



## Pacific Energy Limited (PEA)

22 009 191 744

### Appendix 4E – Results for the year ended 30 June 2019

#### 1. Details of reporting periods:

<b>Current reporting period</b>	: 12 months ended 30 June 2019
<b>Previous corresponding period</b>	: 12 months ended 30 June 2018

#### 2. Results for announcement to the market

	12 Months ended 30 June 2019 \$'000	12 Months ended 30 June 2018 \$'000	% Change
Revenues	120,804	68,077	77%
Profit after tax <sup>1</sup>	24,545	6,781	262%
Profit after tax attributable to members <sup>1</sup>	24,545	6,781	262%

Commentary on the above figures is included in the accompanying ASX Announcement and the attached financial report for the year ended 30 June 2019 on pages 5 to 8.

Dividend / distributions	Amount per security (cents)	Franked amount per security (cents)	Amount \$'000	Amount per security of foreign sourced dividend (cents)	Record date	Date paid / payable
Final dividend – current year	1.5	1.5	6,451	-	19/09/19	10/10/19
Final dividend – previous year	-	-	-	-	n/a	n/a

#### 3. Statement of comprehensive income

Refer to attached financial report for the year ended 30 June 2019.

#### 4. Statement of financial position

Refer to attached financial report for the year ended 30 June 2019.

#### 5. Statement of cash flows

Refer to attached financial report for the year ended 30 June 2019.

#### 6. Dividend reinvestment plans

Not applicable.

This Appendix 4E Preliminary Final Report is provided to the ASX under Listing Rule 4.3B and should be read in conjunction with the accompanying financial report for the year ended 30 June 2019.

**7. Statement of changes in equity**

Refer to attached financial report for the year ended 30 June 2019.

**8. Net tangible assets per security**

	30 June 2019 (cents)	30 June 2018 (cents)
Net tangible assets per ordinary security	34.7	30.0

**9. Gain or loss of control over entities**

Refer to attached financial report for the year ended 30 June 2019.

**10. Associates and joint ventures**

Not applicable.

**11. Other significant information**

Not applicable.

**12. Foreign entities**

Not applicable.

**13. Commentary on results for the period**

Refer to accompanying ASX Announcement and attached financial report for the year ended 30 June 2019 for commentary on results.

**14. Status of audit**

The financial report for the year ended 30 June 2019 has been audited and is not subject to dispute or qualification. Refer to the Independent Audit Report on page 52 of the attached financial report.



**Signed:** Michael Kenyon  
CFO & Company Secretary  
Pacific Energy Limited

**Date:** 22 August 2019



PACIFICENERGY

**Pacific Energy Limited**

**ACN 009 191 744**

**and its controlled entities**

**2019 Financial Report**

	Page
Directors' report.....	3
Lead auditor's independence declaration.....	16
Consolidated statement of profit or loss and other comprehensive income.....	17
Consolidated statement of financial position.....	18
Consolidated statement of changes in equity.....	19
Consolidated statement of cash flows .....	20
Notes to the consolidated financial statements .....	21
Directors' declaration.....	51
Independent audit report .....	52

# Directors' report

For the year ended 30 June 2019

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 2019 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 led the project development and financing of numerous major power and infrastructure projects.

Mr Lawrenson was the Managing Director of Atlas Iron Limited from January 2017 to October 2018. Prior to this he held several successive managing director roles including Avenir Limited, FerrAus Limited and GRD Group Limited. 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 Avenir Limited (May 2012 to January 2017) and Atlas Iron Ltd (January 2017 to October 2018).

Mr Lawrenson was appointed Non-Executive Chairman on 23 August 2010 and is the Chair of the Remuneration Committee.

### **James D D Cullen**

Managing Director  
B Com, CA, F Fin, FAICD, AIGA, ACIS

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

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

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

During the three years prior to the end of the year, Mr Cullen was a director of Centennial Mining Ltd (formerly A1 Consolidated Gold Ltd) (May 2015 to June 2018) and Chesapeake Capital Ltd (June 2015 to date).

Mr Cullen has been a director since 1 June 2015.

### **Kenneth J Hall**

Executive Director

Mr Hall is an electrician and founded Kalgoorlie Power Systems in 1981. Mr Hall has been involved in the mining industry for over 50 years and the contract power generation business for over 30 years.

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

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

# Directors' report

For the year ended 30 June 2019

## 1. Directors and Officers (continued)

### A Stuart Foster

Independent Non-Executive Director  
B.Com, CA

Mr Foster has been involved in the financial services industry for more than 30 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 corporate finance related matters such as raising new capital and Initial Public Offerings.

Mr Foster holds a Bachelor of Commerce degree from Canterbury University and he is a qualified Chartered Accountant. He is also an ASIC Responsible Executive and an ASIC Responsible Manager.

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

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

### Linton J Putland

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

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

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

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

During the three years prior to the end of the year, Mr Putland has been a director of Breaker Resources NL (August 2018 to date) and Azumah Resources Limited (July 2018 to date).

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

### Michael P Kenyon

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

Mr Kenyon is a Chartered Accountant and holds a Bachelor of Business degree from the Edith Cowan University. He is also a graduate member of the Australian Institute of Company Directors and has over 21 years' experience in senior Finance roles within public companies.

## 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	1,155,127	-
J Cullen	500,000	5,000,000
K Hall	209,267,229	-
S Foster	4,514,937	-
L Putland	-	-

# Directors' report

For the year ended 30 June 2019

## 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		Remuneration Committee meetings	
	Held	Attended	Held	Attended	Held	Attended
C Lawrenson	10	10	-	-	2	2
J Cullen	10	10	2	2	-	-
K Hall	10	10	-	-	-	-
S Foster	10	10	2	2	2	2
L Putland	10	10	2	2	2	2

*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 2019 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 five 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 265MW at 30 June 2019;
- Pacific Energy Victorian Hydro, which includes the generation of electricity from two hydro power stations in Victoria with a combined capacity of 6MW;
- NovaPower, which owns a 10MW gas-fired power station in Traralgon, Victoria;
- Contract Power Group, which is a specialist provider of remote power generation in a "Build Own Operate" capacity in Australia with contracted capacity in Australia of 80MW as well as having undertaken EPC contracts in Australia, Africa and Asia; and
- KPS Power Africa, which is based in the Republic of South Africa, replicating Kalgoorlie Power Systems' Australian business model, with a focus on select African countries.

## Review of financial results

Consolidated entity (or Group) net profit after tax for the year ended 30 June 2019 was \$24.5 million compared with a net profit after tax of \$6.8 million for the year ended 30 June 2018. The financial results of the Group include those of Contract Power Group from 1 April 2018 and NovaPower Pty Ltd from 20 December 2017 as well as several one-off acquisition related expenses, which impacted earnings in 2018 as detailed in the table below.

The table below provides a comparison of the key results for the year ended 30 June 2019 to the preceding year ended 30 June 2018:

Statement of profit or loss	% Change	2019 \$'000	2018 \$'000
Revenue from operations	77%	120,804	68,077
EBITDA	110%	65,807	31,275
Reported profit after tax attributable to members	262%	24,545	6,781
Underlying EBITDA (non IFRS) <sup>1</sup>	49%	65,807	44,105

<sup>1</sup> A reconciliation of Underlying EBITDA is included below

# Directors' report

For the year ended 30 June 2019

## 5. Operating and financial review (continued)

### Review of financial results (continued)

#### EBITDA performance

Underlying EBITDA (non IFRS) for the year ended 30 June 2019 was \$65.8 million (2018: \$44.1 million). The strong growth was generated primarily from the full year impact of multi-year power contracts installed in the previous year and expansions of existing contracts. A full year of earnings from Contract Power Group was also included.

Details of adjustments and a comparison to the preceding year ended 30 June 2018 are as follows:

<i>In thousands of AUD</i>	<b>2019</b>	<b>2018</b>
<b>EBITDA</b>	<b>65,807</b>	<b>31,275</b>
Normalised for one-off items:		
Impairment of fixed and intangible assets	-	9,766
Due diligence costs	-	1,289
Stamp duty expensed on acquisition	-	3,500
EBITDA contribution of Contract Power	-	(1,725)
<b>Underlying EBITDA (non IFRS)</b>	<b>65,807</b>	<b>44,105</b>

#### Financial position

The company's net assets increased by 12% compared to the prior year, primarily attributable to the company's net profit after tax of \$24.5 million.

Property, plant and equipment increased by 2% (net of depreciation) in 2019, largely as a result of the capital expenditure investment in new assets, construction of new power stations and refurbishment of existing assets together with the acquisition of the property located at 326 Ngarangara Road, Landsdale, Western Australia.

The investments detailed above and capital expenditure were largely funded from cash reserves and some utilisation of the Company's increased bank facilities. Net borrowings decreased from \$94.9 million at 30 June 2018 to \$65.3 million at 30 June 2019, largely as a result of additional repayments as surplus cash flow allowed during the year. The ratio of net borrowings to net tangible assets is 48% (2018: 82%) and net borrowings to enterprise value is 18% (2018: 26%).

The company's working capital position decreased compared to last financial year as a result of the higher balance of trade and other creditors at year end.

#### Earnings per share

Based on 429,417,994 weighted average ordinary shares on issue during the year ended 30 June 2019 the result represents a basic profit after tax attributable to members per share of 5.7 cents compared with a basic profit after tax attributable to members of 1.8 cents per share for the year ended 30 June 2018. This represents a 217% increase largely as a result of no one-off expenses being incurred in 2019 compared to 2018 mentioned above.

