



PACIFICENERGY

Pacific Energy Limited (PEA)

22 009 191 744

Appendix 4D – Half Year Report for six months ended 31 December 2011

1. Details of reporting periods:

Current reporting period : Six (6) months to 31 December 2011
Previous corresponding period : Six (6) months to 31 December 2010

2. Results for announcement to the market:

	Six Months 31 December 2011 \$'000	Six Months 31 December 2010 \$'000	% Change
Revenues	15,589	13,283	17%
Profit/(loss) after tax	2,789	(2,372)	218%
Profit/(loss) after tax attributable to members.	2,789	(2,372)	218%
Adjusted profit /(loss) after tax attributable to members. ¹	5,047	4,014	26%

¹ Adjusted profit / (loss) after tax equates to the reported net profit / (loss) after tax pre non-cash amortisation charges, non-cash revaluation adjustments, non-cash employee share and option expense, "one off" share issue subscription fee and asset sale charges and the related tax effect.

Commentary on the above figures is included in the accompanying ASX Announcement and the attached Interim Financial Report for the half year ended 31 December 2011.

Amount per security and franked amount per security of final and interim dividend.	No dividends have been paid or provided for during the period.
Record date for determining entitlements to the dividends and payment date.	Not applicable.

3. Statement of comprehensive income

Refer to attached Interim Financial Report for the half year ended 31 December 2011.

4. Statement of financial position

Refer to attached Interim Financial Report for the half year ended 31 December 2011.

This Appendix 4D Half Year Report is provided to the ASX under Listing Rule 4.3B and should be read in conjunction with the accompanying Interim Financial Report for the half year ended 31 December 2011.

5. **Statement of cash flows**
Refer to attached Interim Financial Report for the half year ended 31 December 2011.
6. **Dividend payments**
No dividends were declared during the period.
7. **Dividend reinvestment plans**
Not applicable.
8. **Statement of changes in equity**
Refer to attached Interim Financial Report for the half year ended 31 December 2011.
9. **Net tangible assets per security**

	31 December 2011 Cents	30 June 2011 Cents
Net tangible assets per ordinary security	18.5	16.1

10. **Gain or loss of control over entities**
Refer to attached Interim Financial Report for the half year ended 31 December 2011.
11. **Associates and joint ventures**
Not applicable.
12. **Other significant information**
Not applicable.
13. **Foreign entities**
Not applicable.
14. **Status of audit**
The Interim Financial Report for the half year ended 31 December 2011 has been audit reviewed and is not subject to dispute or qualification.



PACIFIC ENERGY LIMITED
ABN 22 009 191 744

**INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED**

31 DECEMBER 2011

Directors

Mr M Cliff Lawrenson
Non-Executive Chairman

Mr Adam H Boyd
Chief Executive Officer & Managing Director

Mr Kenneth J Hall
Executive Director

Mr A Stuart Foster
Non-Executive Director

Mr Louis I Rozman
Non-Executive Director

Company Secretary

Ms Adela Ciupryk (appointed 2 September 2011)

Registered & Principal Office

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Auditor

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

Bankers

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

Commonwealth Bank of Australia Limited
150 St Georges Terrace
PERTH WA 6000
AUSTRALIA

National Australia Bank
100 St Georges Terrace
PERTH WA 6000
AUSTRALIA

Solicitor

Hardy Bowen
Level 1, 28 Ord Street
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AUSTRALIA

Stock Exchange Listing

Australian Securities Exchange
ASX Code: PEA



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Directors' Report



The directors present their report together with the consolidated financial report for the six months ended 31 December 2011 and the review report thereon.

Directors

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

Mr M Cliff Lawrenson	Non-Executive Chairman
Mr Adam H Boyd	Chief Executive Officer & Managing Director
Mr Kenneth J Hall	Executive Director
Mr A Stuart Foster	Non-Executive Director
Mr Louis I Rozman	Non-Executive Director

Unless otherwise disclosed, all directors held their office from 1 July 2011 until the date of this report.

Review of Financial Operations

Profit and earnings per share

Consolidated entity (or Group) net profit after tax for the six month period ended 31 December 2011 was \$2.8 million, compared with a net loss after tax of \$2.4 million during the previous six month period to 31 December 2010.

