

6. Dividend payments

The Company paid a final 30 June 2017 fully franked dividend of 1.5 cents per share, $5.6 million on 12 October 2017 (2016: $5.6 million).

7. Dividend reinvestment plans

The Company's Dividend Reinvestment Plan will operate for the interim dividend. The Directors have resolved that the shares will be allotted at a 2.5% discount to the market price of Pacific Energy shares, which will be the volume-weighted average ex-dividend market price of the shares traded on the five business days following the record date.

8. Statement of changes in equity

Refer to attached Interim Financial Report for the half year ended 31 December 2017.

9. Net tangible assets per security

	31 December 2017 Cents	30 June 2017 Cents
Net tangible assets per ordinary security	36.4	35.6

10. Gain or loss of control over entities

Refer to attached Interim Financial Report for the half year ended 31 December 2017.

11. Associates and joint ventures

Not applicable.

12. Other significant information

Not applicable.

13. Foreign entities

Not applicable.

14. Status of audit

The Interim Financial Report for the half year ended 31 December 2017 has been audit reviewed and is not subject to dispute or qualification.

PACIFIC ENERGY LIMITED

ABN 22 009 191 744

INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED

31 DECEMBER 2017

Corporate Directory

Directors
Mr M Cliff Lawrenson
Non-Executive Chairman

Mr James D Cullen
Chief Executive Officer & Managing Director

Mr Kenneth J Hall
Executive Director

Mr A Stuart Foster
Non-Executive Director

Mr Linton Putland
Non-Executive Director

Company Secretary
Mr Michael Kenyon

Registered & Principal Office
338 Gnangara Road
LANDSDALE WA 6065
AUSTRALIA

Telephone: +61 8 9303 8888
Facsimile: +61 8 9303 8899
Email: info@pacificenergy.com.au
Website: www.pacificenergy.com.au
www.kps.com.au
www.kpspowerafrica.com
www.novapower.com.au

Postal Address
PO Box 5
KINGSWAY WA 6065
AUSTRALIA

Share Registry
Computershare Investor Services Pty Limited
GPO Box 2975
MELBOURNE VIC 3001
AUSTRALIA

Telephone: 1300 850 505 (within Australia)
+61 3 9415 4000 (outside Australia)
Facsimile: +61 3 9473 2500

Auditor
BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008
AUSTRALIA

Bankers
Australian & New Zealand Banking Group Limited
77 St Georges Terrace
PERTH WA 6000
AUSTRALIA

Solicitor
DLA Piper
Level 31, Central Park
152-158 St Georges Terrace
PERTH WA 6000
AUSTRALIA

Stock Exchange Listing
Australian Securities Exchange
ASX Code: PEA

Contents

The directors present their report together with the consolidated financial report for the six months ended 31 December 2017 and the review report thereon.

Directors

The directors of the company at any time during or since the end of the interim period are:

Mr M Cliff Lawrenson	Non-Executive Chairman
Mr James D Cullen	Chief Executive Officer & Managing Director
Mr Kenneth J Hall	Executive Director
Mr A Stuart Foster	Non-Executive Director
Mr Linton Putland	Non-Executive Director

Unless otherwise disclosed, all directors held their office from 1 July 2017 until the date of this report.

Review of Financial Operations

Profit and earnings per share

Consolidated entity (or Group) net profit after tax for the six month period ended 31 December 2017 was $8.0 million, compared with a net profit after tax of $9.0 million during the previous six month period to 31 December 2016.

Based on 371,830,093 weighted average shares on issue during the six month period to 31 December 2017, the result as detailed in these financial statements represents a basic profit of 2.16 cents per share (31 December 2016: profit of 2.43 cents per share).

The table below provides a comparison of the key results for the six month period ended 31 December 2017 as reported, against the six month period ended 31 December 2016.

Comprehensive Income Statement	% Change	6 month period to 31 December 2017 $'000	6 month period to 31 December 2016 $'000
Revenue from operations	3%	29,968	29,019
Underlying EBITDA[1]	**3%**	**21,046**	**20,461**
Reported EBITDA	(4%)	20,336	21,277
Reported profit after tax attributable to members	(11%)	8,034	9,006

[1]Underlying EBITDA equates to EBITDA before recognising profit on sale of other assets and investments in the prior period and business acquisition costs in the current period.