#### Industry and Geographic Exposures

The Group is exposed to the Australian mining industry and within that, predominantly exposed to the gold sector with 65% (2018: 82%) of the Group's revenues for the year ended 30 June 2019 generated from power stations located at gold projects. On a geographic basis, the Group is predominantly exposed to Western Australia, with 85% (2018: 78%) of the Group's revenue originating in that state. In June 2016 the Company established an office in the Republic of South Africa to pursue power station contracts on the African continent. No revenue was recorded for the year ended 30 June 2019.

#### Review of operations

##### Remote Power Generation

Pacific Energy's core activity comprises the operations of the Kalgoorlie Power Systems business ("KPS") which it acquired on 8 May 2009 and Contract Power which it acquired on 24 April 2018. The businesses build, own and maintain diesel, gas, dual fuelled and hybrid power stations located at mine sites across Australia. The total contracted generation capacity at 30 June 2019 is now approximately 345MW. Most of the electricity supply contracts are of long duration, with the weighted average remaining contractual life of remote power generation contracts at 30 June 2019 being approximately 4 years. In addition to owning and operating remote power stations, Contract Power also undertakes select EPC power station projects.

##### Contract Expiry

During the period, the Electricity Supply Contracts with Newmont Mining Services Pty Ltd concluded at Newmont's Tanami operation.



# Directors' report

For the year ended 30 June 2019

## 5. Operating and financial review (continued)

### Review of operations (continued)

#### Victorian Hydro operations

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

The power purchase agreement for Blue Rock is able to be terminated by either party with six months' notice. The company is registered as a Small Aggregated Generator in the National Electricity Market for its operations at Blue Rock Dam. 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.

Both the Blue Rock and Cardinia hydro power stations performed in line with budget during the 2019 financial year. Renewable energy generation by Cardinia and Blue Rock totalled 11.3GWh (2018: 8.6GWh) and 8.0GWh (2018:8.6GWh) respectively. The generation performance of these hydro power stations is entirely dependent on water flows made available by the relevant water authority suppliers.

#### NovaPower operations

Pacific Energy owns and operates a 10MW gas-fired power plant in Traralgon, Victoria, operating as a non-scheduled market generator in the National Electricity Market (NEM).

#### 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

Other than the following, no other matter or circumstance has arisen since 30 June 2019 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.

#### Scheme of Arrangement

On 24 July 2019, the Company announced it has entered into a Scheme Implementation Deed with QGIF Swan Bidco Pty Ltd, a subsidiary of funds managed or advised by QIC Private Capital Pty Ltd ("QIC"), to acquire Pacific Energy by way of Scheme of Arrangement (the "Scheme") for 97.5 cents per share.

Key details of the announcement were as follows:

- Pacific Energy shareholders will receive 97.5 cents per share in cash, comprising 96.0 cents per share to be paid by QIC and a final 1.5 cents per share fully-franked dividend intended to be paid by Pacific Energy (the "Total Consideration")
- The Total Consideration is above the highest price Pacific Energy has traded since the acquisition of Kalgoorlie Power Systems in 2009 and represents a:
  - 35.4% premium to the last closing price of Pacific Energy shares on 22 July 2019 of \$0.720
  - 43.6% premium to the 1-month VWAP of Pacific Energy shares of \$0.679
  - 50.1% premium to the 3-month VWAP of Pacific Energy shares of \$0.650
- Pacific Energy may also declare and pay a special dividend before the implementation date of the Scheme. The quantum of any special dividend will be advised to Pacific Energy shareholders in due course and will reduce the Total Consideration accordingly but the total cash to be received by Pacific Energy shareholders will be equal to 97.5 cents per share
- The Scheme values Pacific Energy equity at \$422 million and an implied enterprise value of \$487 million
- No expected changes to the leadership of Pacific Energy and its wholly owned subsidiaries, including Kalgoorlie Power Systems and Contract Power
- No impact on Pacific Energy's operations, customers and employees
- The Directors of Pacific Energy unanimously recommend the Scheme and have each confirmed that they intend to vote all of the Pacific Energy shares they hold or control in favour of the Scheme, in each case in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interest of Pacific Energy shareholders

## Directors' report

### For the year ended 30 June 2019

#### 5. Operating and financial review (continued)

##### Likely developments

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

##### Environmental regulation

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

#### 6. Dividends

Dividends paid or shares issued through dividend reinvestment plan during the financial year were as follows:

	2019 \$'000	2018 \$'000
Final dividend for the year ended 30 June 2018 of 1.0 cent per ordinary share (2017: 1.5 cent)	-	5,577
Interim dividend for the year ended 30 June 2019 of 1.0 cent per ordinary share (2018: 1.0 cent)	4,296	3,715
	<b>4,296</b>	<b>9,292</b>

# Directors' report

For the year ended 30 June 2019

## 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 Key management personnel included in this report

Name	Position held
J Cullen	Managing Director
K Hall	Executive Director
C Lawrenson	Non-executive Director
S Foster	Non-executive Director
L Putland	Non-executive Director
M Kenyon	Chief Financial Officer & Company Secretary
R Pascoe	General Manager (KPS)
L Hodges	Managing Director (Contract Power)

### 7.2 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 2018 AGM, being \$350,000 per annum. Currently non-executive directors do not receive additional committee fees or other payments for additional services outside the scope of Board and committee duties apart from the Chair of the Audit Committee who receives an additional fee in recognition of the additional time commitment involved, and the Chairman of the Board, Mr Lawrenson, who is entitled to consulting fees of \$2,500 per day for extra exertion services as engaged from time to time.

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

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

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

#### Executive remuneration policy

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

The compensation structures take into account:

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

# Directors' report

For the year ended 30 June 2019

## 7. Remuneration report – audited (continued)

### 7.2 Principles of compensation (continued)

#### Executive remuneration policy (continued)

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

	2019	2018	2017	2016	2015
Underlying EBITDA (non IFRS) (\$'000)	65,807	44,105	40,019	36,750	30,832
Dividend per share (cents) <sup>1</sup>	2.5	1.0	2.5	2.5	2.5
Change in share price (\$)	0.10	(0.14)	0.25	0.06	(0.07)

<sup>1</sup> 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 short-term incentives and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash or shares that is paid upon the achievement of pre-determined key performance indicators set by the Board. The objective of this form of reward is to align the behaviour of executives to maximise shareholder value. The Remuneration Committee is responsible for determining the achievement of targets and assessing as to whether a bonus amount is paid. STI payments to Key Management Personnel during the 2019 financial year were based on achieving strategic and/or business objectives. Performance evaluations of senior executives have taken place during the reporting period in accordance with the process disclosed above.

#### STI bonus for 2019 financial year – performance indicators

Feature	Description
Maximum opportunity	20% of fixed remuneration for MD and other executives
Performance indicators	Achievement of FY19 Business Plan agreed with the Board
Delivery of STI	The STI award is paid in cash at the end of the financial year
Board discretion	The Board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes

#### Performance based remuneration granted and forfeited during the year

Key management Personnel	2019 Total STI bonus		Forfeited %
	Total opportunity \$	Awarded %	
J Cullen	100,000	100%	-
R Pascoe	60,000	80%	20%
M Kenyon <sup>1</sup>	n/a	n/a	n/a

<sup>1</sup> Discretionary bonus paid to the CFO

#### Share based compensation

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. The options vest on completion of a specified service period.

# **Directors' report**

**For the year ended 30 June 2019**

## **7. Remuneration report – audited (continued)**

### **7.2 Principles of compensation (continued)**

#### **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, Managing Director

- a) Term of agreement – commenced 1 June 2015 with indefinite duration;
- b) Base salary of \$550,000 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 – commenced 8 May 2009 with indefinite duration;
- b) Consulting fees of \$240,000 per annum;
- c) Base directors fees of \$45,000 per annum exclusive of superannuation; and
- d) Is capable of immediate termination by mutual agreement of the parties.

M Kenyon, Chief Financial Officer & Company Secretary

- a) Term of agreement – commenced 23 May 2016 with indefinite duration;
- b) Consulting fees payable on a day rate basis at \$1,300 per day;
- c) Is capable of termination by both parties on one months' notice; and
- d) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

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

- a) Term of agreement – commenced 10 May 2017 with indefinite duration;
- b) Base salary of \$300,000 per annum exclusive of superannuation;
- c) Annual cash bonus payment of up to 20% of base salary upon the achievement of Key Performance Indicators to be agreed with the Managing Director;
- d) Share options as detailed in this Remuneration report;
- e) Is capable of termination by both parties on three months' notice; and
- f) The agreement may be terminated for serious misconduct, in which case the company is not required to pay compensation.

L Hodges, Managing Director Contract Power (commenced 24 April 2018)

- a) Term of agreement – commenced 24 April 2018 with a duration of 2 years or such other period as otherwise agreed between the parties;
- b) Consulting fees payable on a day rate basis at \$1,800 per day;
- c) Share options as detailed in this Remuneration report;
- d) Is capable of termination by both parties on six months' notice; and
- e) The agreement may be terminated for breach of any term of the agreement, in which case the company is not required to pay compensation.

