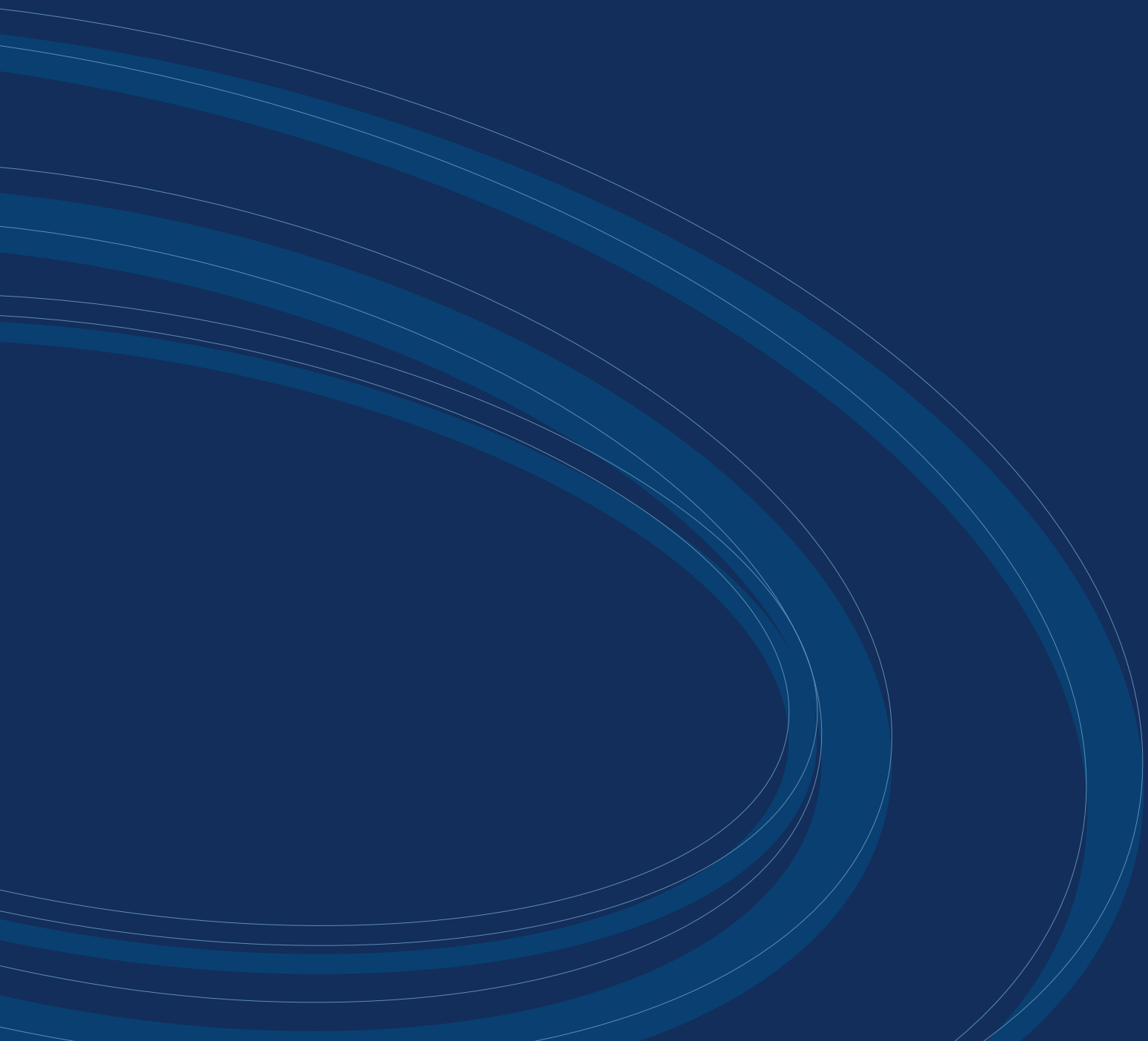


2015

ANNUAL REPORT



2015 HIGHLIGHTS

RESILIENCE IN EARNINGS

**SECOND HALF
CONTRACT WINS LIFT
CONTRACTED CAPACITY**

**OUTSTANDING
RELIABILITY AND FUEL
EFFICIENCY**

**FURTHER
STRENGTHENING OF
BALANCE SHEET**

DIVIDEND MAINTAINED

GROUP CONTRACTED CAPACITY

| | |
|---------|-------|
| 2011 | 180MW |
| 2012 | 250MW |
| 2013 | 238MW |
| 2014 | 216MW |
| CURRENT | 234MW |



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CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

DEAR SHAREHOLDERS

IN A YEAR WHERE THE RESOURCES SECTOR EXPERIENCED WELL PUBLICISED DIFFICULT CONDITIONS, 2015 SERVED TO HIGHLIGHT THE EARNINGS RESILIENCE OF PACIFIC ENERGY LTD. UNDERPINNED BY THE COMPANY'S LONG TERM CONTRACTS OUR RESULTS HELD UP WELL, WITH CONTRACTED POWER CAPACITY STABILISING AND STEADILY INCREASING AFTER THE FIRST HALF.

FINANCIAL RESULT

The Company recorded a 10% reduction in EBITDA for the year ended 30 June 2015 to \$30.8 million on slightly lower revenues of \$45.8 million. Adjusted EBITDA¹ was \$31.5 million, net profit after tax was \$12.0 million and net cash from operating activities was \$25.2 million.

The historical context of these results can be seen in the graphs below, which demonstrate how well the Company has performed despite the current mining climate. It must also be noted that the prior year results included \$2.0 million in one-off gains.

CONTRACTS

A key underlying strength of the business is the 22 power stations the Company owns and operates under contracts some of which extend out as far as 2028.

Whilst no new contracts were secured in the first half, a number of new contracts were subsequently secured which have built current contracted capacity back up to 234MW, from an intra-year low of 210MW in December 2014. In addition, several contract extensions were secured.

Listed below are the new power station contracts and contract extensions that were secured:

- AngloGold Ashanti Australia Limited – conversion of existing KPS 44MW diesel fuelled Tropicana power station to gas fuelled power station;
- Saracen Gold Mines Pty Ltd - conversion and expansion of existing KPS 10MW diesel fuelled Carosue Dam power station to an 11MW dual fuelled (up to 80% gas, 20% diesel) power station;
- Saracen Metals Pty Ltd - new 14MW gas fuelled power station at the Thunderbox Gold Project;
- Metals X Limited - restart of existing KPS 8MW diesel fuelled power station at the Bluebird Gold Project;
- Saracen Gold Mines Pty Ltd - 1.7MW expansion of the existing Red October power station;
- OM Manganese Limited - two year extension of existing electricity supply contract for 4MW power station at Bootu Creek;
- Newmont Tanami Pty Ltd - one year extension of existing electricity supply contract for 13MW power station at Granites milling operations;

REVENUE

| | |
|------|-------|
| 2015 | 45.8M |
| 2014 | 47.9M |
| 2013 | 43.5M |
| 2012 | 31.9M |
| 2011 | 26.8M |
| 2010 | 20.8M |

ADJUSTED EBITDA¹

| | |
|------|-------|
| 2015 | 31.5M |
| 2014 | 35.0M |
| 2013 | 28.6M |
| 2012 | 22.1M |
| 2011 | 18.7M |
| 2010 | 13.9M |

NET DEBT

| | |
|------|-------|
| 2015 | 20.2M |
| 2014 | 27.2M |
| 2013 | 30.8M |
| 2012 | 21.5M |
| 2011 | 8.2M |
| 2010 | 10.4M |

¹ Adjusted EBITDA equates to EBITDA pre non-cash employee share and option expense, impairment of intangible assets, and a one-off CEO resignation payment.

- Newmont Tanami Pty Ltd - one year extension of existing electricity supply contract for 20MW power station at Dead Bullock Soak gold mine; and
- Avoca Mining Pty Ltd – one year extension of existing electricity supply contract for 11MW power station at Higginsville Gold Operations.

The majority of new work secured is expected to be completed by the end of the first half of the 2016 financial year and our operational teams are currently busy preparing and installing equipment.

OPERATIONS

Pacific Energy's power generation operations have an outstanding reputation for industry leading reliability and fuel efficiency. During the 2015 financial year there were no major operational issues and we continued to deliver a trouble free efficient energy service to our customers, with almost a 100% reliability factor.

In the KPS business we continued our innovation and technology work, focussing on driving down fuel consumption costs and maintaining KPS's reputation as the best value off-grid power supplier to the natural resources sector.

Innovations and improvements developed in KPS's dual fuelled (diesel and gas) engines as well as in our waste heat recovery retro-fit units are now being applied on several sites and are able to be actively promoted to a market that is hungry for efficiency gains.

FINANCIAL POSITION

Following another year of pleasing results the Company remains in a sound financial position, as evidenced by its continuing strong cash flows and balance sheet. This has enabled the dividend rate of 2.5 cents per share to be maintained, representing a 6.25% fully franked yield based on a 40 cent share price.

Record net cash from operating activities of \$25.2 million was generated over the year. This enabled net debt to be reduced by 26% to \$20.2 million, after fully funding dividends and the year's capital expenditure requirements.

With \$65 million of total financing facilities available, the Company is well placed to capitalise on organic opportunities that present in the market place as well as corporate opportunities.

Importantly, our key balance sheet ratios are all satisfactory and improving. In particular, we have a conservative gearing ratio of only 18.5% (net debt to net tangible assets).

The new work that has been secured at the Tropicana and Thunderbox sites does require the purchase of a large number of dedicated gas fuelled generator sets. These, together with miscellaneous equipment requirements forecast for the year, will result in approximately \$30 million of capital expenditure in FY16.

Whilst this level of capital expenditure is higher than recent years, the year-end gearing position is forecast to remain conservative and once the equipment is installed it will help generate revenues for at least five years at Thunderbox and twelve years at Tropicana.

ADJUSTED NET PROFIT AFTER TAX

| | |
|------|-------|
| 2015 | 14.8M |
| 2014 | 17.2M |
| 2013 | 17.3M |
| 2012 | 11.1M |
| 2011 | 8.4M |
| 2010 | 4.7M |

DIVIDENDS

| | |
|------|------|
| 2015 | 9.2M |
| 2014 | 9.2M |
| 2013 | 3.6M |
| 2012 | 0M |
| 2011 | 0M |
| 2010 | 0M |

OPERATING CASH FLOW

| | |
|------|-------|
| 2015 | 25.2M |
| 2014 | 24.8M |
| 2013 | 22.6M |
| 2012 | 21.7M |
| 2011 | 15.2M |
| 2010 | 6.2M |

CHAIRMAN'S AND MANAGING DIRECTOR'S REVIEW

OUTLOOK

Completion of the work on hand described in this report will lead to increasing earnings during the 2016 financial year as the projects come on line. Most installations will be completed by the end of the first half, with the exception of the Tropicana gas conversion, leading to a stronger second half.

As a result, we expected EBITDA for 2016 to increase by approximately 10%. The full year impact of the new work being commissioned will be seen in the 2017 financial year.

Furthermore, the Company is currently in a range of discussions on both brownfield expansion projects with current customers and new greenfield projects, particularly in the gold sector. Management is optimistic that new contracts will be awarded during the year, further increasing contracted power capacity installed at site.