Based on 352,550,830 weighted average shares on issue during the six month period to 31 December 2011, the result as detailed in these financial statements represents a basic profit of 0.79 cents per share (31 December 2010 – loss of 1.19 cents per share).

Adjusted profit after tax¹

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

- The amortisation charge of electricity supply contracts acquired in the KPS Acquisition, net of tax;
- The expense associated with the issue of employee options and share plan arrangements; and
- The profit on sale of property, plant and equipment, net of tax.

The adjusted net profit after tax pre these adjustments is \$5.05 million compared to \$4.01 million during the six month period to 31 December 2010. Details of adjustments and a comparison to the six month period to 31 December 2010 are as follows:

	6 month period to 31 December 2011 \$'000	6 month period to 31 December 2010 \$'000
Profit/(loss) after tax attributable to members	2,789	(2,372)
Add back non-cash charges and one-off items:		
Amortisation - purchased contracts and associated rights	2,437	2,349
Fair value adjustment of exchangeable bonds	-	3,007
Subscription fee paid on early issue of shares and cancellation of exchangeable bonds	-	2,400
Employee share and option expense	397	44
(Profit) / loss on sale of investments and property, plant and equipment	(1)	11
Tax benefit of non-cash and one-off items	(575)	(1,425)
Adjusted profit after tax attributable to members¹	5,047	4,014

¹Adjusted profit after tax equates to the reported net profit / (loss) after tax pre non-cash amortisation charges, non-cash revaluation adjustments, non-cash employee share and option expense, "one off" share issue subscription fee and asset sale charges and the related tax effect.

Directors' Report



Review of Financial Operations (continued)

The table below provides a comparison of the key results for the six month period ended 31 December 2011 as reported, against the six month period ended 31 December 2010.

Comprehensive Income Statement	% Change	6 month period to 31 December 2011 \$'000	6 month period to 31 December 2010 \$'000
Revenue from operations	17%	15,589	13,283
EBITDA pre asset sale charges (refer Note 6) and employee share and option expense	19%	10,626	8,937
EBITDA	15%	10,230	8,882
Reported profit/(loss) after tax attributable to members	218%	2,789	(2,372)
Adjusted profit after tax attributable to members¹	26%	5,047	4,014

EBITDA performance

Group reported EBITDA for the six months ended 31 December 2011 of \$10.23 million was 15% higher than \$8.88 million EBITDA as reported for six months to 31 December 2010. The increase in EBITDA was due to increased revenues arising from a full six month earnings contribution from the KPS power stations at the Lake Johnston Nickel Project, the Mt Weld Rare Earths Project and the 3MW expansion of the power station at the Cosmos Nickel Mine commissioned in the prior six month period.

The result for the six months ended 31 December 2011 also includes revenue from the 2MW expansion of the KPS power station at the Dead Bullock Soak Mine and the new 3MW power station at the Chalice gold mine which were commissioned during the period.

Review of Operations

Power Generation Activities

Kalgoorlie Power Systems

Pacific Energy's core business is Kalgoorlie Power Systems (KPS) which it acquired on 8 May 2009. The KPS business builds, owns and maintains diesel, gas and dual fuelled power stations located at mine sites across Western Australia, Northern Territory and South Australia. The total contracted generation capacity of the KPS business now exceeds 185MW.

During the period to the date of this report, KPS constructed and commissioned in excess of 10MW of new generation capacity comprising:

- The 2MW Dead Bullock Soak power station expansion supplying electricity to the Dead Bullock Soak gold mine for Newmont Mining;
- The 3MW Chalice power station to supply electricity to the Chalice gold mine for Alacer Gold Corporation;
- The first 5MW of the 20MW DeGrussa power station to supply electricity during the direct shipping ore phase of the DeGrussa Copper-Gold Project for Sandfire Resources Limited; and
- The first stage of the 3MW Tropicana Village power station to supply electricity to the accommodation village and related facilities during the construction and commissioning phase of the Tropicana Gold Project for AngloGold Ashanti Australia Limited.

