**Titan Energy Services Limited and Controlled Entities**
**ACN 150 110 017**

**Preliminary Final Report**
**For the year ended 30 June 2015**

This preliminary final report is lodged with the Australian Securities Exchange (ASX) under Listing Rule 4.3A.

## CONTENTS

**Appendix 4E – Preliminary Final Report for the Year ended 30 June 2015**
**(Previous corresponding reporting period: Year ended 30 June 2014)**

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

| Key information: | 2015 $'000 | 2014 $'000 | Change $'000 | Change % |
|---|---|---|---|---|
| Revenue from ordinary activities* | 43,003 | 87,681 | (44,678) | (51%) |
| Profit / (loss) after tax from ordinary activities attributable to members | (50,558) | 12,211 | (62,769) | (514%) |
| Profit / (loss) attributable to members | (50,558) | 12,211 | (62,769) | (514%) |
| Underlying profit / (loss) for the period attributable to members* | (9,111) | 8,641 | (17,752) | (205%) |

**excludes discontinued operations*

Underlying profit / (loss) is a non-IFRS measure and reconciliation to profit / (loss) after tax from ordinary activities is included below. Commentary on the Group's operating performance and results from operations are set out in the accompanying preliminary final report.

**DIVIDENDS PAID AND DECLARED**
The Directors have not proposed a final dividend payment for the current period.

There was no interim dividend paid for the current period.

| Prior Corresponding Period: | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | 4.0c | 4.0c |
| Interim dividend | 3.5c | 3.5c |

**Explanation of key information and dividends:**
Refer to the accompanying Directors' Report.

**COMMENTARY ON THE RESULTS FOR THE YEAR**
The commentary on the results for the year is contained in the Review of Operations included within the Directors' Report.

**STATUS OF AUDIT**
The 30 June 2015 financial report and accompanying notes for Titan Energy Services Limited have been audited and an emphasis of matter paragraph has been included in relation to significant uncertainty regarding the Group's ability to continue as a going concern.

| NET TANGIBLE ASSETS PER SHARE | 30 June 2015 | 30 June 2014 |
|---|---|---|
| | $0.21 | $0.88 |

**CONTROL GAINED OR LOST OVER ENTITIES DURING THE YEAR**
During the year the Group lost control of its wholly owned subsidiary Hofco Oil Field Services Pty Ltd following its sale on 22 May 2015.

| | Ownership Interest | | Consolidated profit / (loss) from ordinary activities after tax of the controlled entity | |
|---|---|---|---|---|
| | Current Period | Prior period | Current Period $'000 | Prior period $'000 |
| Hofco Oil Field Services Pty Ltd | 0% | 100% | ($11,064) | $3,570 |

**Appendix 4E – Preliminary Final Report for the Year ended 30 June 2015**
**(Previous corresponding reporting period: Year ended 30 June 2014)**

Underlying profit can be reconciled to statutory net profit after tax (NPAT) as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Statutory NPAT** | **(50,558)** | **12,211** |
| *Add/(less):* | | |
| (Profit) / loss from discontinued operations | 11,064 | (3,570) |
| Impairment of property, plant and equipment | 21,392 | - |
| Impairment of intangibles and other assets | 6,002 | - |
| Restructuring costs | 1,864 | - |
| Investment review costs | 524 | - |
| Refinancing expenses | 601 | - |
| **Underlying profit / (loss) for the period attributable to members** | **(9,111)** | **8,641** |

**Directors' Report**

Your Directors present their report on the consolidated entity, (herein referred to as the Group) consisting of Titan Energy Services Limited (Titan, the Company) and the entities it controlled at the end of, or during, the financial year ended 30 June 2015.

**Directors**

The following persons were directors of Titan Energy Services Limited during the whole of the year and up to the date of this report, unless otherwise stated:

| | |
|---|---|
| Shaun Scott (Chairman) | Jim Sturgess (resigned 24/12/2014) |
| Stephen Bizzell | Jim Diakogiannis (resigned 24/10/2014) |
| Mark Snape | Simon Keyser (resigned 3/09/2014) |

**Principal Activities**

The principal activities of the Group during the financial year were the provision of drilling, accommodation, logistics, catering and equipment rental services predominately to the energy, oil and gas and infrastructure industry sectors.