In addition, there are an increasing number of enquiries and requests coming from international projects, mostly owned by Australian listed companies, as well as multinationals. Pacific Energy will pursue these projects in an effort to expand the geographical reach of its operations, subject of course to adequate risk management disciplines.

There are a range of other strategic alternatives being evaluated in the broader energy infrastructure sector (both mining and non-mining) as the Company looks to expand the nature and extent of its operations.

We look forward to delivering growth and capitalising on opportunities for Shareholders in the year ahead.

SAFETY AND STAFF

We maintain an exceptional team of dedicated professionals throughout our operations. It is most pleasing to advise that once again there were no lost time injuries during the year. We maintained a safe and harmonious workplace, with only one recordable incident for the year that required minor medical attention.

On behalf of the Board of Directors we commend and thank our team for their outstanding continuing contributions.

During the year we farewelled our Managing Director of 8 years, Mr Adam Boyd. The Board thanks Adam for his efforts in steering and growing the Company over that time and sincerely wishes him well in his future endeavours.

Cliff Lawrenson
Chairman

Jamie Cullen
CEO and Managing Director

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DIRECTORS' REPORT

For the year ended 30 June 2015

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 2015 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.

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

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

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

James D D Cullen

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

Mr Cullen is a qualified Chartered Accountant who has 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 taken over.

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 and has served as a director of several listed companies.

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).

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 was a director of SWW Energy Limited (13 September 2013 to date).

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

Louis I Rozman

Non-Executive Director
BEng, MGeos, FAusIMM CP(Management), FAICD

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

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

During the three years prior to the end of the year, Mr Rozman has also held the following positions as a listed company director: Kula Gold Limited (ASX) (27 July 2007 to date), Carbon Energy Limited (ASX) (7 April 2010 to date), Mawson West Limited (TSX) (30 September 2009 to 7 April 2014) and ABM Resources NL (ASX) (8 May 2014 to 13 October 2014).

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

Gregory A Dick

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

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

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

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

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

DIRECTORS' REPORT

For the year ended 30 June 2015

1. DIRECTORS AND OFFICERS (CONTINUED)

Adam H Boyd – resigned 31 March 2015

Former Chief Executive Officer & Managing Director
B.Com, CA

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

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

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

Mr Boyd was a director from 23 June 2006 until 31 March 2015.

Adela J Ciupryk

Chief Financial Officer & Company Secretary
B.Com, CA

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

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

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 | 184,718,244 | - |
| S Foster | 4,063,442 | - |
| L Rozman | - | - |
| G Dick | - | - |

3. DIRECTORS' MEETINGS

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

| Director | Board meetings | | Audit Committee meetings | |
|------------------------------------------|----------------|----------|--------------------------|----------|
| | Held | Attended | Held | Attended |
| C Lawrenson | 11 | 11 | - | - |
| J Cullen | 1 | 1 | - | - |
| K Hall | 11 | 11 | - | - |
| S Foster | 11 | 10 | 2 | 2 |
| L Rozman | 11 | 10 | - | - |
| G Dick (Alternate Director for L Rozman) | 11 | 10 | 2 | 2 |
| A Boyd | 9 | 8 | 2 | 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 2015 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 228MW; and Pacific Energy Victorian Hydro, which includes the generation of electricity from two hydro power stations in Victoria with a combined capacity of 6MW.

REVIEW OF FINANCIAL RESULTS

Consolidated entity (or Group) net profit after tax for the year ended 30 June 2015 was \$12.0 million compared with a net profit after tax of \$14.7 million for the year ended 30 June 2014.

Adjusted profit after tax

The adjusted net profit after tax for the year ended 30 June 2015 was \$14.8 million. Details of adjustments and a comparison to the preceding year ended 30 June 2014 are as follows:

| In thousands of AUD | 2015 | 2014 |
|-----------------------------------------------------------|---------------|---------------|
| Profit after tax attributable to members | 11,959 | 14,690 |
| Add back non-cash charges and one-off items: | | |
| Amortisation of purchased contracts and associated rights | 2,260 | 2,416 |
| Employee share and option expense | 313 | 63 |
| CEO resignation payment | 357 | - |
| Tax expense (benefit) of non-cash and one-off items | (107) | - |
| Adjusted profit after tax attributable to members | 14,782 | 17,169 |

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

- The amortisation charge of electricity supply contracts acquired in the KPS Acquisition;
- The expense associated with the issue of employee options and share plan arrangements; and
- The one-off payment to the previous CEO upon his resignation in December 2014.

DIRECTORS' REPORT

For the year ended 30 June 2015

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

EBITDA performance

The table below provides a comparison of the key results for the year to 30 June 2015 as reported, against the preceding year to 30 June 2014:

| Statement of profit or loss | % Change | 2015 \$'000 | 2014 \$'000 |
|----------------------------------------------------------------|----------|----------------|----------------|
| Revenue from operations | (4%) | 45,796 | 47,947 |
| Adjusted EBITDA ¹ | (10%) | 31,503 | 34,959 |
| EBITDA | (10%) | 30,833 | 34,380 |
| Adjusted profit after tax attributable to members ² | (14%) | 14,782 | 17,169 |
| Reported profit after tax attributable to members | (19%) | 11,959 | 14,690 |

¹ Adjusted EBITDA equates to EBITDA pre non-cash employee share and option expense, impairment of intangible assets (refer Note 8), and the one-off CEO resignation payment.

² Adjusted profit after tax equates to the reported net profit after tax pre non-cash amortisation charges, non-cash employee share and option expense, one-off CEO resignation payment and the related tax effect.

The Pacific Energy Group EBITDA for the year ended 30 June 2015 was \$30.8 million. Adjusted EBITDA of \$31.5 million is lower than the previous twelve month period of \$35.0 million primarily due to:

- Revenue for the year ended 30 June 2014 (net of impairment) included a \$0.7 million once-off payment received as a result of the early termination of an Electricity Supply Contract;
- EBITDA for the year ended 30 June 2014 included \$1.3M in non-recurring other income, primarily relating to the reimbursement of royalties by Melbourne Water Corporation (MWC) for the historical under-supply of water to the Cardinia power station. The MWC obligation to supply a Minimum Annual Volume of water to the Cardinia power station ceased on 31 December 2013 and no longer applies; and
- Decreased construction activity throughout the resource sector during the year resulted in an increase in preventative and general asset maintenance activity across the KPS fleet. Electricity generated also increased compared to the prior year and accordingly, maintenance and consumables expenditure increased by approximately \$1.5 million.

Financial position

The value of property, plant and equipment remained constant during the year as capital expenditure on generator overhaul works and the construction activities undertaken during the year detailed below offset the depreciation for the period.

The company's working capital position remains strong, with current cash and cash equivalents increasing by 4% compared to the prior period. Trade receivables have decreased by 17% compared to the prior period, and less than 2% of the Group's customers are in arrears at 30 June 2015.

Earnings per share

Based on 367,539,971 weighted average ordinary shares on issue during the year ended 30 June 2015 the result represents a basic profit after tax attributable to members per share of 3.25 cents compared with a basic profit after tax attributable to members of 4.03 cents per share for the year ended 30 June 2014.

Industry and Geographic Exposures

The Group is exposed to the Australian mining industry and within that, predominantly exposed to the gold sector with 79% of the Group's revenues for the year ended 30 June 2015 generated from power stations located at gold projects. On a geographic basis, the Group is predominantly exposed to Western Australia, with 74% of the Group's revenue originating in that state.

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 228MW. 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 2015 being 4.75 years.

Revenues from four customers in the KPS Power Generation segment represents approximately 61% (2014: 43% from three customers) of the Group's total revenues (each customer greater than 10% individually). See Operating Segment Note 4 for more details of the financial performance of the KPS Power Generation segment.

New Power Station Construction and Commission

KPS completed and commissioned the following construction projects during the year;

- The conversion and expansion of the existing 10MW Carosue Dam Project power station from 100% diesel to an 11 MW dual fuelled (up to 80% gas, 20% diesel) operation for Saracen Gold Mines Pty Ltd;
- The 1.7MW expansion of the existing Red October power station to supply electricity for Saracen Gold Mines Pty Ltd; and
- The waste heat recovery retro-fit of the Garden Well Gold Project power station for Regis Resources Ltd.

New Power Station Contracts and Contract Extensions

From 1 July 2014 to the date of this report, KPS secured the following new contracts, contracts for the diesel to gas power station conversions and contract extensions:

- AngloGold Ashanti Australia Limited to convert the existing KPS 44MW 100% diesel fuelled Tropicana Gold Project power station to gas fuelled power station, with an associated tariff increase (conversion to commence January 2016);
- Saracen Gold Mines Pty Ltd to convert and expand the existing KPS 10MW 100% diesel fuelled Carosue Dam Project power station to an 11MW dual fuelled (up to 80% gas, 20% diesel) operation (commissioned March 2015);
- Saracen Gold Mines Pty Ltd for a 1.7MW expansion of the existing KPS 1.5MW power station (2 year contract) at the Red October Gold Project located in Western Australia (commissioned April 2015);
- Saracen Metals Pty Ltd for a 14MW gas fuelled power station (5 year contract) at the Thunderbox Gold Project located in Western Australia (est. commissioning in November 2015);
- Metals X Limited for an 8MW diesel fuelled power station (3 year contract) at the Bluebird Gold Project located in Western Australia (est. commissioning in August 2015);
- OM (Manganese) Limited and KPS have agreed a 2 year extension of the existing electricity supply contract for the 4MW power station located at the Bootu Creek Manganese Mine located in the Northern Territory through to 31 July 2017;
- Newmont Tanami Pty Limited and KPS have agreed a 12-month extension of the existing electricity supply contract for the 13MW power station located at the Granites milling operations and the 20MW power station located at the Dead Bullock Soak gold mine in the Northern Territory through to 31 December 2015; and
- Avoca Mining Pty Ltd and KPS have agreed a 12-month extension of the existing electricity supply contract for the 11MW power station located at the Higginsville Gold Operations in Western Australia through to 15 February 2016.

During the year, KPS also commenced the waste heat retro-fit to the Moolart Well Gold Mine power station for Regis Resources Ltd and expects to complete and commission the installation by 31 October 2015.

Contract Expiry

During the period, the Electricity Supply Contract with Alacer Gold to supply electricity to the Chalice gold mine concluded. The installed capacity of this power station was 3MW.

DIRECTORS' REPORT

For the year ended 30 June 2015

5. OPERATING AND FINANCIAL REVIEW (CONTINUED)

Other Developments

The company completed the refinancing of the KPS credit facilities with the Australian and New Zealand Banking Group (ANZ) during the period. The new loan facilities provided by ANZ have a total aggregate facility limit of \$63 million and will be repaid in equal instalments amortising down to 60% of the original drawn amount by 19 November 2017. These new credit facilities and the forecast cash flow to be generated by KPS over the coming 12 months will fund the planned new power generation construction activities during 2015/16.

KPS continues to progress electricity supply contract and related negotiations with mining sector companies developing or operating resource project opportunities. The company's business development activities continue to focus on the establishment of new, high quality opportunities and KPS is actively presenting to mining and resource companies in our preferred markets.

