Pacific Energy Limited (PEA)
22 009 191 744
Appendix 4D – Half Year Report for six months ended 31 December 2018

1. Details of reporting periods:

Current reporting period	: Six (6) months to 31 December 2018
Previous corresponding period	: Six (6) months to 31 December 2017

2. Results for announcement to the market:

	Six Months 31 December 2018 $'000	Six Months 31 December 2017 $'000	% Change
Revenues	**67,681**	29,968	126%
Profit after tax	**14,160**	8,034	76%
Profit after tax attributable to members.	**14,160**	8,034	76%

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 2018.

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**	**4,300**	**-**	**27-Mar-19**	**12-Apr-19**
Interim dividend – previous period	**1.0**	**1.0**	**3,702**	**-**	**28-Mar-18**	**13-Apr-18**

3. Statement of comprehensive income

Refer to attached Interim Financial Report for the half year ended 31 December 2018.

4. Statement of financial position

Refer to attached Interim Financial Report for the half year ended 31 December 2018.

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 2018.

5. Statement of cash flows

Refer to attached Interim Financial Report for the half year ended 31 December 2018.

6. Dividend payments

The Company did not pay a final 30 June 2018 fully franked dividend (2017: $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 2018.

9. Net tangible assets per security

	31 December 2018 Cents	30 June 2018 Cents
Net tangible assets per ordinary security	33.7	30.0

10. Gain or loss of control over entities

Refer to attached Interim Financial Report for the half year ended 31 December 2018.

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 2018 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 2018

Corporate Directory

Directors
Mr M Cliff Lawrenson
Non-Executive Chairman

Mr James D Cullen
Managing Director

Mr Kenneth J Hall
Executive Director

Mr A Stuart Foster
Non-Executive Director

Mr Linton J 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

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

National Australia Bank Limited
255 George Street
SYDNEY NSW 2000
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

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The directors present their report together with the consolidated financial report for the six months ended 31 December 2018 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	Managing Director
Mr Kenneth J Hall	Executive Director
Mr A Stuart Foster	Non-Executive Director
Mr Linton J Putland	Non-Executive Director

Unless otherwise disclosed, all directors held their office from 1 July 2018 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 2018 was $14.2 million, compared with a net profit after tax of $8.0 million during the previous six month period to 31 December 2017.

Based on 429,021,982 weighted average shares on issue during the six month period to 31 December 2018, the result as detailed in these financial statements represents a basic profit of 3.30 cents per share (31 December 2017: profit of 2.16 cents per share).

The table below provides a comparison of the key results for the six month period ended 31 December 2018 as reported, against the six month period ended 31 December 2017.

Comprehensive Income Statement	**% Change**	**6 month period to 31 December 2018 $'000**	**6 month period to 31 December 2017 $'000**
Revenue from operations	126%	67,681	29,968
Underlying EBITDA[1]	**56%**	**32,756**	**21,046**
Reported EBITDA	61%	32,756	20,336
Reported profit after tax attributable to members	76%	14,160	8,034

[1]Underlying EBITDA equates to EBITDA before business acquisition costs in the prior period.

EBITDA performance

Group reported EBITDA for the six months ended 31 December 2018 of $32.8 million was 61% higher than $20.3 million EBITDA reported for the six months to 31 December 2017. The increase in EBITDA compared to the prior period is primarily the result of increased power generation and the contribution of newly acquired subsidiary, Contract Power. A table detailing the underlying EBITDA result has been included below.

Underlying EBITDA	**31 December 2018 $'000**	**31 December 2017 $'000**
EBITDA – Reported	32,756	20,336
Add: Business acquisition costs[1]	-	710
EBITDA – Underlying	**32,756**	**21,046**

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

Financial position

Capital expenditure of $9.8m (31 December 2017: $14.6m) in the first half of the financial year related to the installation of new contracted capacity across various sites and was lower than the prior corresponding period. Lower capital expenditure and significant debt reduction saw the Company's Net Debt to Enterprise Value decrease over the six month period from 29% to 24%. Capital expenditure is expected to be modest in the second half of the year.

Review of Operations

Power Generation Activities

Remote Power Generation

Pacific Energy's core business activities comprise the operation of the Kalgoorlie Power Systems (KPS) business which it acquired on 8 May 2009 and the Contract Power Group (CPG) business which it acquired on 24 April 2018. The businesses build, own and maintain diesel, gas, dual fueled and hybrid power stations located at mine sites across Australia. The total contracted generation capacity is now approaching 380MW. Most of the electricity supply contracts are of long duration, with the weighted average remaining contractual life of remote power generation contracts at 31 December 2018 being greater than four years. In addition to owning and operating remote power stations, CPG also undertakes select EPC power station projects.