KPS also advanced procurement, engineering and construction activities for the following 36MW of power station capacity scheduled for completion during 2012:

- The remaining 15MW of the 20MW DeGrussa power station to supply electricity to the DeGrussa Copper-Gold Project for Sandfire Resources Limited;
- The 12MW Garden Well power station to supply electricity to the Garden Well Gold Project for Regis Resources Limited;
- The 9MW Nullagine power station to supply electricity to the Nullagine Gold Project for Millenium Minerals NL; and
- The equipment required to retro-fit the KPS exclusive waste heat recovery technology to the Moolart Well and Garden Well power stations for Regis Resources Limited.

Directors' Report



Review of Operations (continued)

Kalgoorlie Power Systems (continued)

KPS secured contracts for the installation of new aggregate power station capacity of 13MW during the period for the following clients:

- Millenium Minerals Limited to build, own and maintain a 9MW power station at the Nullagine Gold Project located in the Pilbara region of Western Australia (commissioning in July 2012);
- AngloGold Ashanti Australia Limited to provide a 3MW power station at the Tropicana Village to support the Tropicana Joint Venture Gold Project, located in Western Australia (est. commissioning in March 2012); and
- Lynas Corporation Limited to provide a 1MW expansion to the existing KPS power station at the Mt Weld Rare Earths Project (commissioning in November 2012).

Pacific Energy has also made progress to further exploit the proprietary KPS dual fuel and exclusive waste heat recovery technologies. We expect to have further news in this regard in the coming months.

The company continues to progress electricity supply contract negotiations with a number of companies developing or operating mining and resource project opportunities. A number of these negotiations are well advanced and Pacific Energy expects some of these negotiations to result in the signing of electricity supply contracts during the remaining months of the financial year ending 30 June 2012.

The company's business development activities in Queensland and Africa continue to focus on the establishment of new, high quality opportunities and KPS is actively presenting to mining and resource companies in those markets. Pacific Energy is targeting to secure an electricity supply contract in either of these new markets prior to the end of 2012.

Other Developments

The company completed a restructure of the KPS credit facilities with Commonwealth Bank of Australia during the period. The restructure has deferred all principal repayments under the \$17.3 million KPS term debt facility until 30 September 2013 and secured a new \$12 million equipment finance line of credit. KPS also secured an increase from \$5 million to \$12 million of the equipment finance facility provided by National Australia Bank. These new credit facilities and the forecast cash flow to be generated by KPS over the coming 12 months will fund the planned 250MW contracted power generation capacity growth target during 2012.

Victorian Hydro operations

Pacific Energy's Victorian hydro power station assets achieved similar utilisation to the previous corresponding period. Renewable electricity generation from the Blue Rock Dam and Cardinia Reservoir hydro power stations generated 6.8 GWh and 6.4 GWh during the six month period respectively.

Lead Auditor's Independence Declaration

The lead auditor's independence declaration under section 307C of the *Corporations Act 2001* is set out on page 4 and forms part of the directors' report for the six months ended 31 December 2011.

Rounding Off

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

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read "Adam Boyd".

Adam Boyd

Chief Executive Officer & Managing Director

Dated at Perth this 28th day of February 2012.

Lead Auditors' Independence Declaration



AUDITOR'S INDEPENDENCE DECLARATION

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Pacific Energy Ltd for the half-year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

CROWE HORWATH PERTH

A handwritten signature in black ink that reads "Sean McGurk".