Perth Workshop and Office Complex

In June 2012, Pacific Energy acquired a 2 hectare industrial site 30kms from the Perth CBD and approved the establishment of a Perth domiciled KPS workshop and office complex. Practical Completion of the new KPS workshop and office complex was achieved in August 2014 and from 15 December 2014, all Pacific Energy Group personnel are now located at either the KPS Kalgoorlie or KPS Perth workshop and office facilities.

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 and Blue Rock hydro power stations both performed in line with budget during the 2015 financial year. Renewable energy generation by Cardinia and Blue Rock totalled 11.4GWh (2014: 11.1GWh) and 9.8GWh (2014: 8.7GWh) 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 and 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:

| | 2015 \$'000 | 2014 \$'000 |
|--------------------------------------------------------------------------------------------------|----------------|----------------|
| Final dividend for the year ended 30 June 2014 of 1.5 cents per ordinary share (2013: 1.0 cents) | 5,493 | 3,634 |
| Interim dividend for the year ended 30 June 2015 of 1.0 cent per ordinary share (2014: 1.0 cent) | 3,694 | 3,661 |
| | 9,187 | 7,295 |

On 24 August 2015 the directors declared a fully franked, final dividend for the year ended 30 June 2015 of 1.5 cents per ordinary share to be paid on 15 October 2015, a total estimated distribution of \$5,545,025 based on the number of ordinary shares on issue at 24 August 2015.

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.

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.

DIRECTORS' REPORT

For the year ended 30 June 2015

7. REMUNERATION REPORT (CONTINUED)

7.1 PRINCIPLES OF COMPENSATION (CONTINUED)

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:

| | 2015 | 2014 | 2013 | 2012 |
|-----------------------------------------|--------|--------|--------|--------|
| EBITDA (\$'000) | 30,833 | 34,380 | 27,839 | 21,514 |
| Dividend per share (cents) ¹ | 2.5 | 2.5 | 1.0 | - |
| Change in share price (\$) | (0.07) | 0.10 | (0.09) | 0.06 |

¹ Dividends include dividends declared after year end.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges related to employee benefits), as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Group.

Performance linked compensation

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

Employment contracts of key management personnel

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the company and the Group, including directors of the company and other executives. A summary of the agreements are set out below:

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.

D Manning, General Manager KPS

- (a) Term of agreement – commencing 10 November 2014 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, Chief Financial Officer & Company Secretary

- (a) Term of agreement – commencing 30 March 2009 with indefinite duration;
- (b) Base salary of \$250,000 per annum plus superannuation;
- (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.

DIRECTORS' REPORT

For the year ended 30 June 2015

7. REMUNERATION REPORT (CONTINUED)

7.2 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

Details of the nature and amount of each major element of remuneration of each director of the company and key management personnel for the year ended 30 June 2015 are as follows:

| | | Salary & fees | Short-term Cash bonus | Non-monetary | Post-employment Superannuation | Other long-term benefits Long service leave | Share-based payments Options | Termination payments | Total | Performance related | Value of options as proportion of remuneration |
|--------------------------------|-------------|------------------|--------------------------|---------------|-----------------------------------|------------------------------------------------|---------------------------------|----------------------|------------------|---------------------|------------------------------------------------|
| In AUD | | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Non-Executive Directors | | | | | | | | | | | |
| C Lawrenson | 2015 | 85,000 | - | - | 8,075 | - | - | - | 93,075 | - | - |
| | 2014 | 85,000 | - | - | 7,863 | - | - | - | 92,863 | - | - |
| S Foster | 2015 | 55,000 | - | - | 5,225 | - | - | - | 60,225 | - | - |
| | 2014 | 55,000 | - | - | 5,088 | - | - | - | 60,088 | - | - |
| L Rozman | 2015 | 45,000 | - | - | - | - | - | - | 45,000 | - | - |
| | 2014 | 45,000 | - | - | - | - | - | - | 45,000 | - | - |
| G Dick | 2015 | - | - | - | - | - | - | - | - | - | - |
| | 2014 | - | - | - | - | - | - | - | - | - | - |
| Executive Directors | | | | | | | | | | | |
| J Cullen | 2015 | 42,223 | - | - | 2,200 | - | 12,619 | - | 57,042 | - | 22.1% |
| | 2014 | - | - | - | - | - | - | - | - | - | - |
| K Hall | 2015 | 285,000 | - | - | 4,275 | - | - | - | 289,275 | - | - |
| | 2014 | 276,000 | - | - | 4,163 | - | - | - | 280,163 | - | - |
| Executives | | | | | | | | | | | |
| A Ciupryk | 2015 | 132,157 | - | 1,635 | 11,720 | 24,742 | - | - | 170,254 | - | - |
| | 2014 | 34,167 | - | - | 3,160 | - | - | - | 37,327 | - | - |
| D Manning | 2015 | 219,970 | - | 9,409 | 18,288 | - | 62,379 | - | 310,046 | - | 20.1% |
| | 2014 | - | - | - | - | - | - | - | - | - | - |
| Former | | | | | | | | | | | |
| A Boyd | 2015 | 315,808 | 105,000 | - | 30,000 | 2,486 | - | 438,952 | 892,246 | 11.8% | - |
| | 2014 | 384,337 | 75,000 | - | 25,350 | - | - | - | 484,687 | 15.5% | - |
| G Walsh | 2015 | 60,216 | - | - | 2,533 | - | - | 5,950 | 68,699 | - | - |
| | 2014 | 172,254 | - | - | 15,933 | - | - | - | 188,187 | - | - |
| G Ladbrook | 2015 | - | - | - | - | - | - | - | - | - | - |
| | 2014 | 151,578 | - | - | 11,667 | - | - | - | 163,245 | - | - |
| Total | 2015 | 1,240,374 | 105,000 | 11,044 | 82,316 | 27,228 | 74,998 | 444,902 | 1,985,862 | 5.3% | 3.8% |
| Total | 2014 | 1,203,336 | 75,000 | - | 73,224 | - | - | - | 1,351,560 | 5.5% | - |

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

- (a) Mr Dick is not entitled to directors' fees from the company in his role as Alternate Director for Mr Louis Rozman;
- (b) Mr Cullen was appointed 1 June 2015;
- (c) Ms Ciupryk was on parental leave from 27 August 2013 until 31 August 2014;
- (d) Mr Manning was appointed 10 November 2014;
- (e) Mr Boyd resigned as Chief Executive Officer and Managing Director on 31 March 2015. The short-term incentive bonuses paid to Mr Boyd were made in accordance with his employment contract;
- (f) Mr Walsh was appointed as Chief Financial Officer and Joint Company Secretary on 27 August 2013 and resigned on 3 September 2014;
- (g) Mr Ladbrook resigned as General Manager, KPS on 28 August 2013; and
- (h) 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 2015 |
|-----------|-------------------|------------------|-----------------------------------------|--------------------------------|--------------|--------------|--------------------------------------|
| J Cullen | 1,000,000 | 14 May 2015 | \$0.0629 | \$0.55 | 2 June 2020 | 14 May 2016 | - |
| | 2,000,000 | 14 May 2015 | \$0.0556 | \$0.60 | 2 June 2020 | 14 May 2017 | - |
| | 2,000,000 | 14 May 2015 | \$0.0494 | \$0.65 | 2 June 2020 | 14 May 2018 | - |
| D Manning | 1,000,000 | 10 November 2014 | \$0.1011 | \$0.60 | 30 June 2017 | 4 June 2016 | - |
| | 1,000,000 | 10 November 2014 | \$0.0101 | \$0.70 | 30 June 2018 | 4 June 2017 | - |

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

| | Number of shares | Amount paid (\$) per share |
|--------|------------------|----------------------------|
| A Boyd | 2,500,000 | \$0.40 |

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2015 financial year.

DIRECTORS' REPORT

For the year ended 30 June 2015

7. REMUNERATION REPORT (CONTINUED)

7.3 EQUITY INSTRUMENTS (CONTINUED)

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) |
|-----------|-------------------------|---------------------------|---------------------------|------------------------|
| A Boyd | - | - | 212,500 | - |
| J Cullen | 272,900 | - | - | - |
| D Manning | 202,234 | - | - | - |

- (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 (i.e. in years 1 July 2014 to 30 June 2018).
- (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 compensation | Exercised | Cancelled | Balance at the end of the year | Vested during the year | Vested and exercisable at the end of the year |
|-------------|----------------------------------|-------------------------|-------------|-------------|--------------------------------|------------------------|-----------------------------------------------|
| 2015 | | | | | | | |
| J Cullen | - | 5,000,000 | - | - | 5,000,000 | - | - |
| A Boyd | 4,000,000 | - | (2,500,000) | - | 1,500,000 | - | 1,500,000 |
| D Manning | - | 2,000,000 | - | - | 2,000,000 | - | - |
| 2014 | | | | | | | |
| A Boyd | 4,000,000 | - | - | - | 4,000,000 | - | 4,000,000 |
| C Lawrenson | 1,000,000 | - | (1,000,000) | - | - | - | - |
| G Ladbrook | 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 |
|-------------|----------------------------------|-----------|---------------------------------|----------------|-------------|--------------------------------|
| 2015 | | | | | | |
| C Lawrenson | 1,020,000 | - | - | - | - | 1,020,000 |
| A Boyd | 5,133,332 | - | 2,500,000 | - | - | 7,633,332 |
| S Foster | 4,063,442 | - | - | - | - | 4,063,442 |
| K Hall | 184,718,244 | - | - | - | - | 184,748,244 |
| 2014 | | | | | | |
| C Lawrenson | 20,000 | - | 1,000,000 | - | - | 1,020,000 |
| A Boyd | 5,133,332 | - | - | - | - | 5,133,332 |
| S Foster | 4,063,442 | - | - | - | - | 4,063,442 |
| K Hall | 184,718,244 | - | - | - | - | 184,718,244 |
| G Ladbrook | 600,000 | - | 1,000,000 | - | (1,600,000) | - |

No shares were granted to key management personnel during the reporting period as compensation during the year ended 30 June 2015 or in the year ended 30 June 2014.

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 |
|-----------------|----------------|-------------------|
| 7 December 2015 | \$0.50 | 1,500,000 |
| 30 June 2017 | \$0.60 | 1,000,000 |
| 30 June 2018 | \$0.70 | 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 |
| | | <u>8,500,000</u> |

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

SHARES ISSUED ON EXERCISE OF OPTIONS

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

| Date of exercise | Number of shares | Amount paid per share |
|-------------------|------------------|-----------------------|
| 15 September 2014 | 200,000 | \$0.40 |
| 23 February 2015 | 2,500,000 | \$0.40 |
| 30 June 2015 | 100,000 | \$0.45 |
| 30 June 2015 | 200,000 | \$0.40 |

DIRECTORS' REPORT

For the year ended 30 June 2015

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.

To the extent permitted by law, the company has agreed to indemnify its auditors, Crowe Horwath, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Crowe Horwath during or since the end of the financial year.

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 is set out on page 21 and forms part of the directors' report for the financial year ended 30 June 2015.