The following significant changes in the nature of the principal activities occurred during the financial year:

- On 22 May 2015, the Group divested its equipment rental services subsidiary, Hofco Oil Field Services Pty Ltd.

There were no other significant changes in the nature of the Group's principal activities during the financial year.

**Significant Changes in the State of Affairs**

The following significant changes in the state of affairs of the Company occurred during the financial year:

- On 9 January 2015, the Group undertook an equity capital raising comprising a Placement and Accelerated Non-Renounceable Entitlement Offer. Total proceeds received of $4.3m were used to reduce debt facilities, fund employee retention payments and for working capital requirements.
- As noted above, on 22 May 2015, the Group divested its equipment rental services subsidiary, Hofco Oil Field Services Pty Ltd. The proceeds from the sale resulted in the full repayment of the debt facilities with its senior lender, GE Commercial Corporation (Australia) Pty Ltd. The deferred lease payments owing to Royal Wolf Holdings Ltd at the time were also repaid.
- Subsequent to the repayment of debt facilities to the Company's senior lender and associated release of its security over the Group, Royal Wolf Holdings Ltd security arrangements remain in place and are now first priority security over all existing and after-acquired assets of the Group and all proceeds thereof (including any insurance or other proceeds).

**Events after the Reporting Period**

Following a detailed review of prior period tax returns by its tax advisors, the Group submitted amended tax returns subsequent to the reporting date. The amended returns are expected to result in a tax refund amount of $2.2 million. The refund is expected to be received early September 2015 and will be utilised to provide further support to the Group's working capital and funding position. The impact of the amended returns has not been reflected in the reported results herein.

Except for the above, no other matters or circumstances have arisen since the end of the financial year that significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**Dividends**

Titan paid the following dividends during the financial period:

| | 2015<br>$'000 | 2014<br>$'000 |
|---|---|---|
| • Final dividend in respect of the year ended 30 June 2014 of 4.0 cents (2013: 3.5 cents) per share fully franked on 16 September 2014 (2013: 6 September 2013) | 2,038 | 1,683 |
| • No interim dividend in respect of the year ended 30 June 2015 was paid (2014: 3.5 cents per share fully franked on 7 March 2014). | - | 1,710 |

**Directors' Report (continued)**

**Dividend Reinvestment Plan**

The Titan Energy Services Limited Dividend Reinvestment Plan (DRP) remained active during the financial year ended 30 June 2015. The plan is open to all shareholders based in Australia and New Zealand. Shareholders from other countries can participate in the DRP, subject to board approval. Shareholders were eligible to participate in the DRP for the final dividend in respect of the financial year ended 30 June 2014.

**Results FY15**

| | 2015 $'000 | 2014 $'000 | Change % |
|---|---|---|---|
| **Statutory NPAT** | **(50,558)** | **12,211** | **-514%** |
| EBITDA* | (36,501) | 18,279 | -300% |
| Underlying NPAT | (9,111) | 8,641 | -205% |
| Underlying NPAT Margin | (21.2%) | 9.9% | -31.1% |
| Sales Revenue* | 43,003 | 87,681 | -51% |
| Operating Cash Flow* | (4,626) | 13,854 | -133% |
| Underlying Earnings per Share (cents) | (14.63) | 17.32 | -184% |

** Excludes discontinued operations*

The Group recorded a full year net loss after tax of $50.6 million (including impairment and other non-recurring charges of $30.4 million) compared to the prior year net profit after tax result of $12.2 million. This represents a decrease in profit after tax from the prior year of 514%.

**Underlying results**

Underlying EBITDA declined 134% on the previous year to a $6.1 million loss (FY14: $18.3 million). The result excludes the following adjustments:

- impairment charges of $27.4 million;
- restructuring costs of $1.9 million;
- investment review costs of $0.5 million; and
- refinancing expenses of $0.6 million.