SEAN MCGURK
Partner

Signed at Perth, 28 February 2012

Consolidated Interim Statement of Comprehensive Income



For the six months ended 31 December 2011

<i>In thousands of AUD</i>	<i>Notes</i>	31 December 2011	31 December 2010
Revenue		15,589	13,283
Other income / (expense)	6	(3)	319
Consumables and spare parts used		(1,186)	(1,288)
Employee benefits expense		(2,726)	(1,915)
Other expenses		(1,444)	(1,517)
Earnings before interest, tax, depreciation and amortisation		10,230	8,882
Depreciation and amortisation		(5,218)	(4,852)
Results from operating activities		5,012	4,030
Financial income		247	256
Financial expenses		(905)	(1,024)
Fair value movement in exchangeable bonds		-	(3,007)
Subscription fee paid on issue of new shares and related cancellation of exchangeable bonds		-	(2,400)
Net financing income / (expense)		(658)	(6,175)
Profit / (loss) before income tax		4,354	(2,145)
Income tax expense		(1,565)	(227)
Profit / (loss) for the period		2,789	(2,372)
Other comprehensive income			
Foreign currency translation differences for foreign operations		100	(720)
Effective portion of changes in fair value of cash flow hedges, net of tax		(31)	40
Other comprehensive profit / (loss) for the period, net of income tax		69	(680)
Total comprehensive profit / (loss) for the period		2,858	(3,052)
Earnings per share			
Basic earnings/(loss) per share (cents)		0.79	(1.19)
Diluted earnings/(loss) per share (cents)		0.79	(1.19)

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Financial Position



As at 31 December 2011

<i>In thousands of AUD</i>	<i>Notes</i>	31 December 2011	30 June 2011
Assets			
Cash and cash equivalents		13,330	9,368
Trade and other receivables		4,881	4,191
Inventory		834	747
Finance lease receivable		27	27
Total current assets		19,072	14,333
Cash and cash equivalents		103	2,847
Trade and other receivables		101	101
Other Investments		14	45
Property, plant and equipment		71,780	66,272
Intangible assets		38,800	41,193
Total non-current assets		110,798	110,458
Total assets		129,870	124,791
Liabilities			
Trade and other payables		3,842	1,378
Employee benefits		219	313
Provisions	7	607	3,322
Loans and borrowings	8	907	9,627
Total current liabilities		5,575	14,640
Loans and borrowings	8	18,257	10,742
Provisions		673	981
Employee benefits		179	127
Deferred tax liability		3,149	1,587
Total non-current liabilities		22,258	13,437
Total liabilities		27,833	28,077
Net assets		102,037	96,714
Equity			
Share capital	9	102,494	100,288
Reserves		811	577
Retained earnings/(accumulated loss)		(1,268)	(4,151)
Total equity		102,037	96,714

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity



For the six months ended 31 December 2011

<i>In thousands of AUD</i>	Share capital	Translation reserve	Hedging reserve	Option reserve	Retained earnings	Total equity
Balance at 1 July 2011	100,288	(1,336)	45	1,868	(4,151)	96,714
Total comprehensive income for the period						
Profit for the period	-	-	-	-	2,789	2,789
Foreign currency translation differences	-	100	-	-	-	100
Effective portion of change in fair value of cash flow hedge, net of tax	-	-	(31)	-	-	(31)
Total other comprehensive income	-	100	(31)	-	-	69
Total comprehensive income for the period	-	100	(31)	-	2,789	2,858
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares related to deferred consideration payment for KPS Acquisition, net of transaction costs and tax	1,995	-	-	-	-	1,995
Issue of ordinary shares, net of transaction costs and tax	100	-	-	-	-	100
Issue of ordinary shares upon exercise of options, net of transaction costs and tax	111	-	-	(37)	-	74
Equity settled share based payment transactions	-	-	-	296	-	296
Share options lapsed	-	-	-	(94)	94	-
Total contributions by and distributions to owners	2,206	-	-	165	94	2,465
Total transactions with owners	2,206	-	-	165	94	2,465
Balance at 31 December 2011	102,494	(1,236)	14	2,033	(1,268)	102,037

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Changes in Equity



For the six months ended 31 December 2010

<i>In thousands of AUD</i>	Share capital	Translation reserve	Hedging reserve	Option reserve	Retained earnings	Total equity
Balance at 1 July 2010	48,976	(715)	89	2,975	(2,152)	49,173
Total comprehensive income for the period						
Profit for the period	-	-	-	-	(2,372)	(2,372)
Foreign currency translation differences	-	(720)	-	-	-	(720)
Effective portion of change in fair value of cash flow hedge, net of tax	-	-	40	-	-	40
Total other comprehensive income	-	(720)	40	-	-	(680)
Total comprehensive income for the period	-	(720)	40	-	(2,372)	(3,052)
Transactions with owners, recorded directly in equity						
Contributions by and distributions to owners						
Issue of ordinary shares related to cancellation of redeemable exchangeable bonds, net of transaction costs and tax	38,497	-	-	-	-	38,497
Issue of ordinary shares, net of transaction costs and tax	3,651	-	-	-	-	3,651
Equity settled share based payment transactions	-	-	-	43	-	43
Share options lapsed	-	-	-	(20)	20	-
Total contributions by and distributions to owners	42,148	-	-	23	20	42,191
Total transactions with owners	42,148	-	-	23	20	42,191
Balance at 31 December 2010	91,124	(1,435)	129	2,998	(4,504)	88,312