12. ROUNDING OFF

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

This report is made with a resolution of the directors:



Chief Executive Officer & Managing Director
Dated this 24th day of August 2015

LEAD AUDITOR'S INDEPENDENCE DECLARATION

For the year ended 30 June 2015

PACIFIC ENERGY LIMITED
2015 ANNUAL REPORT



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 2015, 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.

A handwritten signature in blue ink that reads "Crowe Horwath Perth".

Crowe Horwath Perth

A handwritten signature in blue ink, appearing to read "Cyrus Patell".

Cyrus Patell
Partner

Signed at Perth, 24 August 2015

Crowe Horwath Perth is a member of Crowe Horwath International, a Swiss Verein. Each member of Crowe Horwath is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

| <i>In thousands of AUD</i> | Notes | 30 June 2015 | 30 June 2014 |
|----------------------------------------------------------------------------|--------------|-------------------------|-------------------------|
| Revenue | | 45,796 | 47,947 |
| Other income | 5 | 53 | 1,320 |
| Consumables and spare parts | | (3,396) | (2,628) |
| Employee benefits expense | 6 | (7,756) | (6,392) |
| Impairment of assets | 8 | 29 | (2,042) |
| Other expenses | | (3,893) | (3,825) |
| Earnings before interest, tax, depreciation and amortisation | | 30,833 | 34,380 |
| Depreciation and amortisation | | (11,452) | (10,948) |
| Results from operating activities | | 19,381 | 23,432 |
| Financial income | | 320 | 323 |
| Financial expenses | | (2,505) | (2,543) |
| Net financing expense | 7 | (2,185) | (2,220) |
| Profit before income tax | | 17,196 | 21,212 |
| Income tax expense | 9 | (5,237) | (6,522) |
| Profit for the year | | 11,959 | 14,690 |
| Other comprehensive income | | | |
| Foreign currency translation differences for foreign operations | | 37 | (5) |
| Effective portion of changes in fair value of cash flow hedges, net of tax | | 50 | - |
| Other comprehensive income for the year, net of income tax | | 87 | (5) |
| Total comprehensive income for the year | | 12,046 | 14,685 |
| Profit attributable to: | | | |
| Equity holders of the company | | 11,959 | 14,690 |
| Profit for the year | | 11,959 | 14,690 |
| Total comprehensive income attributable to: | | | |
| Equity holders of the company | | 12,046 | 14,685 |
| Total comprehensive income for the year | | 12,046 | 14,685 |
| Earnings per share: | | | |
| Basic earnings per share (cents) | 17 | 3.25 | 4.03 |
| Diluted earnings per share (cents) | 17 | 3.25 | 4.02 |

The notes on pages 26 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

PACIFIC ENERGY LIMITED
2015 ANNUAL REPORT

| <i>In thousands of AUD</i> | Notes | 30 June 2015 | 30 June 2014 |
|--------------------------------------|-------|-----------------|-----------------|
| Assets | | | |
| Cash and cash equivalents | 15(a) | 16,252 | 15,611 |
| Trade and other receivables | 14 | 5,505 | 6,585 |
| Inventory | 13 | 755 | 869 |
| Derivative financial instruments | 23 | 130 | - |
| Total current assets | | 22,642 | 23,065 |
| Cash and cash equivalents | 15(a) | 103 | 103 |
| Trade and other receivables | 14 | - | 88 |
| Property, plant and equipment | 10 | 129,212 | 128,758 |
| Intangible assets | 11 | 27,199 | 29,357 |
| Total non-current assets | | 156,514 | 158,306 |
| Total assets | | 179,156 | 181,371 |
| Liabilities | | | |
| Trade and other payables | 22 | 1,994 | 1,827 |
| Employee benefits | 19 | 314 | 330 |
| Provisions | 21 | 905 | 948 |
| Current tax liabilities | | 996 | 2,214 |
| Loans and borrowings | 18 | 5,679 | 10,578 |
| Total current liabilities | | 9,888 | 15,897 |
| Loans and borrowings | 18 | 30,905 | 32,371 |
| Provisions | 21 | 1,012 | 970 |
| Employee benefits | 19 | 283 | 289 |
| Derivative financial instruments | 23 | 80 | - |
| Deferred tax liabilities | 12 | 6,864 | 6,091 |
| Total non-current liabilities | | 39,144 | 39,721 |
| Total liabilities | | 49,032 | 55,618 |
| Net assets | | 130,124 | 125,753 |
| Equity | | | |
| Share capital | 16 | 110,148 | 108,374 |
| Reserves | | (943) | (744) |
| Retained earnings | | 20,919 | 18,123 |
| Total equity | | 130,124 | 125,753 |

The notes on pages 26 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

Attributable to equity holders of the company

| <i>In thousands of AUD</i> | Share capital | Translation reserve | Hedging reserve | Option reserve | Accumulated profit /(loss) | Total equity |
|------------------------------------------------------------------|----------------|---------------------|-----------------|----------------|----------------------------|----------------|
| Balance at 1 July 2013 | 106,980 | (1,250) | - | 1,014 | 10,728 | 117,472 |
| Total comprehensive income for the period | | | | | | |
| Profit for the period | - | - | - | - | 14,690 | 14,690 |
| Foreign currency translation differences for foreign operations | - | (5) | - | - | - | (5) |
| Total other comprehensive income | - | (5) | - | - | - | (5) |
| Total comprehensive income for the period | - | (5) | - | - | 14,690 | 14,685 |
| Transactions with owners, recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Dividends paid | - | - | - | - | (7,295) | (7,295) |
| Share options exercised, net of transaction costs and tax | 1,285 | - | - | (401) | - | 884 |
| Issue of ordinary shares, net of transaction costs and tax | 162 | - | - | - | - | 162 |
| Issue of share options | - | - | - | 59 | - | 59 |
| Share buy-back | (53) | - | - | - | - | (53) |
| Equity settled shared based payment transactions | - | - | - | (161) | - | (161) |
| Total transactions with owners | 1,394 | - | - | (503) | (7,295) | (6,404) |
| Balance at 30 June 2014 | 108,374 | (1,255) | - | 511 | 18,123 | 125,753 |
| Balance at 1 July 2014 | 108,374 | (1,255) | - | 511 | 18,123 | 125,753 |
| Total comprehensive income for the period | | | | | | |
| Profit for the period | - | - | - | - | 11,959 | 11,959 |
| Foreign currency translation differences for foreign operations | - | 37 | - | - | - | 37 |
| Effective portion of change in FV of cash flow hedge, net of tax | - | - | 50 | - | - | 50 |
| Total other comprehensive income | - | 37 | 50 | - | - | 87 |
| Total comprehensive income for the period | - | 37 | 50 | - | 11,959 | 12,046 |
| Transactions with owners, recorded directly in equity | | | | | | |
| Contributions by and distributions to owners | | | | | | |
| Dividends paid | - | - | - | - | (9,187) | (9,187) |
| Share options exercised, net of transaction costs and tax | 1,538 | - | - | (337) | - | 1,201 |
| Issue of ordinary shares, net of transaction costs and tax | 236 | - | - | - | - | 236 |
| Issue of share options | - | - | - | 75 | - | 75 |
| Equity settled shared based payment transactions | - | - | - | (24) | 24 | - |
| Total transactions with owners | 1,774 | - | - | (286) | (9,163) | (7,675) |
| Balance at 30 June 2015 | 110,148 | (1,218) | 50 | 225 | 20,919 | 130,124 |

The notes on pages 26 to 61 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2015

PACIFIC ENERGY LIMITED
2015 ANNUAL REPORT

| <i>In thousands of AUD</i> | Notes | 30 June 2015 | 30 June 2014 |
|-----------------------------------------------------------------------------|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 47,053 | 48,098 |
| Payments to suppliers and employees | | (14,474) | (13,675) |
| Interest received | | 320 | 322 |
| Interest paid | | (2,062) | (2,237) |
| Income taxes paid | | (5,679) | (7,686) |
| Net cash provided by operating activities | 15(b) | 25,158 | 24,822 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (9,695) | (14,524) |
| Proceeds from the sale of property, plant and equipment | | 5 | - |
| Payments relating to new electricity supply contracts | | (102) | (4) |
| Net cash used in investing activities | | (9,792) | (14,528) |
| Cash flows from financing activities | | | |
| Proceeds from borrowings | | 38,962 | 4,000 |
| Repayment of borrowings | | (45,333) | (4,187) |
| Proceeds from issue of shares | | 1,205 | 888 |
| Payment for buy-back of shares | | - | (53) |
| Dividends paid | | (9,187) | (7,295) |
| Payment of transaction costs | | (409) | (11) |
| Net cash used in financing activities | | (14,762) | (6,658) |
| Net increase in cash and cash equivalents | | 604 | 3,636 |
| Cash and cash equivalents at the beginning of the financial period | | 15,611 | 11,981 |
| Exchange rate movements | | 37 | (6) |
| Current cash and cash equivalents at the end of the financial period | 15(a) | 16,252 | 15,611 |

The notes on pages 26 to 61 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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 2015 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 24 August 2015.

(B) NEW STANDARDS AND INTERPRETATIONS FOR CURRENT YEAR

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

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

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

The consolidated entity has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)

The consolidated entity has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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

(E) USE OF CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

(i) Provision for decommissioning

As a result of the acquisition of the Kalgoorlie Power Systems business in May 2009, the Group assumed decommissioning and dismantling costs in relation to the obligation to remove plant and equipment located at mine sites at the conclusion of electricity supply contracts. In determining the fair value of the provision for decommissioning, assumptions and estimates are made in relation to the discount rates, the expected cost to dismantle and remove plant and equipment from the site and the expected timing of those costs. The carrying amount of the provision at 30 June 2015 was \$1.9 million (2014: \$1.9 million).

(ii) Impairment of non-financial assets

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

(iii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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(C) FINANCIAL INSTRUMENTS

(i) Non-derivative financial assets

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

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

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

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

Receivables

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

Cash and cash equivalents

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

(ii) Non-derivative financial liabilities

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

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

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

(iii) Share capital

Ordinary shares

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

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(C) FINANCIAL INSTRUMENTS (CONTINUED)

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 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

- Office and equipment 2-5 years

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

(E) INTANGIBLE ASSETS

(i) Goodwill

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

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

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

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

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

(iii) Subsequent expenditure

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

(iv) Amortisation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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

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

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

(I) EMPLOYEE BENEFITS

(i) Defined contribution plans

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

(ii) Short-term benefits

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

(iii) Other long-term employee benefits

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

(iv) Share-based payment transactions

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(J) PROVISIONS

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

(K) REVENUE

Sale of electricity

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

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

(L) OTHER INCOME

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

(M) LEASE PAYMENTS

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

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

Determining whether an arrangement contains a lease

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

(N) FINANCE INCOME AND FINANCE COSTS

Finance income comprises interest income on funds invested (including available-for-sale financial assets). 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.

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(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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(O) INCOME TAX (CONTINUED)

(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.

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(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'). 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 but the impact of its adoption is yet to be assessed by the consolidated entity.

- *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2017. 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 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

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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 2015.