## Directors' report

For the year ended 30 June 2019



### 7. Remuneration report – audited (continued)

#### 7.3 Directors' and key management personnel's remuneration

Details of the nature and amount of each major element of remuneration of each director of the company and key management personnel for the year ended 30 June 2019:

		Salary & fees	Cash bonus	Short-term Non-monetary	Post-employment Super-annuation	Other long term benefits Long service leave	Share based payments Options	Termination payments	Total	Performance related
<i>In AUD</i>		\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Non-Executive Directors</b>										
C Lawrenson	2019	100,000	-	-	9,500	-	-	-	109,500	-
	2018	100,000	-	-	9,500	-	-	-	109,500	-
S Foster	2019	75,000	-	-	7,125	-	-	-	82,125	-
	2018	75,000	-	-	7,125	-	-	-	82,125	-
L Putland	2019	65,000	-	-	6,175	-	-	-	71,175	-
	2018	65,000	-	-	6,175	-	-	-	71,175	-
<b>Executive Directors</b>										
J Cullen	2019	519,494	100,000	-	26,400	-	-	-	645,894	15.5%
	2018	430,523	100,000	-	26,400	-	30,189	-	587,112	17.0%
K Hall	2019	285,000	-	-	4,275	-	-	-	289,275	-
	2018	285,000	-	-	4,275	-	-	-	289,275	-
<b>Executives</b>										
M Kenyon (CFO & Company Secretary)	2019	124,800	35,000	-	-	-	-	-	159,800	21.9%
	2018	164,438	20,000	-	-	-	-	-	184,438	10.8%
R Pascoe (GM, KPS)	2019	313,197	48,000	-	28,500	-	61,083	-	450,780	10.6%
	2018	319,262	-	-	28,500	-	68,133	-	415,895	-
L Hodges (MD, Contract Power)	2019	368,280	-	-	-	-	75,000	-	443,280	-
	2018	84,600	-	-	-	-	18,750	-	103,350	-
<b>Former</b>										
A Ciupryk (Joint Company Secretary)	2019	-	-	-	-	-	-	-	-	-
	2018	-	-	-	3,616	-	-	113,272	116,888	-
<b>Total</b>	<b>2019</b>	<b>1,850,772</b>	<b>183,000</b>	<b>-</b>	<b>81,975</b>	<b>-</b>	<b>136,083</b>	<b>-</b>	<b>2,251,830</b>	<b>8.1%</b>
<b>Total</b>	<b>2018</b>	<b>1,523,823</b>	<b>120,000</b>	<b>-</b>	<b>85,591</b>	<b>-</b>	<b>117,072</b>	<b>113,272</b>	<b>1,959,758</b>	<b>6.1%</b>

# Directors' report

For the year ended 30 June 2019

## 7. Remuneration report – audited (continued)

### 7.3 Directors' and executive officers' remuneration (continued)

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

1. Mr Hodges was appointed on 24 April 2018;
2. Ms Ciupryk resigned as company secretary on 9 August 2017; and
3. 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.

### 7.4 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 key management person on issue at 30 June 2019 and details on options that vested 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
J Cullen	1,000,000	14 May 2015	\$0.0629	\$0.55	2 June 2020	14 May 2016	1,000,000
	2,000,000	14 May 2015	\$0.0556	\$0.60	2 June 2020	14 May 2017	2,000,000
	2,000,000	14 May 2015	\$0.0494	\$0.65	2 June 2020	14 May 2018	2,000,000
R Pascoe	1,000,000	3 May 2017	\$0.0846	\$0.80	31 March 2021	10 May 2019	1,000,000
	1,000,000	3 May 2017	\$0.0775	\$0.90	31 March 2022	10 May 2020	-
L Hodges	2,000,000	24 April 2018	\$0.0488	\$0.80	24 April 2023	24 April 2020	-
	2,000,000	24 April 2018	\$0.0393	\$0.90	24 April 2023	24 April 2021	-

The options were provided at no cost to the recipients.

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

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

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

#### Exercise of options granted as compensation

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

There are no amounts unpaid on the shares issued as a result of the exercise of the options in the 2019 financial year.

## Directors' report

For the year ended 30 June 2019

### 7. Remuneration report – audited (continued)

#### 7.4 Equity instruments (continued)

##### 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 exercise-able at the end of the year
<b>2019</b>							
J Cullen	5,000,000	-	-	-	5,000,000	-	5,000,000
R Pascoe	2,000,000	-	-	-	2,000,000	1,000,000	1,000,000
L Hodges	4,000,000	-	-	-	4,000,000	-	-

##### 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
<b>2019</b>						
C Lawrenson	1,155,127	-	-	-	-	1,155,127
S Foster	4,514,937	-	-	-	-	4,514,937
K Hall	209,267,229	-	-	-	-	209,267,229
J Cullen	-	500,000	-	-	-	500,000
M Kenyon	12,221	-	-	-	-	12,221
L Hodges	11,255,557	150,000	-	-	-	11,405,557

No shares were issued to key management personnel during the year ended 30 June 2019.

### 8. Other transactions with key management personnel

Mr K Hall, is a director and majority shareholder of Pacific Energy Limited. KPS, a wholly owned subsidiary of the Company, has rented a workshop and office building from Mr Hall's private entity for the past 8 years. The rental agreement is based on normal commercial terms and conditions.

The Company's wholly owned subsidiary, Contract Power Australia Pty Ltd has rented a workshop and office building from a private entity of Mr L Hodges, the Managing Director of Contract Power Australia Pty Ltd. The rental agreement is based on normal commercial terms and conditions.

### 9. Voting of shareholders at last year's annual general meeting

Pacific Energy Limited received more than 90% of "yes" votes on its remuneration report for the 2018 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

This is the end of the audited remuneration report.



# Directors' report

## For the year ended 30 June 2019

### 10. 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
24 April 2023	\$0.80	2,000,000
24 April 2023	\$0.90	2,000,000
31 March 2021	\$0.80	1,000,000
31 March 2022	\$0.90	1,000,000
2 June 2020	\$0.55	1,000,000
2 June 2020	\$0.60	2,000,000
2 June 2020	\$0.65	2,000,000
		<hr/> 11,000,000 <hr/>

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

#### Shares issued on exercise of options

During and since the end of the financial year, the company did not issue ordinary shares as a result of the exercise of options (there are no amounts unpaid on the shares issued).

### 11. 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 ensure the directors and executive officers of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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

### 12. Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

### 13. Non-audit services

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

### 14. Lead auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after the director's report and forms part of the directors' report for the financial year ended 30 June 2019.

### 15. Rounding off

The company is of a kind referred to in ASIC Legislative Instrument 2016/191 dated 24 March 2016 and in accordance with that Legislative Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made with a resolution of the directors:



**Jamie Cullen**

Managing Director

Dated this 22<sup>nd</sup> day of August 2019

# Lead Auditor's Independence Declaration

For the year ended 30 June 2019



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

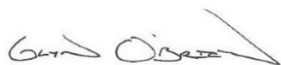
38 Station Street  
Subiaco, WA 6008  
PO Box 700 West Perth WA 6872  
Australia

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

As lead auditor of Pacific Energy Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

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



**Glyn O'Brien**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 22 August 2019

BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

# Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2019

<i>In thousands of AUD</i>	<i>Notes</i>	<b>30 June 2019</b>	<b>30 June 2018</b>
Power generation and service revenue	3	93,021	68,077
Construction revenue	3	27,783	-
Other income	3	2,540	692
Consumables and spare parts		(6,842)	(7,470)
Fuel expense		(7,155)	(39)
Employee benefits expense	4	(15,466)	(11,577)
Construction costs		(22,333)	-
Business acquisition expense		-	(4,789)
Impairment of assets	6	-	(9,766)
Other expenses		(5,741)	(3,853)
Earnings before interest, tax, depreciation and amortisation		65,807	31,275
Depreciation and amortisation		(24,774)	(18,810)
<b>Results from operating activities</b>		<b>41,033</b>	<b>12,465</b>
Financial income		181	64
Financial expenses		(4,587)	(2,623)
<b>Net financing expense</b>	5	<b>(4,406)</b>	<b>(2,559)</b>
<b>Profit before income tax</b>		<b>36,627</b>	<b>9,906</b>
Income tax expense	7	(12,082)	(3,125)
<b>Profit for the year</b>		<b>24,545</b>	<b>6,781</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation differences for foreign operations		7	(13)
Effective portion of changes in fair value of cash flow hedges, net of tax		(1,100)	(231)
<b>Other comprehensive income for the year, net of income tax</b>		<b>(1,093)</b>	<b>(244)</b>
<b>Total comprehensive income for the year</b>		<b>23,452</b>	<b>6,537</b>
<b>Profit attributable to:</b>			
Equity holders of the company		24,545	6,781
<b>Profit for the year</b>		<b>24,545</b>	<b>6,781</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company		23,452	6,537
<b>Total comprehensive income for the year</b>		<b>23,452</b>	<b>6,537</b>
<b>Earnings per share:</b>			
Basic earnings per share (cents)	18	5.72	1.80
Diluted earnings per share (cents)	18	5.71	1.80

The notes to the consolidated statement of profit or loss and other comprehensive income are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

As at 30 June 2019

<i>In thousands of AUD</i>	<i>Notes</i>	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Assets</b>			
Cash and cash equivalents	14(a)	8,079	12,095
Trade and other receivables	12	12,345	16,357
Inventory	11	1,360	1,530
Other current assets	13	50	4,684
Current tax asset		-	1,942
<b>Total current assets</b>		<b>21,834</b>	<b>36,608</b>
Cash and cash equivalents	14(a)	203	203
Property, plant and equipment	8	228,877	223,992
Intangible assets	9	55,986	55,267
<b>Total non-current assets</b>		<b>285,066</b>	<b>279,462</b>
<b>Total assets</b>		<b>306,900</b>	<b>316,070</b>
<b>Liabilities</b>			
Trade and other payables	21	17,720	19,215
Employee benefits	16	1,790	1,307
Provisions	20	1,185	1,644
Current tax liabilities		2,200	-
Loans and borrowings	15	11,741	11,805
<b>Total current liabilities</b>		<b>34,636</b>	<b>33,971</b>
Loans and borrowings	15	61,644	95,196
Other payables	21	1,500	-
Provisions	20	1,807	1,911
Employee benefits	16	374	628
Derivative financial instruments		1,596	496
Deferred tax liabilities	10	13,812	12,339
<b>Total non-current liabilities</b>		<b>80,733</b>	<b>110,570</b>
<b>Total liabilities</b>		<b>115,369</b>	<b>144,541</b>
<b>Net assets</b>		<b>191,531</b>	<b>171,529</b>
<b>Equity</b>			
Share capital	17	141,231	140,523
Reserves		(1,242)	(286)
Retained earnings		51,542	31,292
<b>Total equity</b>		<b>191,531</b>	<b>171,529</b>