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

Consolidated Interim Statement of Cash Flows



For the six months ended 31 December 2011

<i>In thousands of AUD</i>	31 December 2011	31 December 2010
Cash flows from operating activities		
Receipts from customers	14,923	13,413
Payments to suppliers and employees	(2,633)	(5,267)
Interest received	247	256
Interest paid	(739)	(784)
Net cash from operating activities	11,798	7,618
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,166)	(3,947)
Proceeds from the sale of property, plant and equipment	9	-
SpiritWest development and close-out costs	(7)	(394)
Payments relating to new electricity supply contracts	(54)	(23)
Final consideration for the acquisition of the KPS business	(1,167)	-
Acquisition of Waste Heat Recovery Systems Pty Ltd	-	(1,675)
Net cash used in investing activities	(9,385)	(6,039)
Cash flows from financing activities		
Proceeds from issue of shares	75	3,800
Payment of subscription fee and transaction costs	(125)	(2,700)
Cash held in bank debt service reserve account	2,744	1,665
Proceeds from borrowings	1,378	877
Repayments of borrowings	(2,607)	(55)
Net cash provided by financing activities	1,465	3,587
Net increase in cash and cash equivalents	3,878	5,166
Cash and cash equivalents at the beginning of the period	9,368	6,848
Effect of exchange rate fluctuations on cash held	84	(23)
Current cash and cash equivalents at the end of the period	13,330	11,991

The condensed notes on pages 10 to 14 are an integral part of these consolidated interim financial statements.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2011

1. Reporting Entity

Pacific Energy Limited (the “company”) is a company domiciled in Australia. The consolidated interim financial report of the company as at and for the six months ended 31 December 2011 comprises the company and its subsidiaries (together referred to as the “Group”).

The consolidated annual financial report of the Group for the year ended 30 June 2011 is available upon request from the company’s registered office at Level 9, 37 St Georges Terrace, Perth WA 6000, Australia.

2. Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

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

The consolidated interim financial report was approved by the Board of Directors on 28 February 2012.

3. Significant Accounting Policies

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company’s 2011 financial report for the year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

4. Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation of uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2011.

5. Operating Segments

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

Other operations include Hydro Power Generation which does not meet any of the quantitative thresholds for determining reportable segments at 31 December 2011.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2011

5. Operating Segments (continued)

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

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

Information about reportable segments

<i>In thousands of AUD</i>	KPS Power Generation		Other		Total	
	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010	31 Dec 2011	31 Dec 2010
External Revenues	14,946	12,631	643	652	15,589	13,283
Interest income	164	249	17	5	181	254
Interest expense	(739)	(781)	-	-	(739)	(781)
Depreciation and amortisation	(5,064)	(4,702)	(141)	(141)	(5,205)	(4,843)
Revaluation of exchangeable bonds	-	(3,007)	-	-	-	(3,007)
Reportable segment profit before income tax	5,152	786	345	304	5,497	1,090
Income tax benefit / (expense)	(1,669)	(1,175)	(103)	(112)	(1,772)	(1,287)
Reportable segment assets	122,407	117,791	3,484	9,647	125,891	127,438
Reportable segment liabilities	28,210	41,381	812	1,576	29,022	42,957
Capital expenditure	8,272	4,321	-	13	8,272	4,334