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 | |
|---------------------------------------|----------------------|----------|-------|-------|---------------------------------------|---------|----------|----------|
| <i>In thousands of AUD</i> | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| External revenues | 44,750 | 47,038 | 1,046 | 909 | - | - | 45,796 | 47,947 |
| EBITDA ¹ | 33,086 | 35,098 | 525 | 1,500 | (2,778) | (2,218) | 30,833 | 34,380 |
| Interest income | 193 | 169 | 4 | 4 | 123 | 150 | 320 | 323 |
| Finance costs | (2,505) | (2,543) | - | - | - | - | (2,505) | (2,543) |
| Depreciation and amortisation | (11,137) | (10,633) | (291) | (284) | (24) | (31) | (11,452) | (10,948) |
| Profit before income tax ¹ | 19,637 | 22,091 | 238 | 1,220 | (2,679) | (2,099) | 17,196 | 21,212 |
| Income tax expense | (5,969) | (6,715) | (72) | (366) | 804 | 559 | (5,237) | (6,522) |
| Capital expenditure | (9,649) | (14,432) | (74) | (48) | (30) | (3) | (9,753) | (14,483) |

¹ Other segment profit before income tax and EBITDA in 2014 includes Royalty Rebates (refer Note 5).

MAJOR CUSTOMER

Revenues from four customers in the KPS Power Generation segment represents approximately 61% (2014: 43% from three customers) of the Group's total revenues (each customer greater than 10% individually).

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5. OTHER INCOME

| <i>In thousands of AUD</i> | 2015 | 2014 |
|------------------------------|------|-------|
| Royalty rebates ¹ | - | 1,066 |
| Other income | 53 | 254 |
| | 53 | 1,320 |

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

6. EMPLOYEE BENEFITS EXPENSE

| <i>In thousands of AUD</i> | Notes | 2015 | 2014 |
|-------------------------------------------------|-------|-------|-------|
| Wages and salaries | | 6,527 | 5,386 |
| Employment related taxes and insurances | | 573 | 501 |
| Contributions to defined contribution plans | | 364 | 355 |
| Equity-settled share-based payment transactions | 20 | 313 | 63 |
| Increase/(decrease) in leave liabilities | | (21) | 87 |
| | | 7,756 | 6,392 |

7. FINANCE INCOME AND FINANCE COSTS

RECOGNISED IN PROFIT OR LOSS

| <i>In thousands of AUD</i> | 2015 | 2014 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------|---------|
| Interest income on bank deposits | 320 | 323 |
| Interest expense on financial liabilities measured at amortised cost | (2,063) | (2,237) |
| Unwind of discount on decommissioning cost provision | (44) | (53) |
| Other finance costs | (398) | (253) |
| Net finance costs recognised in profit or loss | (2,185) | (2,220) |
| 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 | 320 | 323 |
| Total interest expense on financial liabilities | (2,505) | (2,543) |

8. IMPAIRMENT EXPENSE

| <i>In thousands of AUD</i> | Notes | 2015 | 2014 |
|----------------------------------------------|-------|------|-------|
| Impairment of financial assets ¹ | 14 | (29) | 1,527 |
| Impairment of intangible assets ² | 11 | - | 515 |
| Total impairment expense | | (29) | 2,042 |

¹ On 16 August 2013, one of the Group's customers, GMK Exploration Pty Ltd, was placed into Administration. An impairment provision of \$1.5 million was raised against the \$1.8 million owing by this customer, which consisted of approximately \$0.2 million in unpaid electricity and a \$1.6 million termination payment. During the year ended 30 June 2015, \$0.4 million was received in dividends from the Administrators of GMK Exploration Pty Ltd, and this resulted in the impairment provision being partially reversed.

² During the year ended 30 June 2014, one of the Group's customers, Xstrata Nickel Australasia Operations Pty Ltd, terminated its power supply contracts with the Group. An impairment provision was raised against the customer relationship intangible assets and the total of \$0.5 million written off in full.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9. INCOME TAX EXPENSE

| <i>In thousands of AUD</i> | 2015 | 2014 |
|----------------------------------------------------------------------------|--------|--------|
| Current tax liability | | |
| Current period | 4,464 | 5,452 |
| Adjustments for prior periods | (2) | (220) |
| | 4,462 | 5,232 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 770 | 855 |
| Adjustments for prior periods | 5 | 435 |
| | 775 | 1,290 |
| | | |
| Total income tax expense | 5,237 | 6,522 |
| Numerical reconciliation between tax expense and pre-tax net profit | | |
| Profit for the period before tax | 17,195 | 21,212 |
| | | |
| Income tax using the company's domestic tax rate of 30% (2014: 30%) | 5,159 | 6,364 |
| Non-deductible expenses | 98 | 21 |
| Effect of lower rate of tax on overseas income | 10 | (50) |
| Under/(over) provision in respect of prior years | (30) | 187 |
| Aggregate income tax expense | 5,237 | 6,522 |

INCOME TAX RECOGNISED DIRECTLY IN EQUITY

| <i>In thousands of AUD</i> | 2015 | | | 2014 | | |
|----------------------------------------------------------------|------------|-----------------------|------------|------------|-----------------------|------------|
| | Before tax | Tax (expense) benefit | Net of tax | Before tax | Tax (expense) benefit | Net of tax |
| Share transaction costs | (10) | 2 | (8) | (15) | 4 | (11) |
| Income tax on income and expense recognised directly in equity | (10) | 2 | (8) | (15) | 4 | (11) |

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

| <i>In thousands of AUD</i> | 2015 | | | 2014 | | |
|-----------------------------------------------------------------|------------|-----------------------|------------|------------|-----------------------|------------|
| | Before tax | Tax (expense) benefit | Net of tax | Before tax | Tax (expense) benefit | Net of tax |
| Foreign currency translation differences for foreign operations | 37 | - | 37 | (5) | - | (5) |
| Cash flow hedges | 50 | - | 50 | - | - | - |
| | 87 | - | 87 | (5) | - | (5) |

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10. PROPERTY, PLANT AND EQUIPMENT

| <i>In thousands of AUD</i> | Power generation assets | Land & buildings | Office equipment | Total |
|---------------------------------------------|-------------------------|------------------|------------------|----------|
| Cost | | | | |
| Balance at 1 July 2013 | 142,264 | 6,117 | 415 | 148,796 |
| Additions | 8,011 | 6,445 | 28 | 14,484 |
| Balance at 30 June 2014 | 150,275 | 12,562 | 443 | 163,280 |
| Balance at 1 July 2014 | 150,275 | 12,562 | 443 | 163,280 |
| Additions | 8,862 | 507 | 282 | 9,651 |
| Disposals | (132) | - | (73) | (205) |
| Balance at 30 June 2015 | 159,005 | 13,069 | 652 | 172,726 |
| Depreciation and impairment losses | | | | |
| Balance at 1 July 2013 | (25,726) | (1) | (263) | (25,990) |
| Depreciation for the period | (8,476) | - | (56) | (8,532) |
| Balance at 30 June 2014 | (34,202) | (1) | (319) | (34,522) |
| Balance at 1 July 2014 | (34,202) | (1) | (319) | (34,522) |
| Depreciation for the period | (8,934) | (186) | (72) | (9,192) |
| Accumulated depreciation on assets disposed | 132 | - | 68 | 200 |
| Balance at 30 June 2015 | (43,004) | (187) | (323) | (43,514) |
| Carrying amounts | | | | |
| At 1 July 2013 | 116,538 | 6,116 | 152 | 122,806 |
| At 30 June 2014 | 116,073 | 12,561 | 124 | 128,758 |
| At 1 July 2014 | 116,073 | 12,561 | 124 | 128,758 |
| At 30 June 2015 | 116,001 | 12,882 | 329 | 129,212 |

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11. INTANGIBLE ASSETS

| <i>In thousands of AUD</i> | Notes | Goodwill | Electricity supply contracts | Customer relationships | Distribution licence | Total |
|-------------------------------------------|-------|----------|------------------------------|------------------------|----------------------|----------|
| Cost | | | | | | |
| Balance at 1 July 2013 | | 22,080 | 21,871 | 6,897 | 1,637 | 52,485 |
| Additions | | - | 4 | - | - | 4 |
| Balance at 30 June 2014 | | 22,080 | 21,875 | 6,897 | 1,637 | 52,489 |
| Balance at 1 July 2014 | | 22,080 | 21,875 | 6,897 | 1,637 | 52,489 |
| Additions | | - | 102 | - | - | 102 |
| Balance at 30 June 2015 | | 22,080 | 21,977 | 6,897 | 1,637 | 52,591 |
| Amortisation and impairment losses | | | | | | |
| Balance at 1 July 2013 | | (899) | (15,619) | (2,808) | (875) | (20,201) |
| Amortisation for the period | | - | (1,510) | (568) | (338) | (2,416) |
| Impairment for the period | 8 | - | - | (515) | - | (515) |
| Balance at 30 June 2014 | | (899) | (17,129) | (3,891) | (1,213) | (23,132) |
| Balance at 1 July 2014 | | (899) | (17,129) | (3,891) | (1,213) | (23,132) |
| Amortisation for the period | | - | (1,404) | (517) | (339) | (2,260) |
| Balance at 30 June 2015 | | (899) | (18,533) | (4,408) | (1,552) | (25,392) |
| Carrying amounts | | | | | | |
| At 1 July 2013 | | 21,181 | 6,252 | 4,089 | 762 | 32,284 |
| At 30 June 2014 | | 21,181 | 4,746 | 3,006 | 424 | 29,357 |
| At 1 July 2014 | | 21,181 | 4,746 | 3,006 | 424 | 29,357 |
| At 30 June 2015 | | 21,181 | 3,444 | 2,489 | 85 | 27,199 |

AMORTISATION AND IMPAIRMENT CHARGE

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

GOODWILL

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

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IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| <i>In thousands of AUD</i> | 2015 | 2014 |
|----------------------------|--------|--------|
| KPS Power Generation | 21,181 | 21,181 |
| | 21,181 | 21,181 |

KPS POWER GENERATION

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

Value in use was determined by discounting the future cash flows generated from the continuing use of the 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 2016. Cash flows beyond this period have been extrapolated using a constant growth rate of 1.3% per annum as a proxy for CPI indexation;
- The useful life of the cash generating unit has been estimated as 12 years, being the average remaining life of generators currently installed;
- Operating costs have been estimated as a percentage of sales; and
- A pre-tax discount rate of 11.5% (2014: 13.4%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on the midpoint of a possible range of debt leveraging of 42.5% at an interest rate of 5.0%.