See Note 5, Operating Segment for more details of the financial performance of the Remote Power Generation segment.

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 6.7GWh (2017: 3.7 GWh) and 2.7GWh (2017: 3.7 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

Pacific Energy owns and operates the NovaPower gas-fired power station in Traralgon, Victoria. NovaPower 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.

The NovaPower gas-fired power station performed in line with budget during the period and generated 4.2 GWh of energy.

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 2018.

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 2019.

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 2018, 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 2019

Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 31 December 2018

In thousands of AUD	31 December 2018	31 December 2017
Power generation and service revenue	46,443	29,968
Construction revenue	21,239	-
Other income	1,262	113
Consumables and spare parts	(3,725)	(2,536)
Fuel expenses	(3,203)	(39)
Employee benefits expense	(7,839)	(4,882)
Construction costs	(18,741)	-
Business acquisition expense	-	(710)
Other expenses	(2,680)	(1,578)
Earnings before interest, tax, depreciation and amortisation	32,756	20,336
Depreciation and amortisation	(11,301)	(8,230)
Results from operating activities	**21,455**	**12,106**
Financial income	121	25
Financial expenses	(2,378)	(801)
Net financing expense	**(2,257)**	**(776)**
Profit before income tax	**19,198**	**11,330**
Income tax expense	(5,038)	(3,296)
Profit for the period	**14,160**	**8,034**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	2	1
Effective portion of changes in fair value of cash flow hedges, net of tax	-	146
Other comprehensive profit (loss) for the period, net of income tax	**2**	**147**
Total comprehensive profit for the period	**14,162**	**8,181**
Profit attributable to:		
Equity holders of the company	14,160	8,034
Profit for the period	**14,160**	**8,034**
Total comprehensive income attributable to:		
Equity holders of the company	14,162	8,181
Total comprehensive income for the period	**14,162**	**8,181**
Earnings per share		
Basic earnings per share (cents)	3.30	2.16
Diluted earnings per share (cents)	3.30	2.16

The condensed notes on pages 9 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Financial Position

As at 31 December 2018

In thousands of AUD	Notes	31 December 2018	30 June 2018
Assets			
Cash and cash equivalents		3,771	12,095
Trade and other receivables		17,699	16,357
Inventory		1,258	1,530
Current tax assets		1,038	1,942
Other assets		50	4,684
Total current assets		**23,816**	**36,608**
Cash and cash equivalents		203	203
Property, plant and equipment		223,495	223,992
Intangible assets		54,324	55,267
Total non-current assets		**278,022**	**279,462**
Total assets		**301,838**	**316,070**
Liabilities			
Trade and other payables		15,524	19,215
Employee benefits		1,471	1,307
Provisions		1,644	1,644
Loans and borrowings		11,814	11,805
Total current liabilities		**30,453**	**33,971**
Loans and borrowings		69,669	95,196
Provisions		1,911	1,911
Employee benefits		508	628
Derivative financial instruments		496	496
Deferred tax liabilities		12,619	12,339
Total non-current liabilities		**85,203**	**110,570**
Total liabilities		**115,656**	**144,541**
Net assets		**186,182**	**171,529**
Equity			
Share capital	6	140,941	140,523
Reserves		(212)	(286)
Retained earnings		45,453	31,292
Total equity		**186,182**	**171,529**

The condensed notes on pages 9 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity

For the six months ended 31 December 2018

In thousands of AUD	Share Capital	Translation reserve	Hedging reserve	Option & rights reserve	Retained earnings	Total equity
Balance at 1 July 2018	**140,523**	**(19)**	**(496)**	**229**	**31,293**	**171,530**
Total comprehensive income for the period						
Profit for the period	-	-	-	-	14,160	14,160
Foreign currency translation differences for foreign operations	-	2	-	-	-	2
Total other comprehensive income	-	2	-	-	-	2
Total comprehensive income for the period	-	2	-	-	14,160	14,162
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Settlement of employee share schemes, net transaction costs	418	-	-	-	-	418
Issue of share rights	-	-	-	422	-	422
Share rights exercised, net transaction costs	-	-	-	(422)	-	(422)
Issue of share options	-	-	-	72	-	72
Total transactions with owners	418	-	-	72	-	490
Balance at 31 December 2018	**140,941**	**(17)**	**(496)**	**301**	**45,453**	**186,182**
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**