The notes to the consolidated statement of financial position are an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

For the year ended 30 June 2019

Attributable to equity holders of the company

<i>In thousands of AUD</i>	Share capital	Translation reserve	Hedging reserve	Option & Rights reserves	Retained Earnings	Total equity
<b>Balance at 1 July 2017</b>	<b>111,472</b>	<b>(6)</b>	<b>(265)</b>	<b>112</b>	<b>33,785</b>	<b>145,098</b>
<b>Total comprehensive income for the period</b>						
Profit for the period	-	-	-	-	6,781	6,781
Foreign currency translation differences for foreign operations	-	(13)	-	-	-	(13)
Effective portion of change in FV of cash flow hedge, net of tax	-	-	(231)	-	-	(231)
Total other comprehensive income	-	(13)	(231)	-	-	(244)
<b>Total comprehensive income for the period</b>	-	(13)	(231)	-	6,781	6,537
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends paid	-	-	-	-	(7,225)	(7,225)
Share buy back	(130)	-	-	-	-	(130)
Shares issued under DRP, net of transaction costs and tax	2,049	-	-	-	(2,049)	-
Shares issued under business combination, net of transaction costs and tax	5,379	-	-	-	-	5,379
Shares issued under rights issue, net of transaction costs and tax	21,419	-	-	-	-	21,419
Issue of share options and rights	-	-	-	453	-	453
Share rights exercised, net of transaction costs and tax	334	-	-	(336)	-	(2)
Total transactions with owners	29,051	-	-	117	(9,274)	19,894
<b>Balance at 30 June 2018</b>	<b>140,523</b>	<b>(19)</b>	<b>(496)</b>	<b>229</b>	<b>31,292</b>	<b>171,529</b>
<b>Balance at 1 July 2018</b>	<b>140,523</b>	<b>(19)</b>	<b>(496)</b>	<b>229</b>	<b>31,292</b>	<b>171,529</b>
<b>Total comprehensive income for the period</b>						
Profit for the period	-	-	-	-	24,545	24,545
Foreign currency translation differences for foreign operations	-	7	-	-	-	7
Effective portion of change in FV of cash flow hedge, net of tax	-	-	(1,100)	-	-	(1,100)
Total other comprehensive income	-	7	(1,100)	-	-	(1,092)
<b>Total comprehensive income for the period</b>	-	7	(1,100)	-	24,545	23,453
<b>Transactions with owners, recorded directly in equity</b>						
<b>Contributions by and distributions to owners</b>						
Dividends paid	-	-	-	-	(4,015)	(4,015)
Shares issued	280	-	-	-	(280)	-
Issue of share options and rights	-	-	-	559	-	559
Share rights exercised, net of transaction costs and tax	428	-	-	(422)	-	6
Total transactions with owners	708	-	-	136	(4,295)	(3,451)
<b>Balance at 30 June 2019</b>	<b>141,231</b>	<b>(12)</b>	<b>(1,596)</b>	<b>366</b>	<b>51,542</b>	<b>191,531</b>

The notes on to the consolidated statement of changes in equity are an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 30 June 2019

<i>In thousands of AUD</i>	<i>Notes</i>	<b>30 June 2019</b>	<b>30 June 2018</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		127,330	70,422
Payments to suppliers and employees		(56,430)	(25,684)
Interest received		180	55
Interest paid		(4,252)	(2,493)
Income taxes paid		(6,464)	(6,379)
<b>Net cash provided by operating activities</b>	14(b)	<b>60,364</b>	<b>35,921</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(22,921)	(22,187)
Payments for the acquisition of businesses, net of cash acquired		(3,500)	(94,710)
Proceeds from the sale of property, plant and equipment		26	6
Payments relating to new electricity supply contracts		(66)	(70)
<b>Net cash used in investing activities</b>		<b>(26,461)</b>	<b>(116,961)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		5,251	140,307
Repayment of borrowings		(38,854)	(65,816)
Proceeds from issue of shares		-	21,429
Dividends paid		(4,015)	(7,225)
Payment for share buy back		-	(130)
Payment of transaction costs		(308)	(419)
<b>Net cash provided by / (used in) financing activities</b>		<b>(37,926)</b>	<b>88,146</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(4,023)</b>	<b>7,106</b>
Cash and cash equivalents at the beginning of the financial period		12,095	5,019
Exchange rate movements		7	(30)
<b>Current cash and cash equivalents at the end of the financial period</b>	14(a)	<b>8,079</b>	<b>12,095</b>

The notes to the consolidated statement of cash flows are an integral part of these consolidated financial statements.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 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 2019 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.

## 2. Operating segments

The Group has two reportable segments, Remote 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 and Remote Power Construction which includes the construction of power station assets for customers under EPC contracts. The Group's strategic business units and the operating segments are based on the internal reports that are reviewed and used by the Group's Managing Director (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.

Other operations include Hydro Power Generation and Peaking Power Generation which do not meet any of the quantitative thresholds for determining reportable segments in 2019.

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 Managing Director. 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.

### Information about reportable segments

<i>In thousands of AUD</i> 2019	Remote Power Generation	Remote Power Construction	Other	Intersegment eliminations/ unallocated	Total
External revenues	88,838	27,783	4,183	-	120,804
EBITDA	61,035	5,451	1,848	(2,527)	65,807
Interest income	164	-	4	13	181
Finance costs	(4,571)	-	-	(16)	(4,587)
Depreciation & amortisation	(23,722)	-	(1,038)	(14)	(24,774)
Profit before income tax	32,906	5,451	814	(2,544)	36,627
Income tax expense	(9,908)	(3,060)	(241)	1,127	(12,082)
Capital expenditure	(22,684)	-	(225)	(12)	(22,921)
<b>2018</b>					
External revenues	66,080	-	1,997	-	68,077
EBITDA <sup>1</sup>	38,026	-	637	(7,387)	31,276
Interest income	58	-	2	3	63
Finance costs	(2,613)	-	-	(10)	(2,623)
Depreciation & amortisation	(18,094)	-	(701)	(15)	(18,810)
Profit before income tax	17,377	-	(62)	(7,409)	9,906
Income tax expense	(5,181)	-	18	2,038	(3,125)
Capital expenditure	(22,993)	-	(36)	(2)	(23,031)

<sup>1</sup> during 2018, unallocated EBITDA includes the following; Business acquisition costs (\$4.8 million), Director fees (\$0.3 million) and other head office costs (\$2.3 million)

### Major customers

Revenues from three customers in the KPS Power Generation segment represents approximately 38% (2018: 57% from four customers) of the Group's total revenues (each customer greater than 10% individually).

### Accounting Policy: 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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 2. Operating segments (continued)

### Accounting Policy: Operating segments (continued)

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.

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

## 3. Revenue

<i>In thousands of AUD</i>	2019	2018
Rental revenue – Power generation	93,021	68,077
Construction revenue	27,783	-
Other income	2,540	692
	123,344	68,769

## 4. Employee benefits expense

<i>In thousands of AUD</i>	Notes	2019	2018
Wages and salaries		12,856	9,802
Employment related taxes and insurances		916	624
Contributions to defined contribution plans		754	505
Equity-settled share-based payment transactions	19	567	453
Other employment related expenses		143	75
Increase/ (decrease) in leave liabilities		230	118
		15,466	11,577

## 5. Finance income and finance costs

### Recognised in profit or loss

<i>In thousands of AUD</i>	2019	2018
Interest income on bank deposits	181	64
Interest expense on financial liabilities measured at amortised cost	(4,252)	(2,493)
Unwinding of discount on decommissioning cost provision	(290)	(36)
Other finance costs	(45)	(94)
Net finance costs recognised in profit or loss	(4,406)	(2,559)

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	181	64
Total interest expense on financial liabilities	(4,225)	(2,495)

### Accounting Policy: 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.

## 6. Impairment expense

<i>In thousands of AUD</i>	2019	2018
Impairment of financial assets	-	-
Impairment of property, plant and equipment <sup>1</sup>	-	8,985
Impairment of intangible assets <sup>2</sup>	-	781
Total impairment expense	-	9,766

<sup>1</sup> During 2018, as a result of the Company's annual review of its property plant and equipment for impairment, idle and slow-moving assets of approximately \$9.0m were identified and a non-cash, impairment expense has been recognised.

<sup>2</sup> During 2018, Kalgoorlie Power Systems (KPS) received notice from Newmont Mining Services Pty Ltd that it had been unsuccessful in its tender for the electricity supply requirements at Newmont's Tanami operations expected to commence from 1st January 2019. An impairment was raised for the balance of the customer relationship intangible asset with Newmont, which originated from Pacific Energy's acquisition of KPS in 2009.