EBITDA performance

Group reported EBITDA for the six months ended 31 December 2017 of $20.3 million was 4% lower than $21.3 million EBITDA reported for the six months to 31 December 2016. The decrease in EBITDA compared to the prior period is primarily the result a one off gain on the sale of an investment in the prior period and business acquisition costs incurred during the current period. A table detailing the underlying EBITDA result has been included below.

Underlying EBITDA	31 December 2017 $'000	31 December 2016 $'000
EBITDA – Reported	20,336	21,277
Add: Business acquisition costs[1]	710	-
Less: Profit on sale of investments	-	(816)
EBITDA – Underlying	**21,046**	**20,461**

[1] Business acquisition costs relate to the successful acquisition of NovaPower Pty Ltd and detailed due diligence performed on an additional business that was ultimately not acquired.

Financial position

Capital expenditure of $14.6m (31 December 2016: $7.9m) in the first half of the financial year was relatively high due to installation of new contracted capacity across various sites. As a result of this and the $7.9m acquisition of NovaPower Pty Ltd in December 2017, the Company's Net Debt to Enterprise Value increased over the six month period from 13% to 16%. Capital expenditure is expected to be modest in the second half of the year.

Review of Operations

Power Generation Activities

Kalgoorlie Power Systems

Pacific Energy's core business is Kalgoorlie Power Systems (KPS). The KPS business builds, owns and maintains diesel, gas and dual fuelled power stations located at mine sites across Western Australia, Northern Territory and South Australia. The total contracted generation capacity of the KPS business is now approaching 300MW. See Operating Segment Note 5 for more details of the financial performance of the KPS Power Generation segment.

New Power Station Contracts and Extensions / Terminations

From 1 July 2017 to the date of this report, KPS secured contracts for new power stations and contract extensions / termination for the following clients:

- Saracen Metals Pty Ltd for a 5MW expansion to the existing Carosue Dam power station, along with a contract extension to 2021;
- Regis Resources Ltd for a 4MW expansion to the existing Garden Well power station, along with a contract extension to 2023 together with a contract extension to 2020 at the Duketon site;
- Newmont Tanami Pty Ltd for a 2MW expansion to two existing power stations located in the Northern Territory, along with an extension of the contract term for each to 31 December 2018;
- Sandfire Resources Ltd for a three year contract for a new 4MW diesel-fuelled power station located at the Monty site in Western Australia;
- Aragon Resources Ltd for a 3MW expansion to the existing Fortnum power station in Western Australia; and
- In November 2017 Newmont Tanami Pty Ltd notified KPS that it had been unsuccessful with its tender to supply two new gas-fuelled power stations which will replace KPS's existing diesel fuelled power stations. As a result, the existing diesel-fuelled power station assets will be relocated to the Company's head office facility or otherwise redeployed, on or after 31 December 2018, depending on the date of successful commissioning of the replacement power stations.

Victorian Hydro operations

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

The Cardinia and Blue Rock hydro power stations both performed in line with budget during the period. Renewable energy generation by Cardinia and Blue Rock totaled 3.7GWh (2016: 6.8 GWh) and 3.7GWh (2016: 5.1 GWh) respectively. The generation performance of these hydro power stations is entirely dependent on water flows made available by the relevant water authority suppliers. Particularly pleasing was the return to usual water supply volumes to the Cardinia hydro power station during the period.

NovaPower Operations

During the period Pacific Energy completed the acquisition of NovaPower Pty Ltd (NovaPower). NovaPower owns the 10MW Nova gas-fired power station in Traralgon, Victoria. Nova was commissioned in 2014 as a highly-efficient/low emissions gas-fired power station to generate quick response electricity in peak demand periods. The plant operates when the spot price of electricity exceeds the cost of acquiring gas plus an R&M allowance.

Subsequent to the acquisition on 20th December 2017, NovaPower contributed only 11 days of revenue and profit to the financial results of the Group.

Directors' Report

Lead Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 4 and forms part of the directors' report for the six months ended 31 December 2017.

Rounding Off

The company is of a kind referred to in ASIC Legislative Instrument 2016/191 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.

Signed in accordance with a resolution of the directors.

Jamie Cullen
Chief Executive Officer & Managing Director

Dated at Perth this 21st day of February 2018.