The condensed notes on pages 9 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows

For the six months ended 31 December 2018

In thousands of AUD	31 December 2018	31 December 2017
Cash flows from operating activities		
Receipts from customers	67,601	28,888
Payments to suppliers and employees	(34,433)	(7,538)
Interest received	120	25
Interest paid	(2,267)	(724)
Income taxes paid	(3,853)	(3,341)
Net cash provided by operating activities	**27,168**	**17,310**
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,826)	(14,558)
Acquisition of NovaPower	-	(7,773)
Payments relating to new electricity supply contracts	(36)	(44)
Net cash used in investing activities	**(9,862)**	**(22,375)**
Cash flows from financing activities		
Payment of transaction costs	(261)	(73)
Dividends paid	-	(5,577)
Payments for share buy-back	-	(130)
Proceeds from borrowings	43	13,828
Repayments of borrowings	(25,414)	(3,443)
Net cash provided by (used in) financing activities	**(25,632)**	**4,605**
Net increase (decrease) in cash and cash equivalents	**(8,326)**	**(460)**
Cash and cash equivalents at the beginning of the period	12,095	5,019
Exchange rate movements	2	1
Current cash and cash equivalents at the end of the period	**3,771**	**4,560**

The condensed notes on pages 9 to 14 are an integral part of these consolidated interim financial statements.

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 2018 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 2018 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 2018. 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.

Adoption of new and revised accounting standards

A number of new or amended standards became applicable for the current reporting period resulting in the adoption of the following standards:

(i) AASB 15 Revenue from Contracts with Customers; and

(ii) AASB 9 Financial Instruments

AASB 15 Revenue from Contracts with Customers – Impact of Adoption

Group revenues consists mainly of revenues from electricity supply (rental revenue) and revenue from engineering, procurement and construction contracts.

AASB 15 does not apply to lease contracts within the scope of AASB 117 *Leases* and consequently does not apply to rental revenue.

The Group has applied AASB 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes to accounting policies but no adjustments to the amounts recognised in the financial statements at the reporting date and on transition to the standard.

3. Significant Accounting Policies (continued)

AASB 15 Revenue from Contracts with Customers – Impact of Adoption (continued)

Revenue accounting policies:

a) Service revenue

Revenue relating to the operation of power stations for customers is recognised as service revenue in accordance with AASB 15. Revenue is recognised over the contract term based on the volume of electricity delivered to the customer. Usage is measured through a regular review of usage meters.

b) Rental revenue – Power generation

Revenue from the sale of electricity that relates to the use of power stations owned by the company is recognised as rental revenue in accordance with AASB 117 and are classified as operating leases. Rental income is included in revenue in the statement of profit or loss due to its operating nature. Revenue is recognised over the lease term based on the volume of electricity delivered to the customer. Usage is measured through a regular review of usage meters.

c) Construction contract revenue

Construction contract revenue includes revenue from contracts to design, build and install power stations. The construction of each power station is generally taken to be one performance obligation.

As the work is performed on an asset that is controlled by the customer, the performance obligation is fulfilled over time and as such revenue is recognised over time.

Generally, contracts identify various inter-linked activities required in the construction process. Revenue is recognised on the measured input of each process.

Customers are typically invoiced on achievement of agreed milestones. Invoices are paid on normal commercial terms, which may include the customer withholding a retention amount until finalisation of the construction. If work performed exceeds the payments received to date, a contract asset is recognised. If payments exceed the work performed a contract liability is recognised.

Variable consideration

Contracts can include performance bonuses or penalties assessed against timeliness or cost effectiveness of work completed or other performance related KPIs. Where consideration in respect of a contract is variable, the expected value of revenue is only recognised when the uncertainty associated with the variable consideration is subsequently resolved, known as “constraint requirements”. The Group assesses the constraint requirements on a periodic basis when estimating the variable consideration to be included in the transaction price. The estimate is based on all available information including historic performance. Where modifications in design or contract requirements are entered into, the transaction price is updated to reflect these. Where the price modification has not been confirmed, an estimate is made of the amount of revenue to recognised whilst also considering the constraint requirement.

Contract fulfilment costs

Costs incurred prior to the physical commencement of a contract may arise due to mobilisation and site setup costs and preliminary design activities. Where these costs are expected to be recovered, they are capitalised and amortised over the course of the contract consistent with the transfer of service to the customer. Where the costs are reimbursed by the customer, the amount received is recognised as deferred revenue and allocated to the performance obligation within the contract and recognised as revenue over the course of the contract.