Whilst disappointing, this result was realised in a very challenging market as key customers in the oil and gas sector focussed on cost reductions and tightened capital expenditure. Pressure from global market forces also contributed to the depressed demand for the Group's services, especially in the Accommodation Services business. The Group implemented several strategies during the year to reduce operating costs, including headcount reductions, minimising capital expenditure and restructuring its financing facilities and lease commitments.

**Key Outcomes**

The impact of the industry wide change to market conditions resulted in reduced revenue across all business units, affecting Atlas Drilling and the Accommodation Services business units (Resources Camp Hire – RCH, Nektar Remote Hospitality – Nektar, and Base Transport and Logistics – Base).

Key corporate activities and challenges during the year included:

- Transition of the CSG-LNG projects from development phase to production phase created difficult market conditions, not just for Titan but for many of our peers and suppliers;
- Successful completion of a $4.3 million equity capital raising on 2 February 2015, including a placement to a cornerstone investor (Ausdrill International Pty Ltd) who now hold 10.76% of the ordinary shares on issue;
- An organisational restructure, with personnel reductions to meet operating levels;
- A restructure of accommodation camp lease arrangements and cessation of discretionary spending on opex and capex;
- Consolidation of three business units, Resources Camp Hire (RCH), Nektar Remote Hospitality (Nektar) and Base Transport and Logistics (Base), into a single business unit – Accommodation Services;
- Divestment of Group subsidiary Hofco Oil Field Services Pty Ltd;
- Repayment of debt facilities with Titan's Senior Lender; and
- Repayment of deferred lease amounts to Royal Wolf Holdings Ltd.

**Directors' Report (continued)**
**Review of Operations**
**Operational Restructure**
The Group has been disciplined in its approach to organisational restructuring activities. During the year an organisational restructure was undertaken across all business units, consisting of cost reduction initiatives together with cessation of discretionary spending on opex and capex. Titan staff numbers across the Group have been set at levels appropriate to meet current trading activities. A small core team manage day-to-day business activities with operational personnel engaged in accordance with client contract terms. Although the restructuring did come at a cost, full year cost savings are expected to exceed $3.9 million in future periods.

The Group's ramp-up strategy to execute future contract engagements is to:

- centralise teams for functional support; and
- To ensure operational staff numbers, employment arrangements and leased equipment terms align with actual contracted periods for specific client engagements.

**Funding and Cash Flow**
The repayment of debt with Titan's Senior Lender strengthens the Group's financial position to manage existing market conditions while awaiting the outcome on tenders submitted for drilling programs and accommodation services contracts. At year-end, Titan has no debt facilities in place and net cash of $1.1 million, with the prior year comparative net debt being $8.7 million and gearing of 12% (gearing was 19% at 31 December 2014). The Group's cashflow continues to be managed closely given current trading conditions. Monitoring expenditure and preserving cash is a key focus for management and the Board.

The Group recently submitted amended tax returns to the ATO resulting in an expected tax refund amount of $2.2 million. The refund is expected to be received early September 2015 and will be utilised to provide further support to the Group's working capital position.

Directors and management continue to review options to refinance the Group, potential business combinations and/or disposal of assets to provide additional working capital in the event that current challenging conditions persist.

Across the Group, our personnel continue to focus their efforts on delivering excellent customer service, providing flexible and innovative solutions that will exceed client expectations. The Company's commitment to improving quality management systems and ongoing strong safety management culture will ensure our people and clients achieve excellent results.

**Safety**
Safety remains a key focus of the Directors and management, as we strive to achieve zero harm impact to our clients, community, personnel and the environment. While staff numbers and business operations have reduced across the Group throughout the year, the commitment of the team to continuously improve the safety outcomes has not been impacted.

Total Recordable Injury Frequency Rate (TRIFR), which expresses incidents per million hours worked, is the primary measure of safety performance for Titan and the wider industry. For the FY15 year, Group TRIFR excluding discontinued operations was 7.6, a strong improvement on the prior year (FY14: 11.7). The FY15 TRIFR result was adversely affected by a decrease in operating hours of 43% on the prior year.

The FY15 safety result is a positive reflection of the continued commitment of Titan staff to improve the Group's safe operating practices and strong safety culture.