Lead Auditor's Independence Declaration

BDO

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

DECLARATION OF INDEPENDENCE BY GLYN O'BRIEN TO THE DIRECTORS OF PACIFIC ENERGY LIMITED

As lead auditor for the review of Pacific Energy Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Pacific Energy Limited and the entities it controlled during the period.

Glyn O'Brien

Director

BDO Audit (WA) Pty Ltd

Perth, 21 February 2018

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2017

In thousands of AUD	31 December 2017	31 December 2016
Revenue	29,968	29,019
Other income	113	837
Consumables and spare parts	(2,575)	(2,203)
Employee benefits expense	(4,882)	(4,272)
Impairment expense	-	15
Business acquisition expense	(710)	-
Other expenses	(1,578)	(2,119)
Earnings before interest, tax, depreciation and amortisation	20,336	21,277
Depreciation and amortisation	(8,230)	(7,770)
Results from operating activities	**12,106**	**13,507**
Financial income	25	68
Financial expenses	(801)	(912)
Net financing expense	**(776)**	**(844)**
Profit before income tax	**11,330**	**12,663**
Income tax expense	(3,296)	(3,657)
Profit for the period	**8,034**	**9,006**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	1	3
Effective portion of changes in fair value of cash flow hedges, net of tax	146	56
Other comprehensive profit (loss) for the period, net of income tax	**147**	**59**
Total comprehensive profit for the period	**8,181**	**9,065**
Profit attributable to:		
Equity holders of the company	8,034	9,006
Profit for the period	**8,034**	**9,006**
Total comprehensive income attributable to:		
Equity holders of the company	8,181	9,065
Total comprehensive income for the period	**8,181**	**9,065**
Earnings per share		
Basic earnings per share (cents)	2.16	2.43
Diluted earnings per share (cents)	2.16	2.43

The condensed notes on pages 9 to 13 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Financial Position

As at 31 December 2017

In thousands of AUD	**Notes**	**31 December 2017**	**30 June 2017**
Assets			
Cash and cash equivalents		4,560	5,019
Trade and other receivables		7,878	6,312
Inventory		1,263	1,261
Total current assets		**13,701**	**12,592**
Cash and cash equivalents		103	103
Property, plant and equipment		174,605	160,011
Intangible assets		23,625	24,132
Total non-current assets		**198,333**	**184,246**
Total assets		**212,034**	**196,838**
Liabilities			
Trade and other payables		5,626	3,783
Employee benefits		791	819
Provisions		1,212	1,381
Current tax liabilities		758	302
Loans and borrowings		6,996	6,869
Total current liabilities		**15,383**	**13,154**
Loans and borrowings		36,137	25,892
Provisions		1,268	772
Employee benefits		142	129
Derivative financial instruments		119	265
Deferred tax liabilities		11,025	11,528
Total non-current liabilities		**48,691**	**38,586**
Total liabilities		**64,074**	**51,740**
Net assets		**147,960**	**145,098**
Equity			
Share capital	6	111,676	111,472
Reserves		40	(159)
Retained earnings		36,244	33,785
Total equity		**147,960**	**145,098**

The condensed notes on pages 9 to 13 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2017

In thousands of AUD	Share Capital	Translation reserve	Hedging reserve	Option reserve	Retained earnings	Total equity
Balance at 1 July 2017	**111,472**	**(6)**	**(265)**	**112**	**33,785**	**145,098**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	8,034	8,034
Foreign currency translation differences for foreign operations	-	2	-	-	-	2
Effective portion of change in FV of cash flow hedge, net of tax	-	-	146	-	-	146
Total other comprehensive income	-	2	146	-	-	148
Total comprehensive income for the period	-	2	146	-	8,034	8,182
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(5,577)	(5,577)
Share buy-back	(130)	-	-	-	-	(130)
Issue of share options & rights	-	-	-	389	-	389
Settlement of employee share schemes	334	-	-	(336)	-	(2)
Total transactions with owners	204	-	-	53	(5,577)	(5,320)
Balance at 31 December 2017	**111,676**	**(4)**	**(119)**	**165**	**36,242**	**147,960**
Balance at 1 July 2016	**110,318**	**-**	**(152)**	**324**	**26,346**	**136,836**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	9,006	9,006
Foreign currency translation differences for foreign operations	-	3	-	-	-	3
Effective portion of change in FV of cash flow hedge, net of tax	-	-	56	-	-	56
Total other comprehensive income	-	3	56	-	-	59
Total comprehensive income for the period	-	3	56	-	9,006	9,065
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Dividends paid	-	-	-	-	(5,552)	(5,552)
Issue of ordinary shares, net of transaction costs and tax	53	-	-	-	-	53
Equity settled share based payment transactions	-	-	-	64	-	64
Total transactions with owners	**53**	**-**	**-**	**64**	**(5,552)**	**(5,435)**
Balance at 31 December 2016	**110,371**	**3**	**(96)**	**388**	**29,800**	**140,466**