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

<i>In thousands of AUD</i>	31 December 2011	31 December 2010
Revenues		
Total revenue for reportable segments	15,589	13,283
Other revenue	7,077	3,604
Elimination of inter-segment revenue	(7,077)	(3,604)
Consolidated revenue	15,589	13,283
Profit or loss		
Total profit or loss for reportable segments	5,497	1,090
Other profit or loss	(1,143)	(3,235)
Elimination of inter-segment profits	-	-
Consolidated profit or loss before income tax	4,354	(2,145)
Assets		
Total assets for reportable segments	125,891	127,438
Other assets	3,979	1,257
Consolidated total assets	129,870	128,695
Liabilities		
Total liabilities for reportable segments	29,022	42,957
Other liabilities	(1,189)	(2,574)
Consolidated total liabilities	27,833	40,383

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2011

5. Operating Segments (continued)

Other material items – 6 months ended 31 December 2011

<i>In thousands of AUD</i>	Reportable segment totals	Adjustments	Consolidated totals
Interest revenue	181	66	247
Interest expense	(739)	-	(739)
Capital expenditure	8,272	31	8,303
Depreciation and amortisation	(5,205)	(13)	(5,218)
Income tax benefit (expense)	(1,772)	207	(1,565)

Other material items – 6 months ended 31 December 2010

<i>In thousands of AUD</i>	Reportable segment totals	Adjustments	Consolidated totals
Interest revenue	254	2	256
Interest expense	(781)	(3)	(784)
Revaluation of exchangeable bonds	(3,007)	-	(3,007)
Capital expenditure	4,334	3	4,337
Depreciation and amortisation	(4,843)	(9)	(4,852)
Income tax benefit (expense)	(1,287)	1,060	(227)

Major customer

Revenues from three customers in the KPS Power Generation segment represents approximately 48% (31 December 2010: 53% from three customers) of the Group's total revenues (each customer greater than 10% individually).

6. Other Income / (Expense)

<i>In thousands of AUD</i>	31 December 2011	31 December 2010
Management income	14	13
Unrealised foreign exchange gain / (loss)	-	221
Realised foreign exchange gain / (loss)	(16)	-
Profit / (loss) on sale of property, plant and equipment	1	(11)
(Provision) / reversal for loan	(13)	90
Other income	11	6
	(3)	319

7. Acquisition of Businesses

Acquisition of Kalgoorlie Power Systems

A 90% owned subsidiary of Pacific Energy Limited, Pacific Energy (KPS) Pty Ltd (KPS) entered into a Business Sale Agreement on 21 November 2008 (BSA) to purchase the assets and business of Kalgoorlie Power Systems (KPS Acquisition). Completion of the KPS Acquisition occurred on 8 May 2009, concurrent with Pacific Energy Limited acquiring the remaining 10% shareholding in KPS. The KPS business supplies build, own and maintain power generation infrastructure solutions to remote mine sites.

The BSA provides that a deferred consideration payment may be payable to the vendor in future years, subject to the achievement of certain revenue thresholds. At 31 December 2010 the deferred consideration payable was calculated under the terms of the BSA, and on 25 February 2011, part payment of the deferred consideration was made to the vendor for a total value of \$9.8 million (\$3.84 million paid in cash and \$5.96 million in Pacific Energy Limited shares). On 11 October 2011, the final amount of deferred consideration of \$3.165 million was paid (\$1.167 million paid in cash and \$1.998 million in Pacific Energy Limited shares).

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2011

7. Acquisition of Businesses (continued)

Acquisition of Kalgoorlie Power Systems (continued)

Consideration paid for the business combination

<i>In thousands of AUD</i>	At 31 December 2011	At 31 December 2010	Difference
Cash	50,088	50,088	-
Ordinary shares	16,500	16,500	-
Options to purchase ordinary shares	845	845	-
Vendor notes consideration	15,000	15,000	-
Deferred consideration ¹	12,966	11,716	1,250
Total consideration	95,399	94,149	1,250
New Power Station Capital Cost reimbursement to KPS business vendor	3,787	3,787	-
Other Transaction Costs	2,987	2,987	-
Stamp Duty	4,341	4,341	-
Total costs paid or accrued	106,514	105,264	1,250

¹ The BSA provides that a deferred consideration payment may be payable to the vendor in future years, subject to the achievement of certain revenue thresholds. A total of \$12.966 million in deferred consideration was paid to the vendor in shares and cash in two payments, \$9.8 million paid on 25 February 2011 and \$3.165 million paid on 11 October 2011.