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:

| <i>In thousands of AUD</i> | 2015 | 2014 |
|----------------------------|-------|-------|
| Revenue losses | - | - |
| Capital losses | 1,404 | 1,404 |
| | 1,404 | 1,404 |

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

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12. DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

| <i>In thousands of AUD</i> | Assets | | Liabilities | | Net | |
|-------------------------------|---------|---------|-------------|---------|---------|---------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Trade and other receivables | 12 | - | (5) | (68) | 7 | (68) |
| Property, plant and equipment | 2 | - | (5,761) | (5,140) | (5,759) | (5,140) |
| Trade and other payables | 766 | 776 | - | - | 766 | 776 |
| Impairment charge | 1,808 | 1,861 | - | - | 1,808 | 1,861 |
| Intangible assets | - | - | (1,806) | (2,453) | (1,806) | (2,453) |
| Business related costs | 52 | 821 | (1,980) | (1,978) | (1,928) | (1,157) |
| Tax loss carry-forwards | 48 | 90 | - | - | 48 | 90 |
| Tax assets / (liabilities) | 2,688 | 3,548 | (9,552) | (9,639) | (6,864) | (6,091) |
| Set off of tax | (2,688) | (3,548) | 2,688 | 3,548 | - | - |
| Net tax liabilities | - | - | (6,864) | (6,091) | (6,864) | (6,091) |

MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

| <i>In thousands of AUD</i> | Balance 1 July 2013 | Recognised in profit or loss | Recognised directly in equity | Recognised in other comprehensive income | Balance 30 June 2014 | Recognised in profit or loss | Recognised directly in equity | Recognised in other comprehensive income | Balance 30 June 2015 |
|-------------------------------|---------------------------|------------------------------------|-------------------------------------|---------------------------------------------------|----------------------------|------------------------------------|-------------------------------------|---------------------------------------------------|----------------------------|
| Trade and other receivables | (14) | (54) | - | - | (68) | 75 | - | - | 7 |
| Property, plant and equipment | (4,196) | (944) | - | - | (5,140) | (619) | - | - | (5,759) |
| Trade and other payables | 755 | 21 | - | - | 776 | (10) | - | - | 766 |
| Impairment charge | 1,861 | - | - | - | 1,861 | (53) | - | - | 1,808 |
| Intangible assets | (3,331) | 878 | - | - | (2,453) | 647 | - | - | (1,806) |
| Business related costs | (206) | (955) | 4 | - | (1,157) | (773) | 2 | - | (1,928) |
| Tax loss carry-forwards | 139 | (49) | - | - | 90 | (42) | - | - | 48 |
| | (4,992) | (1,103) | 4 | - | (6,091) | (775) | 2 | - | (6,864) |

MOVEMENT IN UNRECOGNISED DEFERRED TAX ASSETS AND LIABILITIES DURING THE YEAR

| <i>In thousands of AUD</i> | Balance 1 July 2013 | Additions | Recognition | Balance 30 June 2014 | Additions | Recognition | Balance 30 June 2015 |
|----------------------------|---------------------------|-----------|-------------|----------------------------|-----------|-------------|----------------------------|
| Revenue losses | - | - | - | - | - | - | - |
| Capital losses | 1,404 | - | - | 1,404 | - | - | 1,404 |
| | 1,404 | - | - | 1,404 | - | - | 1,404 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. INVENTORIES

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------------|------|------|
| Oil and spare parts held for use – cost | 755 | 869 |
| | 755 | 869 |

During the year to 30 June 2015, changes to the levels of oil and spare parts held for use recognised as cost of sales amounted to \$114,000 (2014: \$8,000). There were no write-downs of inventories during the year.

14. TRADE AND OTHER RECEIVABLES

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------|-------|-------|
| Current | | |
| Trade receivables | 5,189 | 6,235 |
| Other receivables and prepayments | 316 | 350 |
| | 5,505 | 6,585 |
| Non-current | | |
| Other receivables and prepayments | - | 88 |
| | - | 88 |

PROVISION FOR IMPAIRMENT OF RECEIVABLES

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

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

| <i>In thousands of AUD</i> | Notes | Opening balance 1 July 2013 | Charge for the year | Amounts written off | Closing balance 30 June 2014 | Charge for the year | Amounts written off | Closing balance 30 June 2015 |
|----------------------------|-------|-----------------------------------|------------------------|------------------------|---------------------------------------|------------------------|------------------------|---------------------------------------|
| Current | | | | | | | | |
| Trade receivables | 8 | - | (1,527) | - | (1,527) | 29 | - | (1,498) |
| | | - | (1,527) | - | (1,527) | 29 | - | (1,498) |

CREDIT RISK

The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. Approximately 61% of the Group's revenue from electricity generation is attributable to sales transactions with four customers (each individually greater than 10%) (2014: 43% from three 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:

| <i>In thousands of AUD</i> | Carrying amount 2015 | 2014 |
|----------------------------|-------------------------|-------|
| Australia | 5,189 | 6,235 |

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.

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14. TRADE AND OTHER RECEIVABLES (CONTINUED)

CREDIT RISK (CONTINUED)

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

| <i>In thousands of AUD</i> | Gross amount | Past Due and Impaired | Past Due but Not Impaired | | | | Within Initial Trade Terms |
|----------------------------|--------------|-----------------------|---------------------------|-------|-------|-----|----------------------------|
| | | | <30 | 31-60 | 61-90 | >90 | |
| 2015 | | | | | | | |
| Trade and term receivables | 5,189 | - | - | 50 | - | 24 | 5,115 |
| Other receivables | 316 | - | - | - | - | - | 316 |
| Total | 5,505 | - | - | 50 | - | 24 | 5,431 |
| 2014 | | | | | | | |
| Trade and term receivables | 6,235 | - | - | 10 | - | 313 | 5,912 |
| Other receivables | 438 | - | - | - | - | - | 438 |
| Total | 6,673 | - | - | 10 | - | 313 | 6,350 |

15(A). CASH AND CASH EQUIVALENTS

| <i>In thousands of AUD</i> | 2015 | 2014 |
|----------------------------|--------|--------|
| Current | | |
| Bank balances | 16,252 | 15,611 |
| Non-current | | |
| Bank balances ¹ | 103 | 103 |
| Total cash | 16,355 | 15,714 |

¹ Non current bank balances consists of a restricted cash balance of \$103,000 at 30 June 2015 (2014: \$103,000), comprising a bank guarantee.

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

| <i>In thousands of AUD</i> | 2015 | 2014 |
|--------------------------------------------------------------------------|---------------|---------------|
| Cash flows from operating activities | | |
| Profit for the period | 11,959 | 14,690 |
| Adjustment for: | | |
| Depreciation | 9,192 | 8,532 |
| Amortisation of intangible assets | 2,260 | 2,416 |
| Impairment of assets | (29) | 515 |
| Other financing costs | 398 | 253 |
| Unwind discount on provision for decommissioning costs | 44 | 53 |
| Income tax expense | 5,237 | 6,522 |
| Employee share and option expense | 313 | 63 |
| Operating profit before changes in working capital and provisions | 29,374 | 33,044 |
| Change in inventories | 114 | 9 |
| Change in trade and other receivables | 1,204 | 357 |
| Change in trade and other payables | 167 | (989) |
| Change in employee entitlements | (22) | 87 |
| Income tax paid | (5,679) | (7,686) |
| Net cash from operating activities | 25,158 | 24,822 |

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16. CAPITAL AND RESERVES

SHARE CAPITAL

| <i>In thousands of AUD</i> | Number of shares ('000) | | Share capital (\$'000) | |
|-----------------------------------------|-------------------------|---------|------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| On issue at the beginning of the period | 366,212 | 363,427 | 108,374 | 106,980 |
| Employee share scheme | 456 | 398 | 238 | 165 |
| Share options exercised | 3,000 | 2,500 | 1,542 | 1,288 |
| Share buy-back | - | (113) | - | (53) |
| Transaction costs, net of tax effect | - | - | (6) | (6) |
| On issue at 30 June - fully paid | 369,668 | 366,212 | 110,148 | 108,374 |

ISSUANCE OF ORDINARY SHARES

During the year, the Pacific Energy Group issued 3,456,110 Pacific Energy Shares.

Of the total issued:

- 456,110 were issued to employees under the Pacific Energy Employee Share Plan; and
- 3,000,000 were issued upon the exercise of employee options.

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

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

TRANSLATION RESERVE

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

17. EARNINGS PER SHARE

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

BASIC EARNINGS PER SHARE

Profit attributable to ordinary shareholders

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------------------------------------------------|--------|--------|
| Net profit from continuing operations attributable to ordinary shareholders | 11,959 | 14,690 |
| Net profit attributable to ordinary shareholders | 11,959 | 14,690 |

Weighted average number of ordinary shares

| <i>In thousands of shares</i> | 2015 | 2014 |
|---------------------------------------------------------------------|---------|---------|
| Issued ordinary shares at the beginning of the period | 366,212 | 363,427 |
| Effect of shares issued in employee share scheme | 300 | 262 |
| Effect of shares issued on exercise of options | 1,028 | 1,074 |
| Effect of shares bought back via on-market buy-back | - | (2) |
| Weighted average number of ordinary shares at the end of the period | 367,540 | 364,761 |

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17. EARNINGS PER SHARE (CONTINUED)

DILUTED EARNINGS PER SHARE

Profit attributable to ordinary shareholders (diluted)

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------------------------------------------------|--------|--------|
| Net profit from continuing operations attributable to ordinary shareholders | 11,959 | 14,690 |
| Net profit attributable to ordinary shareholders | 11,959 | 14,690 |

Weighted average number of ordinary shares (diluted)

| <i>In thousands of shares</i> | 2015 | 2014 |
|-------------------------------------------------------------------------------|---------|---------|
| Issued ordinary shares at the beginning of the period (basic) | 366,212 | 363,427 |
| Effect of shares issued in employee share scheme (basic) | 300 | 262 |
| Effect of shares issued on exercise of options (basic) | 1,028 | 1,074 |
| Effect of shares bought back via on-market buy-back | - | (2) |
| Effect of share options on issue | - | 220 |
| Weighted average number of ordinary shares (diluted) at the end of the period | 367,540 | 364,981 |

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.

| <i>In thousands of AUD</i> | 2015 | 2014 |
|--------------------------------|--------|--------|
| Current liabilities | | |
| Secured bank loan | 5,151 | 7,142 |
| Hire purchase facility | 528 | 3,436 |
| | 5,679 | 10,578 |
| Non-current liabilities | | |
| Secured bank loan | 30,905 | 31,842 |
| Hire purchase facility | - | 529 |
| | 30,905 | 32,371 |
| | 36,584 | 42,949 |

TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans were as follows:

| <i>In thousands of AUD</i> | Nominal interest rate | Year of maturity | Face value | 2015 Carrying amount | Face value | 2014 Carrying amount |
|------------------------------------|---------------------------|------------------|------------|-------------------------|------------|-------------------------|
| Secured bank loan | BBSY ¹ +0.875% | 2017 | 36,365 | 36,056 | 39,300 | 38,984 |
| Acquisition loan facility | BBSY ¹ +0.775% | 2017 | - | - | - | - |
| Working capital facility | BBSY ¹ +0.75% | 2017 | - | - | - | - |
| Total interest-bearing liabilities | | | 36,365 | 36,056 | 39,300 | 38,984 |

¹ BBSY: Bank Bill Swap Bid Rate

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SECURED BANK LOAN

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-------------------------------------------------------------|----------|--------|
| Carrying amount of liability at the beginning of the period | 38,984 | 34,732 |
| Proceeds from drawdown of loan | 38,962 | 4,000 |
| Transaction costs | (392) | - |
| Amortisation of transaction costs | 399 | 252 |
| Repayments | (41,897) | - |
| Carrying amount of liability at the end of the period | 36,056 | 38,984 |

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 new loan facilities provided by ANZ have a total aggregate facility limit of \$63 million and will be repaid in equal quarterly instalments amortising down to 60% of the original drawn amount by 19 November 2017.