The condensed notes on pages 9 to 13 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2017

In thousands of AUD	31 December 2017	31 December 2016
Cash flows from operating activities		
Receipts from customers	28,888	29,006
Payments to suppliers and employees	(7,538)	(8,888)
Interest received	25	68
Interest paid	(724)	(821)
Income taxes paid	(3,341)	(2,513)
Net cash provided by operating activities	**17,310**	**16,852**
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,558)	(7,909)
Acquisition of NovaPower	(7,773)	-
Proceeds from the sale of other assets and investments	-	2,016
Payments relating to new electricity supply contracts	(44)	(45)
Net cash used in investing activities	**(22,375)**	**(5,938)**
Cash flows from financing activities		
Payment of transaction costs	(73)	(24)
Dividends paid	(5,577)	(5,552)
Payments for share buy-back	(130)	-
Proceeds from borrowings	13,828	431
Repayments of borrowings	(3,443)	(3,016)
Net cash provided by (used in) financing activities	**4,605**	**(8,161)**
Net increase (decrease) in cash and cash equivalents	**(460)**	**2,753**
Cash and cash equivalents at the beginning of the period	5,019	5,707
Exchange rate movements	1	3
Current cash and cash equivalents at the end of the period	**4,560**	**8,463**

The condensed notes on pages 9 to 13 are an integral part of these consolidated interim financial statements.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2017

1. Reporting Entity

Pacific Energy Limited (the "Company" or "Pacific Energy") is a company domiciled in Australia. The consolidated interim financial report of the company as at and for the six months ended 31 December 2017 comprises the company and its subsidiaries (together referred to as the "Group").

The consolidated annual financial report of the Group for the year ended 30 June 2017 is available upon request from the company's registered office at 338 Gnangara Road, Landsdale WA 6065, Australia.

2. Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting and the Corporations Act 2001*.

The half-year report does not include notes of the type normally included in an annual financial report, and should be read in conjunction with the most recent annual financial report.

3. Significant Accounting Policies

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

All amounts are presented in Australian dollars, unless otherwise noted. The company is of a kind referred to in ASIC Legislative Instrument 2016/191, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's financial report for the year ended 30 June 2017. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The adoption of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) has not resulted in any changes to the company's accounting policies and has no effect on the accounts reported in the current and prior periods.

4. Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2017.

5. Operating Segments

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

Other operations include Hydro Power Generation and Gas Fired Power Generation which do not meet any of the quantitative thresholds for determining reportable segments at 31 December 2017.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2017

5. Operating Segments (continued)

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

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

Information about reportable segments

	KPS Power Generation		Other		Intersegment eliminations/ unallocated		Total	
In thousands of AUD	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
External revenues	29,519	28,405	449	614	-	-	29,968	29,019
EBITDA	22,262	22,181	170	309	(2,096)	(1,213)	20,336	21,277
Interest income	23	61	1	3	1	4	25	68
Finance costs	(797)	(909)	-	-	(4)	(3)	(801)	(912)
Depreciation & amortisation	(8,041)	(7,605)	(181)	(159)	(8)	(6)	(8,230)	(7,770)
Profit before income tax	13,447	13,728	(10)	153	(2,107)	(1,218)	11,330	12,663
Income tax expense	(4,020)	(4,055)	-	(45)	724	443	(3,296)	(3,657)
Capital expenditure	(14,906)	(7,933)	(3)	(2)	(2)	-	(14,911)	(7,935)

Major customer

Revenues from four customers in the KPS Power Generation segment represents approximately 64% (31 December 2016: 64% from four customers) of the Group's total revenues (each customer greater than 10% individually).