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 7. Income tax expense

<i>In thousands of AUD</i>	2019	2018
<b>Current tax expense</b>		
Current period	10,034	3,877
Adjustments for prior periods	464	61
	10,498	3,938
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	1,885	(568)
Adjustments for prior periods	(301)	(245)
	1,584	(813)
<b>Total income tax expense</b>	12,082	3,125
<b>Numerical reconciliation between tax expense and pre-tax net profit</b>		
Profit for the period before tax	36,627	9,906
Income tax using the company's domestic tax rate of 30% (2018: 30%)	10,988	2,972
Non-deductible / (assessable) items	1,176	(183)
Adjustments to tax bases as a result of joining tax consolidated group	-	393
Effect of lower rate of tax on overseas income	94	128
Capital (profits) / losses not subject to income tax	-	-
Under/(over) provision in respect of prior years	(178)	(184)
Aggregate income tax expense	12,082	3,125

## Income tax recognised directly in equity

<i>In thousands of AUD</i>	2019 Before tax	2019 Tax (expense) benefit	2019 Net of tax	2018 Before tax	2018 Tax (expense) benefit	2018 Net of tax
Share transaction costs	7	(2)	5	(56)	17	(39)
Income tax on income and expense recognised directly in equity	7	(2)	5	(56)	17	(39)

## Income tax recognised in other comprehensive income

<i>In thousands of AUD</i>	2019 Before tax	2019 Tax (expense) benefit	2019 Net of tax	2018 Before tax	2018 Tax (expense) benefit	2018 Net of tax
Foreign currency translation differences for foreign operations	7	-	7	(13)	-	(13)
Cash flow hedges	(1,100)	-	(1,100)	(231)	-	(231)
	(1,093)	-	(1,093)	(244)	-	(244)

## Accounting Policy: 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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 8. Property, plant and equipment

<i>In thousands of AUD</i>	Power generation assets	Land & buildings	Office equipment	Total
<b>Cost</b>				
Balance at 1 July 2017	216,008	13,069	688	229,765
Additions	22,903	1	26	22,930
Business combination	67,298	-	-	67,298
Disposals	(76)	-	-	(76)
Balance at 30 June 2018	306,133	13,070	714	319,917
Balance at 1 July 2018	306,133	13,070	714	319,917
Additions	20,364	6,405	42	26,811
Disposals	(33)	-	-	(33)
Balance at 30 June 2019	326,464	19,475	756	346,695
<b>Depreciation and impairment losses</b>				
Balance at 1 July 2017	(68,690)	(717)	(347)	(69,754)
Depreciation for the period	(16,912)	(265)	(83)	(17,260)
Impairment for the period (Note 6)	(8,986)	-	-	(8,986)
Accumulated depreciation on assets disposed	75	-	-	75
Balance at 30 June 2018	(94,513)	(982)	(430)	(95,925)
Balance at 1 July 2018	(94,513)	(982)	(430)	(95,925)
Depreciation for the period	(21,586)	(267)	(75)	(21,928)
Accumulated depreciation on assets disposed	35	-	-	35
Balance at 30 June 2019	(116,064)	(1,249)	(505)	(117,818)
<b>Carrying amounts</b>				
At 1 July 2017	147,318	12,352	341	160,011
At 30 June 2018	211,620	12,088	284	223,992
At 1 July 2018	211,620	12,088	284	223,992
At 30 June 2019	210,400	18,226	251	228,877

### Accounting Policy: 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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 8. Property, plant and equipment (continued)

### (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 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 10 to 20 years
- Instrument and control systems 10 to 20 years
- Other assets 5 to 30 years

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

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

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

- Office and equipment 2-5 years

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

## 9. Intangible assets

<i>In thousands of AUD</i>	<i>Notes</i>	<b>Goodwill</b>	<b>Electricity supply contracts</b>	<b>Customer relationships</b>	<b>Total</b>
<b>Cost</b>					
Balance at 1 July 2017		22,080	22,111	6,897	51,088
Additions		-	102	-	102
Business combination		26,305	7,058	-	33,363
Balance at 30 June 2018		48,385	29,271	6,897	84,553
Balance at 1 July 2018		48,385	29,271	6,897	84,553
Additions		-	67	-	67
Business combination		2,625	875	-	3,500
Balance at 30 June 2019		51,010	30,213	6,897	88,120
<b>Amortisation and impairment losses</b>					
Balance at 1 July 2017		(899)	(20,615)	(5,442)	(26,956)
Amortisation for the period		-	(1,032)	(517)	(1,549)
Impairment for the period (Note 6)		-	-	(781)	(781)
Balance at 30 June 2018		(899)	(21,647)	(6,740)	(29,286)
Balance at 1 July 2018		(899)	(21,647)	(6,740)	(29,286)
Amortisation for the period		-	(2,749)	(99)	(2,848)
Balance at 30 June 2019		(899)	(24,396)	(6,839)	(32,134)
<b>Carrying amounts</b>					
at 1 July 2017		21,181	1,496	1,455	24,132
at 30 June 2018		47,486	7,624	157	55,267
at 1 July 2018		47,486	7,624	157	55,267
at 30 June 2019		50,111	5,817	58	55,986

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 9. Intangible assets (continued)

### Accounting Policy: 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.

### Amortisation and impairment charge

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

### Goodwill

For the purposes of impairment testing, goodwill is allocated to the Group's cash generating units ("CGU") which represent the lowest level within the Group at which goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in Note 2.

#### (v) Critical accounting estimates and judgements

The recoverable amount of goodwill and other intangibles has been calculated using a number of estimates and judgements as disclosed below.

### 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>	2019	2018
Remote Power Generation	50,111	47,486
	50,111	47,486

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 9. Intangible assets (continued)

### Accounting Policy: Intangible assets (continued)

#### Remote Power Generation

The recoverable amount of the Remote 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 2019. Cash flows beyond this period have been extrapolated using a constant growth rate of 2.0% per annum as a proxy for CPI indexation;
- The useful life of the CGU has been estimated as 12 years, being the average remaining life of generators currently installed;
- Operating costs have been estimated as a percentage of sales; and
- A pre-tax discount rate of 10.0% (2018: 11.0%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on the midpoint of a possible range of debt leveraging of 42.5% at an interest rate of 4.5%.

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 Remote Power Generation cash-generating unit was based would not cause the cash-generating unit's carrying amount to exceed its recoverable amount.

## 10. 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>	2019	2018
Capital losses	1,252	1,252
	1,252	1,252

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

### Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of AUD</i>	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Trade and other receivables	3	-	-	(4)	3	(4)
Property, plant and equipment	-	-	(15,369)	(13,561)	(15,370)	(13,561)
Other investments	-	-	-	-	-	-
Trade and other payables	2,846	2,867	-	-	2,846	2,867
Intangible assets	-	-	(1,463)	(2,333)	(1,463)	(2,333)
Business related costs	95	130	-	-	95	130
Tax loss carry-forwards	77	562	-	-	77	562
Tax assets / (liabilities)	3,021	3,559	(16,832)	(15,898)	(13,812)	(12,339)
Set-off DTA / DTL	(3,021)	(3,559)	3,021	3,559	-	-
Net tax liabilities	-	-	(13,811)	(12,339)	(13,812)	(12,339)

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 10. Deferred tax assets and liabilities (continued)

### Movement in temporary differences during the year

<i>In thousands of AUD</i>	Balance 1 July 2017	Recognised in profit or loss	Recognised directly in equity	Acquired in a business combination	Balance 30 June 2018	Recognised in profit or loss	Recognised directly in equity	Balance 30 June 2019
Trade and other receivables	(6)	(4)	-	-	(10)	14	-	4
Property, plant and equipment	(11,640)	(1,915)	-	-	(13,555)	(1,816)	-	(15,371)
Trade and other payables	965	1,641	-	261	2,867	(20)	-	2,847
Intangible assets	(885)	669	-	(2,117)	(2,333)	872	-	(1,461)
Business related costs	38	68	24	-	130	(57)	20	93
Tax loss carry-forwards	-	562	-	-	562	(486)	-	76
	(11,528)	1,021	24	(1,856)	(12,339)	(1,493)	20	(13,812)

### Movement in unrecognised deferred tax assets and liabilities during the year

<i>In thousands of AUD</i>	Balance 1 July 2017	Additions	Recognition	Balance 30 June 2018	Additions	Recognition	Balance 30 June 2019
Revenue losses	-	2,437	(562)	1,875	-	(1,620)	255
Capital losses	1,252	-	-	1,252	-	-	1,252
	1,252	2,437	(562)	3,127	-	(1,620)	1,507

### Accounting Policy: Income tax

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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 11. Inventories

<i>In thousands of AUD</i>	2019	2018
Oil and spare parts held for use – cost	995	1,113
Diesel fuel – cost	365	417
	1,360	1,530

During the year to 30 June 2019, changes to the levels of oil and spare parts held for use recognised as cost of sales amounted to \$301,000 (2018: \$269,000). There were no write-downs of inventories during the year.

### Accounting Policy: 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.

## 12. Trade and other receivables

<i>In thousands of AUD</i>	2019	2018
<b>Current</b>		
Trade receivables	11,278	12,230
GST receivable	-	3,200
Other receivables and prepayments	1,067	927
	12,345	16,357

### Critical accounting judgements and estimates: 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. 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. A provision for impairment is recognised when there is objective evidence that an individual trade or other receivable is impaired.

### Credit risk

The Group's exposure to credit risk is influenced mainly by the individual credit characteristics of each customer. Approximately 57% of the Group's revenue from electricity generation is attributable to sales transactions with four customers (each individually greater than 10%) (2018: 57% from four customers). 100% of revenue from electricity generation is attributable to Australia.