At 30 June 2015, \$24 million remained undrawn on the ANZ loan facilities (2014: \$10 million undrawn on the CBA debt facility).

HIRE PURCHASE FACILITY

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-------------------------------------------------------------|---------|---------|
| Carrying amount of liability at the beginning of the period | 3,965 | 8,152 |
| Proceeds from drawdown of facilities | - | - |
| Repayments | (3,437) | (4,187) |
| Carrying amount of liability at the end of the period | 528 | 3,965 |

The total amount drawn at 30 June 2015 was \$0.5 million (2014: \$4 million). The Equipment Finance Facilities bear interest at a weighted average rate of 7.4% and is expected to be fully repaid in the year ended 30 June 2016.

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

19. EMPLOYEE BENEFITS

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------------|------|------|
| Current | | |
| Liability for annual leave & sick leave | 314 | 330 |
| Non-current | | |
| Liability for long service leave | 283 | 289 |
| Total employee benefit liabilities | 597 | 619 |

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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 2015, the following options have been issued and are outstanding:

| Grant date / employees entitled | Number of instruments | Vesting conditions |
|-------------------------------------------------|-----------------------|-------------------------------------|
| Options granted to director on 7 December 2012 | 1,500,000 | Immediately vested |
| Options granted to employee on 10 November 2014 | 2,000,000 | Over a period of 30 months' service |
| Options granted to director on 14 May 2015 | 5,000,000 | Over a period of 36 months' service |
| Total share options | 8,500,000 | |

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

| | Weighted average exercise price 2015 | Number of options 2015 | Weighted average exercise price 2014 | Number of options 2014 |
|--------------------------------------------|--------------------------------------|------------------------|--------------------------------------|------------------------|
| Outstanding at the beginning of the period | \$0.44 | 5,100,000 | \$0.41 | 7,500,000 |
| Granted during the period | \$0.62 | 7,000,000 | \$0.45 | 1,100,000 |
| Exercised during the period | \$0.40 | (3,000,000) | \$0.36 | (2,500,000) |
| Cancelled during the period | - | - | \$0.45 | (1,000,000) |
| Expired during the period | \$0.48 | (600,000) | - | - |
| Outstanding at the end of the period | \$0.60 | 8,500,000 | \$0.44 | 5,100,000 |
| Exercisable at the end of the period | \$0.50 | 1,500,000 | \$0.44 | 5,100,000 |

The options outstanding at 30 June 2015 have exercise prices in the range of \$0.50 to \$0.70 (2014: \$0.40 to \$0.50) and a weighted average remaining contractual life of 3.56 years (2014: 0.85 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date are as follows:

| 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 |
|-------------------------|--------------|-----------------------|----------------|-------------------------------|---------------------|-------------------------|-------------------------|
| <i>14 May 2015</i> | | | | | | | |
| 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 | | | | |
| <i>10 November 2014</i> | | | | | | | |
| Tranche 1 | 30 June 2017 | \$0.1016 | \$0.60 | \$0.52 | 35% | 2.57% | Nil |
| Tranche 2 | 30 June 2018 | \$0.1006 | \$0.70 | | | 2.79% | Nil |

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.

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Employee share scheme

A scheme under which shares may be issued by the company to eligible employees for no cash consideration was approved by shareholders on 30 November 2011. The number of shares that eligible employees are entitled to each year is determined with reference to the number of hours worked during the entitlement period and the duration of the employee's employment with the Group. Employees must be continuously employed by the Group for a period of at least one year to be eligible to participate in the scheme. The company issued 456,110 shares to employees under the scheme during the year (2014: 398,302 shares).

EMPLOYEE EXPENSES

| <i>In thousands of AUD</i> | Notes | 2015 | 2014 |
|--------------------------------------------|-------|------|-------|
| Share options granted in 2011 | | - | (161) |
| Share options granted in 2014 | | - | 59 |
| Shares granted in 2014 | | - | 165 |
| Shares granted in 2015 | | 238 | - |
| Share options granted in 2015 | | 75 | - |
| Total expense recognised as employee costs | 6 | 313 | 63 |

21. PROVISIONS

| <i>In thousands of AUD</i> | 2015 | 2014 |
|----------------------------------------------|-------|-------|
| Current | | |
| <i>Decommissioning and dismantling costs</i> | | |
| At the beginning of the period | 948 | 985 |
| Provisions made during the period | - | 19 |
| Reclassification from non-current | (8) | 63 |
| Provision used | (44) | (145) |
| Unwind of discount | 9 | 26 |
| Balance at the end of the period | 905 | 948 |
| Non-Current | | |
| <i>Decommissioning and dismantling costs</i> | | |
| At the beginning of the period | 970 | 920 |
| Provisions made during the period | - | 86 |
| Reclassification to current | 8 | (63) |
| Unwind of discount | 34 | 27 |
| Balance at the end of the period | 1,012 | 970 |

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.

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22. TRADE AND OTHER PAYABLES

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------------|-------|-------|
| Trade payables | 1,364 | 1,252 |
| Non-trade payables and accrued expenses | 630 | 575 |
| | 1,994 | 1,827 |

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

23. DERIVATIVE FINANCIAL INSTRUMENT

| <i>In thousands of AUD</i> | 2015 | 2014 |
|-----------------------------------------------------|------|------|
| Current asset | | |
| Forward foreign exchange contract - cash flow hedge | 130 | - |
| | 130 | - |
| Non-current liability | | |
| Interest rate swap – cash flow hedge | 80 | - |
| | 80 | - |

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.

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The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. Approximately 61% of the Group's revenue from electricity generation is attributable to sales transactions with four customers (each individually greater than 10%) (2014: 43% from three 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:

| <i>In thousands of AUD</i> | Notes | 2015 | 2014 |
|-----------------------------|-------|--------|--------|
| Cash and cash equivalents | 15 | 16,355 | 15,714 |
| Trade and other receivables | 14 | 5,505 | 6,673 |
| | | 21,860 | 22,387 |

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:

| <i>In thousands of AUD</i> | Contractual cash flows | | Within 1 year | | 1-5 years | | More than 5 years | |
|--------------------------------------|------------------------|----------|---------------|----------|-----------|----------|-------------------|------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Secured bank loan | (39,644) | (41,780) | (6,709) | (9,036) | (32,935) | (32,744) | - | - |
| Hire purchase liabilities | (542) | (4,134) | (542) | (3,592) | - | (542) | - | - |
| Trade and other payables | (1,994) | (1,827) | (1,994) | (1,827) | - | - | - | - |
| Interest rate swaps used for hedging | (80) | - | (47) | - | (33) | - | - | - |
| | (42,260) | (47,741) | (9,292) | (14,455) | (32,968) | (33,286) | - | - |

As detailed at Note 18, the nominal interest rate applicable to the secured bank loan is BBSY +0.875% and the weighted average interest rate applicable to the hire purchase liabilities is 7.4%.

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24. FINANCIAL INSTRUMENTS (CONTINUED)

LIQUIDITY RISK (CONTINUED)

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

| <i>In thousands of AUD</i> | Carrying amount | Expected cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|----------------------------|-----------------|---------------------|------------------|-------------|-----------|-----------|-------------------|
| 30 June 2015 | | | | | | | |
| Interest rate swaps | (80) | (80) | (20) | (27) | (33) | (1) | - |
| | (80) | (80) | (20) | (27) | (33) | (1) | - |
| 30 June 2014 | | | | | | | |
| Interest rate swaps | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |

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.

| <i>In thousands of AUD</i> | Carrying amount | Expected cash flows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|----------------------------|-----------------|---------------------|------------------|-------------|-----------|-----------|-------------------|
| 30 June 2015 | | | | | | | |
| Interest rate swaps | (80) | (80) | (20) | (27) | (33) | (1) | - |
| | (80) | (80) | (20) | (27) | (33) | (1) | - |
| 30 June 2014 | | | | | | | |
| Interest rate swaps | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |

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 US dollars (USD). The Group does not use currency hedging for administration expenses as the receipts in USD are used to meet the liability obligations of the Group entities denominated in USD. The use of currency hedging for exposures relating to spare parts and plant and equipment purchases are assessed on a case by case basis.

During the financial year ended 30 June 2015, the Group entered into a forward foreign currency contract in relation to a firm commitment denominated in USD. The maturity, settlement amounts and the average contractual exchange rates of the Group's outstanding forward foreign exchange contracts at the reporting date were as follows:

| <i>In thousands of AUD</i> | Sell Australian dollars | | Average exchange rates | |
|----------------------------|-------------------------|------|------------------------|------|
| | 2015 | 2014 | 2015 | 2014 |
| Buy US dollars | | | | |
| Maturity: | | | | |
| 6-12 months | 4,363 | - | 0.7604 | - |

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

| In thousands of AUD | 2015 | | 2014 | |
|-----------------------------|---------|-----|---------|-----|
| | AUD | USD | AUD | USD |
| Trade and other receivables | 5,505 | - | 6,673 | - |
| Trade and other payables | (1,994) | - | (1,827) | - |
| Net exposure | 3,511 | - | 4,846 | - |

The following significant exchange rates applied during the period:

| AUD | Average rate | | Reporting date spot rate | |
|-----|--------------|--------|--------------------------|--------|
| | 2015 | 2014 | 2015 | 2014 |
| USD | 0.8287 | 0.9143 | 0.7655 | 0.9419 |

Sensitivity analysis

A strengthening of the AUD, as indicated below, against the US dollar at 30 June 2015 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 2014, as the reasonably possible foreign exchange rate variances were the same for both periods.

| In thousands of AUD | Equity | Profit or loss |
|-------------------------------|--------|----------------|
| 30 June 2015 | | |
| USD (5 percent strengthening) | (288) | 2 |
| 30 June 2014 | | |
| USD (5 percent strengthening) | (198) | (14) |

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

INTEREST RATE RISK

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

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

Profile

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

| In thousands of AUD | Carrying amount | |
|----------------------------------|-----------------|----------|
| | 2015 | 2014 |
| Variable rate instruments | | |
| Financial assets | 16,355 | 15,714 |
| Financial liabilities | (36,584) | (42,949) |
| | (20,229) | (27,235) |

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24. FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST RATE RISK (CONTINUED)

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. The analysis is performed on a 30 basis points change for 2014.

| Effect In thousands of AUD | Profit or loss | | Equity | |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 40 / 30bp increase | 40 / 30bp decrease | 40 / 30bp increase | 40 / 30bp decrease |
| 30 June 2015 | | | | |
| Variable rate instruments | (73) | 73 | - | - |
| Interest rate swap | - | - | 145 | (145) |
| Cash flow sensitivity (net) | (73) | 73 | 145 | (145) |
| 30 June 2014 | | | | |
| Variable rate instruments | (71) | (71) | - | - |
| Interest rate swap | - | - | - | - |
| Cash flow sensitivity (net) | (71) | (71) | - | - |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

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

| <i>In thousands of AUD</i> | 2015 | 2014 |
|------------------------------------------------|----------|----------|
| Total liabilities | 49,032 | 55,618 |
| Less: cash and cash equivalents | (16,355) | (15,714) |
| Net debt | 32,677 | 39,904 |
| Total capital | 130,124 | 125,753 |
| Debt-to-capital ratio at the end of the period | 0.25 | 0.32 |

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.