6. Share Capital

	Number of shares ('000)		Share capital ($'000)	
In thousands of AUD	31 December 2017	31 December 2016	31 December 2017	31 December 2016
On issue at the beginning of the period	371,788	370,102	111,472	110,318
Issue of shares under employee share scheme	581	108	334	55
Share buy-back	(256)	-	(129)	-
Transaction costs, net of tax effect	-	-	(1)	(2)
On issue at 31 December - fully paid	372,113	370,210	111,676	110,371

Issuance of ordinary shares

During the six month period ended 31 December 2017, Pacific Energy issued 581,122 shares. All shares issued during the period were issued to employees under the Pacific Energy Employee Share Plan.

All issued Pacific Energy Shares are fully paid.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2017

7. Dividends

(a) Dividends not recognised at period end

Since the end of the period the Directors have declared a fully franked interim dividend of 1 cent (2016: 1 cent) per fully paid ordinary share. The aggregate amount of the dividend of $3.7 million is to be paid on 13 April 2018 and has not been recorded as a liability at 31 December 2017.

(b) Franked Dividends

The franked portions of the interim dividend declared after 31 December 2017 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the period ended 31 December 2017.

In thousands of AUD	31 December 2017	31 December 2016
Franking credits available for subsequent financial years based on a tax rate of 30% (2016: 30%)	9,941	9,656
	9,941	9,656

The above amounts represent the balance of the franking account as at the end of the period, 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 interim dividend declared by the Directors since period end, but not recognised as a liability at period end, will be a reduction in the franking account of $1.59 million (2016: $1.59 million).

8. Contingencies

There has been no change from that which was detailed in the financial report as at 30 June 2017 in regards to contingent assets and liabilities. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

9. Subsequent Events

There has not arisen in the interval between the end of the interim financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2017

10. Business Combinations

Acquisition of NovaPower

On 20 December 2017, Pacific Energy acquired 100% of the shares of NovaPower Pty Ltd for a purchase consideration of $7.5 million adjusted for the working capital balance as at the acquisition date. NovaPower is a 10MW gas-fired generation plant in Traralgon, Victoria that operates when the spot prices of electricity exceeds the cost of acquiring gas plus an R&M allowance.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

In thousands of AUD	
Cash paid – purchase price	7,500
Cash paid – working capital acquired	433
Total purchase consideration	7,933

The assets and liabilities recognised because of the acquisition are as follows:

In thousands of AUD	**Fair Value**
Cash and cash equivalents	152
Trade and other debtors	427
Plant and equipment	7,400
Trade and other payables	(47)
Net identifiable assets acquired	7,933
Goodwill	-
	7,933

The Consolidated Profit and Loss includes $0.3 million of costs directly related to the NovaPower acquisition.

NovaPower contributed revenue of $0.1 million to the Pacific Energy Limited Group during the period between 20 December and 31 December 2017.

Purchase consideration – cash outflow

In thousands of AUD	**31 December 2017**
Cash consideration	7,933
Less: Balances acquired	
Cash – NovaPower	(160)
Net outflow of cash – investing activities	7,773

Accounting Policy

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of subsidiary comprises the:

(i) fair values of the assets transferred

(ii) liabilities incurred to the former owners of the acquired business

(iii) equity interests issued by the group

(iv) fair value of any asset or liability resulting from contingent consideration arrangement, and

(v) fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

10. Business Combinations (continued)

Acquisition of NovaPower (continued)

Acquisition-related costs are expensed as incurred.

The excess of the

(i) consideration transferred,

(ii) amount of any non-controlling interest in the acquired entity, and

(iii) acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or financial liability. Amounts classified as financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the Company's previously held equity interest in the acquired business is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Director's Declaration

In the opinion of the directors of Pacific Energy Limited (the "company"):

1. the financial statements and notes set out on pages 9 to 13, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six month period ended that date; and

   (b) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

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

Dated at Perth this 21st day of February 2018.

Signed in accordance with a resolution of the directors:

Jamie Cullen
Chief Executive Officer & Managing Director

Independent Review Report

BDO

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Pacific Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Pacific Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated interim statement of financial position as at 31 December 2017, the consolidated interim statement of profit or loss and other comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Review Report

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Glyn O'Brien

Glyn O'Brien

Director

Perth, 21 February 2018