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

<i>In thousands of AUD</i>	Carrying amount	
	2019	2018
Australia	11,278	12,230

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

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



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 12. Trade and other receivables (continued)

### Credit risk (continued)

<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	
<b>2019</b>							
Trade and term receivables	11,278	-	363	41	-	3	10,871
Other receivables	1,067	-	-	-	-	-	1,067
Total	12,345	-	363	41	-	3	11,938
<b>2018</b>							
Trade and term receivables	12,230	-	168	24	-	-	12,038
Other receivables	4,127	-	-	-	-	-	4,127
Total	16,357	-	168	24	-	-	16,165

## 13. Other current assets

<i>In thousands of AUD</i>	2019	2018
Capital work in progress	-	4,634
Investment in listed shares	50	50
	50	4,684

## 14(a). Cash and cash equivalents

<i>In thousands of AUD</i>	2019	2018
<b>Current</b>		
Bank balances	8,079	12,095
<b>Non-current</b>		
Bank balances <sup>1</sup>	203	203
Total cash	8,282	12,298

<sup>1</sup> Non current bank balances consists of a restricted cash balance of \$203,000 at 30 June 2019 (2018: \$203,000), in relation to an issued bank guarantee.

## 14(b). Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	2019	2018
<b>Cash flows from operating activities</b>		
Profit for the period	24,545	6,781
Adjustment for:		
Depreciation	21,928	17,190
Gain on sale of property, plant & equipment	(26)	(5)
Amortisation of intangible assets	2,847	1,620
Impairment of assets	-	9,766
Other financing costs	290	94
Unwind discount on provision for decommissioning costs	45	37
Employee share and option expense	567	453
<b>Operating profit before changes in working capital and provisions</b>	<b>50,196</b>	<b>35,936</b>
Change in inventories	170	293
Change in trade and other receivables	8,646	(10,916)
Change in trade and other payables	(4,495)	14,527
Change in employee entitlements	230	117
Change in income and deferred tax balances	5,617	(4,036)
<b>Net cash from operating activities</b>	<b>60,364</b>	<b>35,921</b>



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 15. 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 22.

<i>In thousands of AUD</i>	2019	2018
<b>Current liabilities</b>		
Secured bank loan	10,619	10,635
Hire purchase facility	1,122	1,170
	11,741	11,805
<b>Non-current liabilities</b>		
Secured bank loan	61,443	94,107
Hire purchase facility	201	1,089
	61,644	95,196
	73,385	107,001

### 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	2019 Carrying amount	Face value	2018 Carrying amount
Facility A	BBSY <sup>1</sup> +1.1%	2021	67,383	67,084	80,000	79,765
Facility B	BBSY <sup>1</sup> +1.1%	2021	-	-	25,050	24,977
Facility C	BBSY <sup>1</sup> +1.1%	2021	5,000	4,978	-	-
Total interest-bearing liabilities			72,383	72,062	105,050	104,742

<sup>1</sup>BBSY: Bank Bill Swap Bid Rate

### Secured bank loan

<i>In thousands of AUD</i>	2019	2018
Carrying amount of liability at the beginning of the period	104,742	29,751
Proceeds from drawdown of loan	5,000	139,979
Transaction costs	(302)	(345)
Amortisation of transaction costs	290	94
Repayments	(37,668)	(64,737)
Carrying amount of liability at the end of the period	72,062	104,742

On 26 April 2018, Pacific Energy (KPS) Pty Ltd entered into a new debt facility provided by a syndicated arrangement between Australian and New Zealand Banking Group (ANZ) and National Australia Bank (NAB). The bank loan is secured over the assets of Pacific Energy (KPS) Pty Ltd, Contract Power Australia Pty Ltd, Contract Power Assets Pty Ltd and Contract Power Land Pty Ltd.

The loan facilities provided by ANZ and NAB have a total aggregate facility limit of \$140.0 million and will be repaid in equal quarterly instalments amortising down to 60% of the original drawn amount by 26 April 2021. The loan facility consists of three individual facilities;

<i>In thousands of AUD</i>	Purpose	Limit	Term
Facility A	Facilitate the Contract Power Acquisition and refinance existing	80,000	3 years
Facility B	facilities of the Company	20,000	3 years
Facility C	Revolving multi-option credit facility for general corporate purposes	40,000	3 years
		140,000	

At 30 June 2019, \$56.2 million remained undrawn on the syndicated loan facilities (2018: \$35.0 million).

### Loan covenants

Under the terms of the debt facility the Group is required to comply with the following financial covenants

- Leverage ratio of 3.00 : 1.00
- Contracted cash flow coverage ratio of at least 1.50 : 1.00
- Debt service cover ratio of not less than 1.25 : 1.00
- Tangible net worth of not less than \$100 million

The Group has complied with these covenants throughout the reporting period.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 15. Loans and borrowings (continued)

### Hire Purchase Facility

<i>In thousands of AUD</i>	2019	2018
Carrying amount of liability at the beginning of the period	2,258	3,010
Proceeds from drawdown of facilities	252	328
Repayments	(1,187)	(1,078)
Carrying amount of liability at the end of the period	1,323	2,258

The total amount drawn at 30 June 2019 was \$1.3 million (2018: \$2.3 million). The Equipment Finance Facility bears interest at a weighted average rate of 4.2% and are repayable over 3 years.

The equipment finance facilities as drawn have been used by Pacific Energy (KPS) Pty Ltd to purchase new capital equipment. The facilities are secured by the underlying financed assets.

## 16. Employee benefits

<i>In thousands of AUD</i>	2019	2018
<b>Current</b>		
Liability for annual & long service leave	1,790	1,307
<b>Non-current</b>		
Liability for long service leave	374	628
Total employee benefit liabilities	2,164	1,935

### Accounting Policy: Employee benefits

#### (i) 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.

#### (ii) 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.

## 17. Capital and reserves

### Share capital

<i>In thousands of AUD</i>	Number of shares ('000)		Share capital	
	2019	2018	2019	2018
On issue at the beginning of the period	428,924	371,788	140,523	111,472
Cancelled under share buy back	-	(256)	-	(130)
Issued under employee share scheme or rights plan	716	581	431	336
Issued under Dividend Reinvestment Plan	453	3,953	281	2,055
Issued as part of business combination (Note 30)	-	10,000	-	5,400
Issued under rights issue	-	42,858	-	21,429
Share options exercised	-	-	-	-
Transaction costs, net of tax effect	-	-	(4)	(39)
On issue at 30 June - fully paid	430,093	428,924	141,231	140,523
Treasury Shares – Pacific Energy Limited Employee Share Trust (Note 19)	(52)	(43)	-	-

### Issuance of ordinary shares

During the year, the Company issued 715,891 shares pursuant to the Pacific Energy Limited Performance Rights Plan (see Note 19).

All issued ordinary shares are fully paid. The Company has issued share rights (see Note 19) during the year. 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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 17. Capital and reserves (continued)

### Translation reserve

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

## 18. 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>	2019	2018
Net profit from continuing operations attributable to ordinary shareholders	24,545	6,781
Net profit attributable to ordinary shareholders	24,545	6,781

#### Weighted average number of ordinary shares

<i>In thousands of shares</i>	2019	2018
Issued ordinary shares at the beginning of the period	428,923	371,788
Effect of shares issued	495	5,820
Weighted average number of ordinary shares at the end of the period	429,418	377,608

### Diluted earnings per share

#### Profit attributable to ordinary shareholders (diluted)

<i>In thousands of AUD</i>	2019	2018
Net profit from continuing operations attributable to ordinary shareholders	24,545	6,781
Net profit attributable to ordinary shareholders	24,545	6,781

#### Weighted average number of ordinary shares (diluted)

<i>In thousands of shares</i>	2019	2018
Issued ordinary shares at the beginning of the period (basic)	428,923	371,788
Effect of shares issued in employee share scheme (basic)	401	331
Effect of shares bought back (basic)	-	(149)
Effect of shares issued in DRP and rights issue (basic)	94	3,857
Effect of shares issued in business combination (basic)	-	1,781
Effect of shares issued on exercise of options (basic)	103	12
Weighted average number of ordinary shares (diluted) at the end of the period	429,521	377,620

### Accounting Policy: 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.

## 19. 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 2019, the following options have been issued and are outstanding:

Grant date / employees entitled	Number of instruments	Vesting conditions
Options granted to director on 14 May 2015	5,000,000	Over a period of 36 months' service
Options granted to employee on 3 May 2017	2,000,000	Over a period of 36 months' service
Options granted to contractor on 24 April 2018	4,000,000	Over a period of 36 months' service
Total share options	11,000,000	

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 19. Share-based payments (continued)

### Description of the share-based payment arrangements (continued)

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

	Weighted average exercise price 2019	Number of options 2019	Weighted average exercise price 2018	Number of options 2018
Outstanding at the beginning of the period	\$0.74	11,000,000	\$0.68	7,000,000
Granted during the period	-	-	\$0.85	4,000,000
Exercised during the period	-	-	-	-
Cancelled during the period	-	-	-	-
Outstanding at the end of the period	\$0.74	11,000,000	\$0.74	11,000,000
Exercisable at the end of the period	\$0.64	6,000,000	\$0.61	5,000,000

The options outstanding at 30 June 2019 have exercise prices in the range of \$0.55 to \$0.90 (2018: \$0.55 to \$0.90) and a weighted average remaining contractual life of 2.2 years (2018: 3.2 years).

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

Grant date	Expiry date	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Expected dividend yield
<b>14 May 2015</b>							
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				
<b>3 May 2017</b>							
Tranche 1	31 March 2021	\$0.0846	\$0.80	\$0.670	29%	1.83%	3.40%
Tranche 2	31 March 2022	\$0.0775	\$0.90			2.12%	3.40%
<b>24 April 2018</b>							
Tranche 1	24 April 2023	\$0.0488	\$0.80	\$0.532	35%	2.31%	6.50%
Tranche 2	24 April 2023	\$0.0393	\$0.90			2.31%	6.50%

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

### Employee performance rights

The Company has established the Pacific Energy Limited Employee Rights Plan. The Plan is open to all eligible employees and contractors of Pacific Energy (KPS) Pty Ltd and are granted based on past performance. The rights were granted at no cost, vest immediately and are convertible to ordinary shares at the request of the holder.