AASB 9 Financial Instruments – Impact of Adoption

AASB 9 *Financial Instruments* replaces AASB 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 from 1 July 2018 did not give rise to any material transitional adjustments. The new accounting policies are set out below.

3. Significant Accounting Policies (continued)

AASB 9 Financial Instruments – Impact of Adoption (continued)

Non-derivative financial assets

(i) Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. The group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

(iii) Impairment

The Group assesses, on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables and contract assets, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables and contract assets.

Derivative financial instruments – cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other income (expenses).

When option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity.

3. Significant Accounting Policies (continued)

AASB 9 Financial Instruments – Impact of Adoption (continued)

Derivative financial instruments – cash flow hedges that qualify for hedge accounting (continued)

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

4. Accounting Estimates and Judgements

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 2018, updated for the following:

Expected credit losses of financial assets

Loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Management have estimated the expected credit loss is immaterial for trade receivables and contract assets held at 31 December 2018.

5. Operating Segments

The Group has one reportable segment, Remote Power Generation, which includes the generation of electricity by diesel, gas, dual-fuelled and hybrid power stations which are located at a number of mine sites across Australia. This is the Group's sole strategic business unit, and the Group's Managing Director 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 2018.

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 Managing Director.

5. Operating Segments (continued)

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

In thousands of AUD	Remote Power Generation 31 Dec 2018	Remote Power Generation 31 Dec 2017	Other 31 Dec 2018	Other 31 Dec 2017	Intersegment eliminations/ unallocated 31 Dec 2018	Intersegment eliminations/ unallocated 31 Dec 2017	Total 31 Dec 2018	Total 31 Dec 2017
External revenues	66,435	29,519	1,247	449	-	-	67,682	29,968
EBITDA	33,771	22,262	213	170	(1,228)	(2,096)	32,756	20,336
Interest income	114	23	1	1	6	1	121	25
Finance costs	(2,377)	(797)	-	-	(1)	(4)	(2,378)	(801)
Depreciation & amortisation	(10,778)	(8,041)	(516)	(181)	(7)	(8)	(11,301)	(8,230)
Profit before income tax	20,730	13,447	(302)	(10)	(1,230)	(2,107)	19,198	11,330
Income tax expense/(benefit)	(6,390)	(4,020)	91	-	1,261	724	(5,038)	(3,296)
Capital expenditure	(9,712)	(14,906)	(43)	(3)	(12)	(2)	(9,767)	(14,911)

Major customer

Revenues from one customer in the Remote Power Generation segment represents approximately 31% (31 December 2017: 64% from four customers) of the Group's total revenues (each customer greater than 10% individually).

6. Share Capital

In thousands of AUD	Number of shares ('000) 31 December 2018	Number of shares ('000) 31 December 2017	Share capital ($'000) 31 December 2018	Share capital ($'000) 31 December 2017
On issue at the beginning of the period	428,923	371,788	140,523	111,472
Issue of shares under employee share scheme	701	581	422	334
Share buy-back	-	(256)	-	(129)
Transaction costs, net of tax effect	-	-	(4)	(1)
On issue at 31 December - fully paid	429,624	372,113	140,941	111,676

Issuance of ordinary shares

During the six month period ended 31 December 2018, Pacific Energy issued 700,711 shares. All shares issued during the period were issued to employees under the Pacific Energy Employee Rights Plan.

All issued Pacific Energy Shares are fully paid.

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 (2017: 1 cent) per fully paid ordinary share. The aggregate amount of the dividend of $4.3 million is to be paid on 12 April 2019 and has not been recorded as a liability at 31 December 2018.

(b) Franked Dividends

The franked portions of the interim dividend declared after 31 December 2018 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 2018.

In thousands of AUD	31 December 2018	31 December 2017
Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%)	15,872	9,941
	15,872	9,941

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 $1.8 million (2017: $1.59 million).

8. Contingencies

There has been no change from that which was detailed in the financial report as at 30 June 2018 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 Event

Other than the following, no matter or circumstance has arisen since 31 December 2018 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 periods.

On 31 January 2019, the company completed the purchase of the land and buildings located at 326 Gnangara Road, Landsdale. The property is adjacent to the company's existing property located in Landsdale and will be used initially to store assets and may be developed at a later date.

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 11, 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 2018 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 2019.

Signed in accordance with a resolution of the directors:

Jamie Cullen
Chief Executive Officer & Managing Director

PACIFICENERGY

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 statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 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 2018 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 2018 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 2019