(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 balance sheet except as follows:

| <i>In thousands of AUD</i> | 2015 | | 2014 | |
|----------------------------------------------|-----------------|------------|-----------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Liabilities carried at amortised cost | | | | |
| Secured bank loan | (36,056) | (37,987) | (38,984) | (41,780) |
| Hire purchase liabilities | (528) | (542) | (3,965) | (4,114) |
| | (36,584) | (38,529) | (42,949) | (45,894) |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

24. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUES (CONTINUED)

Fair value hierarchy

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

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

| In thousands of AUD | Level 1 | | Level 2 | | Level 3 | | Total | |
|-----------------------------------------|---------|------|----------|----------|---------|------|----------|----------|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Secured bank loan | - | - | (37,987) | (41,780) | - | - | (37,987) | (41,780) |
| Hire purchase liabilities | - | - | (542) | (4,114) | - | - | (542) | (4,114) |
| Interest rate swaps used for hedging | - | - | (80) | - | - | - | (80) | - |
| Foreign exchange swaps used for hedging | - | - | 130 | - | - | - | 130 | - |
| | - | - | (38,479) | (45,894) | - | - | (38,479) | (45,894) |

There have been no transfers of assets between the Levels during the year ended 30 June 2015 or the year ended 30 June 2014.

25. COMMITMENTS

OPERATING LEASE COMMITMENTS

Non-cancellable operating lease rentals are payable as follows:

| In thousands of AUD | 2015 | 2014 |
|----------------------------|------|------|
| Less than one year | 76 | 148 |
| Between one and five years | - | - |
| Later than 5 years | - | - |
| | 76 | 148 |

The Group leases offices, a workshop, a storage area and a house (accommodation for FIFO employees) under operating leases. The leases currently have terms of six months with the option to renew the lease after that date, except for the storage areas which are leased on a month-to-month basis and the house which has a 12-month term.

During the year ended 30 June 2015, \$1.0 million was recognised as an expense in the income statement in respect of operating leases (2014: \$1.2 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 2015, the Group had capital commitments of \$23 million in relation to purchases of plant and equipment. This amount is expected to be paid during the financial year ended 30 June 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

PACIFIC ENERGY LIMITED
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26. CONTINGENCIES

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

CONTINGENT LIABILITY

Rights to Future Income Tax Losses

During the period 1 January 2009 to 30 June 2010, the Group claimed income tax deductions for the amortisation of electricity supply contracts acquired as part of the acquisition of Kalgoorlie Power Systems. On 29 June 2012, the Tax Laws Amendment (2012 Measures No.2) Bill 2012 was enacted by parliament, retrospectively changing the tax treatment of rights to future income assets ("RTFI") and limiting the time period in which RTFI deductions could be claimed.

On 15 January 2014, the Australian Taxation Office ("ATO") released draft Tax Determinations TD2014/D2, TD2014/D3 and TD2014/D4. These draft Tax Determinations outline the ATO's view on the application of Tax Laws Amendment (2012 Measures No.2) Bill 2012 and seek to further limit the company's RTFI tax deductions to the extent they reduced the company's tax position during the period 1 January 2009 to 30 June 2010 to nil.

These draft Tax Determinations have the potential to disallow \$5.2M in tax losses utilised by the Group during the period 1 July 2010 to 30 June 2012. If the tax losses are disallowed, it would result in additional tax payable of \$1.6 million by the Group. At the date of this report, draft Tax Determination 2014/D3 is still under review by the ATO and the company is of the view that the possibility of an outflow of resources embodying economic benefits is unlikely.

27. RELATED PARTIES

KEY MANAGEMENT PERSONNEL COMPENSATION

The key management personnel compensation is as follows:

| In AUD | 2015 | 2014 |
|------------------------------|-----------|-----------|
| Short-term employee benefits | 1,356,418 | 1,278,334 |
| Post-employment benefits | 82,316 | 73,224 |
| Other long-term benefits | 27,228 | - |
| Share-based payments | 74,998 | - |
| Termination benefits | 444,902 | - |
| | 1,985,862 | 1,351,558 |

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

27. 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 2015 (2014: \$1.5 million).

28. GROUP ENTITIES

| Name of entity | Country of incorporation | Ownership Interests | |
|------------------------------------------|--------------------------|---------------------|------|
| | | 2015 | 2014 |
| Parent entity | | | |
| Pacific Energy Limited | Australia | | |
| Significant subsidiaries | | | |
| Pacific Energy (Victorian Hydro) Pty Ltd | Australia | 100% | 100% |
| Ausi Iron NL | Australia | 100% | 100% |
| Pacific Energy (Biomass) Pty Ltd | Australia | 100% | 100% |
| Pacific Energy (KPS) Pty Ltd | Australia | 100% | 100% |
| SpiritWest Bioenergy Pty Ltd | Australia | 100% | 100% |
| Waste Heat Recovery Systems Pty Ltd | Australia | 100% | 100% |
| Project Global Limited | Bermuda | 100% | 100% |
| Atlantic Pacific Infrastructure Limited | Bermuda | 100% | 100% |

29. 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 (2014: 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 15 October 2015 out of retained earnings, but not recognised as a liability at year end is \$5.5 million (2014: \$5.5 million).

(B) FRANKED DIVIDENDS

The franked portions of the final dividend declared after 30 June 2015 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 2015.

| <i>In thousands of AUD</i> | 2015 | 2014 |
|--------------------------------------------------------------------------------------------------|-------|-------|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2014: 30%) | 8,629 | 8,104 |
| | 8,629 | 8,104 |

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 (2014: \$2.4 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2015

PACIFIC ENERGY LIMITED
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30. SUBSEQUENT EVENT

Apart from the dividend declared as disclosed in Note 29(a), no other matter or circumstance has arisen since 30 June 2015 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.

31. AUDITORS' REMUNERATION

| <i>In AUD</i> | 2015 | 2014 |
|---------------------------------------|--------|--------|
| Audit services | | |
| Auditors of the company: | | |
| Audit and review of financial reports | 92,000 | 91,000 |
| | 92,000 | 91,000 |

32. PARENT ENTITY DISCLOSURES

| <i>In thousands of AUD</i> | Company | |
|-------------------------------------------|---------|---------|
| | 2015 | 2014 |
| Profit for the period | 20,243 | 16,152 |
| Other comprehensive income | - | - |
| Total comprehensive income for the period | 20,243 | 16,152 |
| Current assets | 4,456 | 4,780 |
| Total assets | 175,255 | 166,682 |
| Current liabilities | 8,574 | 12,552 |
| Total liabilities | 8,659 | 12,653 |
| Shareholders' equity | | |
| Share capital | 110,148 | 108,375 |
| Option reserve | 225 | 512 |
| Accumulated profit | 56,223 | 45,142 |
| Total shareholders' equity | 166,596 | 154,029 |

GUARANTEES PROVIDED IN RELATION TO SUBSIDIARIES

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

CONTINGENT LIABILITIES AND COMMITMENTS

At 30 June 2015, 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 2015

- 1 In the opinion of the directors of Pacific Energy Limited:
 - (a) the Group's financial statements and notes set out on pages 22 to 61 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 2015 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 2015.

Signed in accordance with a resolution of the directors:



Chief Executive Officer & Managing Director
Dated at Perth this 24th day of August 2015.



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

Report on the Financial Report

We have audited the accompanying financial report of Pacific Energy Ltd., which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

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

Opinion

In our opinion:

- (a) the financial report of Pacific Energy Ltd. is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

INDEPENDENT AUDIT REPORT

For the year ended 30 June 2015



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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Pacific Energy Ltd. for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads "Crowe Horwath Perth".

Crowe Horwath Perth

A handwritten signature in blue ink, appearing to read "Cyrus Patell".

Cyrus Patell
Partner

Signed at Perth, 24 August 2015

ASX ADDITIONAL INFORMATION

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 23 September 2015.

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 | 47.80 |
| Pacific Road Holdings NV | 67,900,437 | 18.37 |
| Citicorp Nominees Pty Limited | 15,486,065 | 4.19 |
| National Nominees Limited | 12,810,809 | 3.47 |
| HSBC Custody Nominees (Australia) Limited | 10,497,530 | 2.84 |
| J P Morgan Nominees Australia Limited | 9,705,567 | 2.63 |
| Pacific Road Capital A Pty Limited <Pacific Road Resources Fund A> | 8,413,418 | 2.28 |
| Pacific Road Capital B Pty Limited <Pacific Road Resources Fund B> | 8,413,418 | 2.28 |
| Mr Kenneth Joseph Hall <Hall Park A/C> | 8,000,000 | 2.16 |
| Renewable Initiative Pty Limited | 6,833,332 | 1.85 |
| Arredo Pty Ltd | 5,000,000 | 1.35 |
| Cleveland Investment Global Limited | 4,729,905 | 1.28 |
| BNP Paribas Noms Pty Ltd <DRP> | 4,728,157 | 1.28 |
| Skye Alba Pty Ltd <The Skye Alba Fund A/C> | 2,022,412 | 0.55 |
| Citicorp Nominees Pty Limited <Colonial First State Inv A/C> | 1,937,855 | 0.52 |
| 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> | 1,350,000 | 0.37 |
| RBC Investor Services Australia Nominees Pty Limited <PISELECT> | 1,299,808 | 0.35 |
| Mr Trevor Coulter + Staples Rodway Trustee Company Ltd <Simon Coulter No 1 A/C> | 1,100,000 | 0.30 |
| Mr Robert Constable + Mrs Janet Marie Constable <RJ Realty Provident Fund A/C> | 1,010,000 | 0.27 |
| Total Top 20 | 349,428,091 | 94.52 |

ASX ADDITIONAL INFORMATION

For the year ended 30 June 2015

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Ordinary Share Capital

369,668,336 fully paid ordinary shares are held by 948 individual shareholders.

All issued ordinary shares carry one vote each.

Options

8,500,000 unlisted options are held by 3 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 | 191 | 0 |
| 1,001 - 5,000 | 359 | 0 |
| 5,001 - 10,000 | 151 | 0 |
| 10,001 - 100,000 | 195 | 0 |
| 100,001 and over | 52 | 3 |
| | 948 | 3 |

The number of shareholders holding less than a marketable parcel of ordinary shares is 259.

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 | 49.97% |
| Pacific Road | (2) | 84,727,273 | 22.92% |

Note:

(1) Includes Kenneth Hall controlled entities Sept Pty Ltd and Mr Kenneth Joseph Hall <Hall Park A/C>

(2) Includes Pacific Road Capital A Pty Limited <Pacific Road Resources Fund A>, Pacific Road Capital B Pty Limited <Pacific Road Resources Fund B> and Pacific Road Holdings NV

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 Louis I Rozman
Non-Executive Director

Mr Gregory Dick
Alternate Director

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COMPANY SECRETARY

Ms Adela J Ciupryk

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AUDITOR

Crowe Horwath
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Australia

STOCK EXCHANGE LISTING

Australian Securities Exchange

ASX CODE: PEA



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

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