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

Number of performance rights in thousands	2019	2018
Balance at the beginning of the year	43	77
Performance rights granted during the year	716	581
Performance rights exercised during the year	(707)	(615)
Balance at the end of the year	52	43

During the year 715,891 shares were purchased by the employee share trust. As at 30 June 2019, there were 42,656 unallocated Pacific Energy shares in trust.

### Employee expenses

In thousand of AUD	Notes	2019	2018
Performance rights issued <sup>1</sup>		431	336
Share options granted and vesting of previously granted options		136	117
Total expense recognised as employee costs	4	567	453

<sup>1</sup> includes 715,891 rights issued to employees on 11 December 2018 and 12 April 2019.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 19. Share-based payments (continued)

### Critical accounting judgements, estimates and assumptions

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. For options 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. Share rights were valued using a 5-day VWAP prior to the grant date. 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.

### Accounting Policy: 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.

## 20. Provisions

<i>In thousands of AUD</i>	<b>2019</b>	<b>2018</b>
<b>Current</b>		
<i>Decommissioning and dismantling costs</i>		
At the beginning of the period	1,644	1,381
Provisions made during the period	396	-
Reclassification from non-current	335	263
Provision used	(1,190)	-
Balance at the end of the period	1,185	1,644
<b>Non-Current</b>		
<i>Decommissioning and dismantling costs</i>		
At the beginning of the period	1,911	772
Provisions made during the period	184	742
Acquired in business combination	-	623
Reclassification to current	(333)	(263)
Unwind of discount	45	37
Balance at the end of the period	1,807	1,911

### Critical accounting judgements, estimates and assumptions: Decommissioning and dismantling costs

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.

### Accounting Policy: 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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 21. Trade and other payables

<i>In thousands of AUD</i>	2019	2018
<b>Current</b>		
Trade payables	4,869	5,894
GST payable	668	-
Payables for land (Landsdale)	3,000	-
Contract liabilities <sup>1</sup>	3,785	5,543
Accrued stamp duty	3,500	3,500
Non-trade payables and accrued expenses	1,898	4,278
	17,720	19,215
<b>Non-Current</b>		
Payables for land (Landsdale)	1,500	-

<sup>1</sup> Contract liabilities relate to performance obligations yet to be satisfied in relation to construction contracts. The performance obligation associated with the contract liabilities recognised at 30 June 2019 are expected to be completed during the next 12 months. All contract liabilities and assets (Note 13) accounted for at June 2018, were recognised during the 2019 financial year.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

## 22. Financial risk management

### Overview

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market 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.

Details with respect to credit risk of trade and other receivables are provided in Note 12. 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 12.

### 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	2019	2018
Cash and cash equivalents (minimum of A Credit Rating)	14(a)	8,282	12,298
Trade and other receivables	12	12,345	16,357
		20,627	28,655



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 22. Financial risk management (continued)

### Liquidity risk

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

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

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

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

In thousands of AUD	Contractual cash flows		Within 1 year		1-5 years		More than 5 years	
	2019	2018	2019	2018	2019	2018	2019	2018
Secured bank loan	(97,530)	(112,449)	(13,670)	(15,420)	(83,860)	(97,029)	-	-
Hire purchase liabilities	(1,423)	(2,355)	(1,206)	(1,242)	(217)	(1,113)	-	-
Trade and other payables	(17,720)	(19,215)	(17,720)	(19,215)	-	-	-	-
Interest rate swaps used for hedging	(1,596)	(496)	(428)	(64)	(1,168)	(430)	-	(2)
	(118,269)	(134,515)	(33,024)	(35,941)	(85,245)	(98,572)	-	(2)

As detailed at Note 15, the nominal interest rate applicable to the secured bank loan is BBSY +1.10%.

### 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 not currently exposed to significant foreign exchange risk arising from foreign currency risk exposure. The majority of the group's transactions are denoted in Australian dollars.

### 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	
	2019	2018
<b>Variable rate instruments</b>		
Financial assets	8,079	12,298
Financial liabilities	(73,386)	(107,000)
	(65,307)	(94,702)

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 22. Financial risk management (continued)

### Interest 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.

#### Interest rate risk

<i>Effect In thousands of AUD</i>	<b>Profit or loss 40bp increase</b>	<b>Profit or loss 40bp decrease</b>	<b>40bp increase</b>	<b>Equity 40bp decrease</b>
<b>30 June 2019</b>				
Variable rate instruments	(460)	460	-	-
Interest rate swap	-	-	(420)	420
Cash flow sensitivity (net)	(460)	460	(420)	420
<b>30 June 2018</b>				
Variable rate instruments	(213)	213	-	-
Interest rate swap	-	-	(108)	108
Cash flow sensitivity (net)	(213)	213	(108)	108

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

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

<i>In thousands of AUD</i>	<b>2019</b>	<b>2018</b>
Total liabilities	115,369	144,540
Less: cash and cash equivalents	(8,079)	(12,298)
Net debt	107,290	132,242
Total capital	191,531	171,529
Debt-to-capital ratio at the end of the period	0.56	0.77

### 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.



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 23. Capital Management (continued)

### Fair values versus carrying amounts

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

<i>In thousands of AUD</i>	2019		2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Liabilities carried at amortised cost</b>				
Secured bank loan	(72,063)	(72,384)	(104,742)	(105,050)
Hire purchase liabilities	(1,323)	(1,323)	(2,258)	(2,355)
	<b>(73,386)</b>	<b>(73,707)</b>	<b>(107,000)</b>	<b>(107,405)</b>

The fair values of non-current borrowings are based on discounted cashflows using a current borrowing rate. They are classified as level 3 fair values in the fair value hierarchy due to the use of unobservable inputs, including own credit risk.

## 24. 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 (2018: 0 cents) per fully paid ordinary share, fully franked based on a tax rate of 30%. The aggregate amount of the dividend to be paid on 10 October 2019 out of retained earnings, but not recognised as a liability at year end is \$6.5 million (2018: nil).

### (b) Franked Dividends

The franked portions of the final dividend declared after 30 June 2019 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 2019.

<i>In thousands of AUD</i>	2019	2018
Franking credits available for subsequent financial years based on a tax rate of 30% (2018: 30%)	18,237	11,115
	<b>18,237</b>	<b>11,115</b>

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 \$2.8 million (2018: nil).

### (c) Dividend reinvestment plan

The company cancelled its dividend reinvestment plan on 22 August 2019.

## 25. Commitments and contingencies

### Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	2019	2018
Less than one year	1,292	1,188
Between one and five years	2,707	3,648
Later than 5 years	355	-
	<b>4,354</b>	<b>4,836</b>

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 25. Commitments and contingencies (continued)

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

During the year ended 30 June 2019, \$1.4 million was recognised as an expense in the income statement in respect of operating leases (2018: \$0.9 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 2019, the Group had no capital commitments in relation to purchases of plant and equipment.

### Contingencies

At 30 June 2019, the Group does not have any contingent liabilities.

## 26. Related parties

### Key management personnel compensation

The key management personnel compensation is as follows:

In AUD	2019	2018
Short-term employee benefits	2,033,772	1,643,823
Post-employment benefits	81,975	85,591
Share-based payments	136,083	117,072
Termination benefits	-	113,272
	<u>2,251,830</u>	<u>1,959,758</u>

### 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.

A director, Mr K Hall, is a director and majority shareholder of Pacific Energy Limited. KPS, a wholly owned subsidiary of the Company, has rented a workshop and office building from Mr Hall's private entity for the past 8 years. The rental agreement is based on normal commercial terms and conditions.

The Company's wholly owned subsidiary, Contract Power Australia Pty Ltd has rented a workshop and office building from a private entity of Mr L Hodges, the Managing Director of Contract Power Australia Pty Ltd. The rental agreement is based on normal commercial terms and conditions.

There were no loans made to any key management personnel.

### 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 2019 (2018: \$1.5 million).

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 27. Group entities

Name of entity	Country of incorporation	Ownership Interests	
		2019	2018
<b>Parent entity</b>			
Pacific Energy Limited	Australia		
<b>Significant subsidiaries</b>			
Pacific Energy (Victorian Hydro) Pty Ltd	Australia	100%	100%
Pacific Energy (KPS) Pty Ltd	Australia	100%	100%
Waste Heat Recovery Systems Pty Ltd	Australia	100%	100%
NovaPower Pty Ltd	Australia	100%	100%
Contract Power Australia Pty Ltd	Australia	100%	100%
Contract Power Assets Pty Ltd	Australia	100%	100%
Contract Power Land Pty Ltd	Australia	100%	100%
KPS Power Africa (Pty) Ltd	South Africa	100%	100%
KPS Power Africa (Tanzania) Ltd	Tanzania	100%	100%
<b>Interest in trusts</b>			
Pacific Energy Limited Employee Share Trust	Australia	100%	100%

## 28. Events occurring after the reporting period

Other than the following, no other matter or circumstance has arisen since 30 June 2019 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.

### Scheme of Arrangement

On 24 July 2019, the Company announced a proposal by QIC Private Capital Pty Ltd to acquire the Company for 97.5 cents per share.