Identifiable assets acquired and liabilities assumed

<i>In thousands of AUD</i>	At 31 December 2011	At 31 December 2010	Difference
Inventories	400	400	-
Plant and equipment	57,567	57,567	-
Intangible assets – goodwill	20,655	19,405	1,250
Intangible assets – electricity supply contracts	24,065	24,065	-
Intangible assets – customer relationships acquired	6,897	6,897	-
Trade receivables	1,242	1,242	-
Trade payables	(1,574)	(1,574)	-
Provision for decommissioning costs	(849)	(849)	-
Net deferred tax liability	(2,029)	(2,029)	-
Other net assets	140	140	-
	106,514	105,264	1,250

8. Loans and Borrowings

On 23 December 2011, Pacific Energy (KPS) Pty Ltd and the Commonwealth Bank of Australia agreed to a loan variation agreement amending the following terms of the bank loan:

- Removal of the requirement for the Debt Service Reserve Account;
- Provision of a \$12 million (3-year) Equipment Finance Facility (EFF);
- Permitted Indebtedness to be increased to \$8 million (in addition to the \$12 million EFF provided by CBA for a total of \$20 million); and
- From 1 October 2011, the loan facility will be interest only until 30 September 2013. At that point the principal balance outstanding of \$17.3 million will be amortised down to \$5 million in equal quarterly instalments by 30 September 2015.

During the period, the Group drew a further \$1.33 million on its \$4.9 million equipment finance facility taking the draw down to \$2.6 million at 31 December 2011 (2010: \$0.79 million). The loan bears interest at a weighted average rate of 8.29% and is repayable over 3 years. On 19 January 2012, the facility limit on this equipment finance facility was increased to \$12 million to be used to purchase new capital equipment by Pacific Energy (KPS) Pty Ltd.

Repayments of bank loans of \$2,607,313 (2010: \$55,000) were made during the period, in line with previously disclosed repayment terms.

Condensed Notes to the Consolidated Interim Financial Statements

For the six months ended 31 December 2011

9. Share Capital

<i>In thousands of AUD</i>	Number of shares ('000)		Share capital (\$'000)	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
On issue at the beginning of the period	350,412	187,116	100,288	48,976
Exchange of Exchangeable Bonds	-	127,273	-	38,516
Share Placement	-	12,667	-	3,800
Deferred consideration payment related to KPS Acquisition	4,671	-	1,998	-
Employee Share Scheme	273	-	101	-
Exercise of Options	200	-	113	-
Transaction costs, net of tax effect	-	-	(6)	(168)
On issue at 31 December - fully paid	355,556	327,056	102,494	91,124

Issuance of ordinary shares

During the six month period ended 31 December 2011, the Pacific Energy Group issued 5,144,480 Pacific Energy Shares.

Of the total issued:

- 4,671,153 were issued in relation to the final payment of deferred consideration to the KPS vendor for the KPS Acquisition;
- 273,327 were issued to employees under the Pacific Energy Employee Share Plan; and
- 200,000 were issued upon the exercise of employee options.

All issued Pacific Energy Shares are fully paid.

10. Contingencies

There has been no change from that which was detailed in the financial report as at 30 June 2011 in regards to contingent assets and liabilities. The directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

11. Subsequent Events

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

Directors' Declaration



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

1. the financial statements and notes set out on pages 5 to 14, are in accordance with the *Corporations Act 2001*, including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2011 and of its performance for the six month period ended that date; and
 - (b) complying with the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Perth this 28th day of February 2012.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read "Adam Boyd".

Adam Boyd
Chief Executive Officer & Managing Director



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Pacific Energy Ltd and its controlled entities (the consolidated entity) which comprises the consolidated statement of financial position as at 31 December 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity, the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of Pacific Energy Ltd (the company) are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410: *Review of a Financial Report*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of Pacific Energy Ltd and its controlled entities' financial position as at 31 December 2011 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Pacific Energy Ltd and its controlled entities, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
- (ii) complying with AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*.



CROWE HORWATH PERTH



SEAN MCGURK
Partner

Signed at Perth, 28 February 2012

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Each member firm of Crowe Horwath is a separate and independent legal entity.