Key details of the announcement were as follows:

- Pacific Energy Limited ("Pacific Energy") has entered into a Scheme Implementation Deed with QGIF Swan Bidco Pty Ltd, a subsidiary of funds managed or advised by QIC Private Capital Pty Ltd ("QIC"), to acquire Pacific Energy by way of Scheme of Arrangement (the "Scheme")
- Pacific Energy shareholders will receive 97.5 cents per share in cash, comprising \$0.96 per share to be paid by QIC and a final \$0.015 per share fully-franked dividend intended to be paid by Pacific Energy (the "Total Consideration")
- The Total Consideration is above the highest price Pacific Energy has traded since the acquisition of Kalgoorlie Power Systems in 2009 and represents a:
  - 35.4% premium to the last closing price of Pacific Energy shares on 22 July 2019 of \$0.720
  - 43.6% premium to the 1-month VWAP of Pacific Energy shares of \$0.679
  - 50.1% premium to the 3-month VWAP of Pacific Energy shares of \$0.650
- Pacific Energy may also declare and pay a special dividend before the implementation date of the Scheme. The quantum of any special dividend will be advised to Pacific Energy shareholders in due course and will reduce the Total Consideration accordingly but the total cash to be received by Pacific Energy shareholders will be equal to 97.5 cents per share
- The Scheme values Pacific Energy equity at \$422 million and an implied enterprise value of \$487 million
- No expected changes to the leadership of Pacific Energy and its wholly owned subsidiaries, including Kalgoorlie Power Systems and Contract Power
- No impact on Pacific Energy's operations, customers and employees
- The Directors of Pacific Energy unanimously recommend the Scheme and have each confirmed that they intend to vote all of the Pacific Energy shares they hold or control in favour of the Scheme, in each case in the absence of a superior proposal and subject to an Independent Expert concluding that the Scheme is in the best interest of Pacific Energy shareholders

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 29. Auditors' remuneration

<i>In AUD</i>	2019	2018
<b>Audit services</b>		
Auditors of the company:		
Audit and review of financial reports	90,000	99,023
	90,000	99,023

## 30. Parent entity disclosures

<i>In thousands of AUD</i>	Company 2019	2018
Profit / (loss) for the period	543	(3,521)
Other comprehensive income	-	-
Total comprehensive income / (loss) for the period	543	(3,521)
Current assets	378	294
Total assets	179,474	179,251
Current liabilities	6,358	4,040
Total liabilities	15,740	12,609
Shareholders' equity		
Share capital	141,231	140,523
Option reserve	365	229
Accumulated profit	22,138	25,890
Total shareholders' equity	163,734	166,642

## Guarantees provided in relation to subsidiaries

Pacific Energy Limited provides a parent-company guarantee in respect of a Hire Purchase facility of \$3.1 million that was established by Pacific Energy (KPS) Pty Ltd (see Note 15).

## Contingent liabilities and commitments

At 30 June 2019, the company and the group does not have any contingent liabilities, or any contractual commitments for the acquisition of property, plant or equipment.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 31. Business combinations

### Acquisition of Contract Power

On 1 April 2018, Pacific Energy acquired 100% of the shares of the Contract Power Group of Companies ("Contract Power") comprising; Contract Power Australia Pty Ltd, Contract Power Assets Pty Ltd and Contract Power Land Pty Ltd for a purchase consideration of \$90.0 million adjusted for the working capital balance as at the acquisition date and movement in the PEA share price during the period of contract negotiations.

Contract Power is a specialist provider to the remote power generation sector, with over 25 years' experience in the Australian build, own and operate ("BOO") market as well as in the EPC market, having completed projects in Australia, Africa and Asia.

### 2018 Business combination finalisation

Provisional acquisition accounting at 30 June 2018 was completed on 31 March 2019 for the acquisition of Contract Power. This has resulted in an increase of \$3.5m to intangible assets and an increase of \$3.5m to trade and other payables. Details of the purchase consideration, the previously reported net assets acquired and goodwill are as follows:

<i>In thousands of AUD</i>	
Cash paid – purchase price	85,000
Equity issued – purchase price (10,000,000 shares at \$0.54)	5,400
Cash paid – working capital acquired	2,111
Total purchase consideration	<u>92,511</u>

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

<i>In thousands of AUD</i>	<b>Fair Value</b>
Cash and cash equivalents	174
Trade and other debtors	3,418
Inventory – fuel & parts	562
Plant and equipment	59,899
Intangible assets – customer contracts	7,933
Trade and other payables	(5,056)
Employee entitlements	(870)
Provisions	(623)
Deferred tax liability	<u>(1,856)</u>
Net identifiable assets acquired	63,581
Goodwill	<u>28,930</u>
	<u>92,511</u>

Goodwill is attributable to the profitability of the acquired business and the synergies driven by the overhead and operational savings and cross-selling activities. None of the goodwill is expected to be deductible for tax purposes.

### Accounting Policy: Business combinations

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

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the group;
- fair value of any asset or liability resulting from contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

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

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 31. Business Combinations (continued)

Acquisition-related costs are expensed as incurred.

The excess of the

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

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

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

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

## 32. Statement of cross guarantee

Pacific Energy Limited and wholly-owned operating subsidiaries as disclosed in note 27 are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under ASIC Corporations (wholly-owned Companies) Instrument 2016/785.

## 33. Basis of preparation

### (a) Statement of compliance

The financial report is a general purpose financial report, 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 22 August 2019.

### (b) New standards and interpretations for current year

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

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

### (c) Basis of measurement

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

### (d) Functional and presentation currency

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

### (e) Rounding of amounts

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

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 33. Basis of preparation (continued)

### (f) Use of critical accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with AASBs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are provision for decommissioning (Note 20), impairment of non-financial assets (note 6) and share based payment transactions (Note 19).

## 34. 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) Adoption of new and revised accounting standards

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

- (i) AASB 15 Revenue from Contracts with Customers; and
- (ii) AASB 9 Financial Instruments

#### **AASB 15 Revenue from Contracts with Customers – Impact of Adoption**

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

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

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

#### **AASB 9 Financial Instruments – Impact of Adoption**

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

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



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 34. Significant accounting policies (continued)

### (c) 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.

### (d) Financial instruments

#### (i) Non-derivative financial assets

##### Classification

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

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

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

##### Measurement

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

##### Debt instruments

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.



# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 34. Significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (i) Non-derivative financial assets (continued)

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

#### (i) Impairment

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

#### (ii) 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.

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

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

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

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

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

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

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

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 34. Significant accounting policies (continued)

### (e) 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.

### (f) Non-financial assets

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

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

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

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

### (g) Revenue

#### Service revenue

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

#### Rental revenue – Power generation

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

#### Construction contract revenue

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

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

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

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 34. Significant accounting policies (continued)

### (g) Revenue (continued)

#### Construction contract revenue (continued)

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

#### *Variable consideration*

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

#### *Contract fulfilment costs*

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

### (h) 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.

### (i) Income tax

#### (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.

# Notes to the consolidated financial statements

For the year ended 30 June 2019

## 34. Significant accounting policies (continued)

### (i) Income tax (continued)

#### (i) Tax consolidation (continued)

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

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

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

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

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

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

#### (j) 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 statement of financial position.

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.

#### (k) 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 16 Leases*

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

## Directors' declaration

### For the year ended 30 June 2019

- 1 In the opinion of the directors of Pacific Energy Limited:
  - (a) the Group's financial statements and notes set out on pages 21 to 50 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 2019 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 and other mandatory professional reporting requirements.
  - (b) the financial report also complies with International Financial Reporting Standards as set out in Note 33(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; and
  - (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 Managing Director and Chief Financial Officer for the year ended 30 June 2019.

Signed in accordance with a resolution of the directors:



Managing Director

Dated at Perth this 22<sup>nd</sup> day of August 2019

# Independent audit report

For the year ended 30 June 2019



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## INDEPENDENT AUDITOR'S REPORT

To the members of Pacific Energy Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Pacific Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is 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 2019 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



# Independent audit report

For the year ended 30 June 2019



## Recoverable Amount of Property Plant and Equipment and Intangible Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Note 9 to the financial report discloses the assumptions used by the Group in testing the Remote Power Generation cash generating unit (CGU) for impairment.</p> <p>This was determined to be a key audit matter as management's assessment of the recoverability of these assets are supported by a value in use cash flow forecast which requires estimates and judgements about future performance.</p>	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"><li>• Assessing the appropriateness of the Group's identification of CGUs and management's allocation of assets to the carrying value of CGUs based on our understanding of the Group's businesses and internal reporting;</li><li>• Evaluating the methodology applied by the Group in allocating corporate assets and costs across the CGUs;</li><li>• Evaluating management's ability to accurately forecast cash flows by assessing the accuracy of the historic forecasts against actual results;</li><li>• Challenging key inputs used in the value in use model including the following:<ul style="list-style-type: none"><li>• Comparing the discount rate utilised by management to those calculated by our internal valuation experts;</li><li>• Comparing growth rates with economic and industry forecasts;</li><li>• Comparing the Group's forecast cash flows to the board approved budgets;</li><li>• Performing sensitivity analysis on the key assumptions used, including future growth rates and discount rates; and</li></ul></li><li>• Evaluating the adequacy of the related disclosures in Note 9 to the financial report.</li></ul>

## Other information

The directors are responsible for the other information. The other information comprises the information contained in the Directors' Report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the Annual Report, which is expected to be made available to us after that date.

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

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

# Independent audit report

For the year ended 30 June 2019



If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

## **Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf)

This description forms part of our auditor's report.

## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 14 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Pacific Energy Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.



# Independent audit report

For the year ended 30 June 2019



## Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO  


Glyn O'Brien

Director

Perth, 22 August 2019