***<u>Oilfield Services</u>***
<u>Atlas Drilling (Atlas)</u>
Atlas has been operating in the oil and gas industry for eight years, developing strong relationships with a stable of blue-chip clients. Atlas owns and operates four oil and gas production rigs. Market demand for drilling rigs slowed markedly during the year as a result of the sharp fall in exploration and production drilling activity in the Coal Seam Gas (CSG) industry.

The EBITDA result for the period was a loss of $13.4 million, including impairment and restructuring charges of $12.8 million (FY14: EBITDA $8.8 million), underlying EBITDA loss was $0.6 million. The 12 month rolling average utilisation across all four rigs as at 30 June 2015 was 26% compared to 78% in FY14.

**Directors' Report (continued)**
**Review of Operations (continued)**
During the year Atlas Rig 1 and Rig 2 completed drilling programs for a tier one operator while Rig 3 was engaged by a junior explorer to undertake a drilling program in the Arckaringa Basin, South Australia that was successfully completed during the period October 2014 to March 2015.

In April 2015, Atlas Rig 2 secured a contract for an initial firm three well program located in the Canning Basin (Western Australia) drilling exploration wells with Buru Energy Limited. Rig mobilisation commenced in June 2015 with drilling commencing mid July 2015. The firm well program is expected to be completed by November 2015. The contract includes an option for a further well and should the optional well be exercised the contract will extend until approximately mid December 2015.

Rig 1, Rig 3 and Rig 4 are currently stacked at the Group's Roma facility and are being actively marketed to a range of customers for a number of different projects and applications. The tender activity for Atlas drilling rigs has continued to improve in recent months with the Atlas team liaising closely with potential clients to deploy the rigs for programs likely to commence during the latter part of 2015 and early 2016.

Strategies to drive future growth include:

- Liaising closely with the experienced Atlas rig crews to achieve excellent safety standards;
- Maintaining relationships with key clients;
- Successfully executing drilling programs that exceed client expectations; and
- Presenting clients with innovative drilling solutions that are cost effective and efficient.

<u>Hofco Oil Field Services (Hofco)</u>
Hofco is a leading supplier of specialist down-hole equipment. As part of the Group's financial restructuring process, Titan divested the business in May 2015.

Hofco provides specialised equipment that can be hired at daily rates for durations of one week to one year. Customers are responsible for replacing lost equipment and refurbishment costs, giving the business low maintenance and servicing overheads.

During the year Hofco continued to perform well despite difficult industry wide trading conditions. With a diverse customer base, ongoing maintenance services and rental equipment supply the business achieved a consistent, stable revenue stream in FY15.

Revenue for the period up to divestment from the Group was $7.2 million comparing to the full year result in FY14 of $9.7 million. Net profit for the period up to divestment was $1.2 million, FY14 profit was $3.6 million. Underlying EBITDA for the year was $4.1 million (excluding key personnel retention payment of $2.2 million) compared with the FY14 EBITDA of $5.4 million.

***<u>Accommodation Services</u>***
<u>Resources Camp Hire (RCH)</u>
RCH provides portable temporary accommodation to remote projects and has mainly serviced the Queensland CSG industry. RCH restructured its camp lease arrangements in January 2015 resulting in a decrease in capacity from 1,138 rooms at 30 June 2014 to 557 rooms in December 2014. These changes assisted in reducing operating costs and better aligned RCH to the industry trading conditions.

Revenue for the period, including inter-segment revenue, was $21.3 million compared to $39.1 million in FY14. Reported EBITDA for the period was a loss of $17.3 million, including impairment and restructuring charges of $15.4 million compared with EBITDA of $10.3 million in FY14, underlying EBITDA was a loss of $1.9 million.

During the year, RCH was contracted to provide camps of various sizes from 21 rooms to 212 rooms to nine separate projects based in Queensland. Contracts for five of the projects (~490 rooms) ended in September 2014, with other contracts ending during November 2014 (100 rooms), February 2015 (60 rooms) and April 2015 (81 rooms). There were no new significant contracts awarded for temporary accommodation rooms during the remainder of the year.

RCH was engaged on an interim basis for a Camp Management contract of three permanent camps from December 2014 to April 2015. Nektar Remote Hospitality was already providing the catering, camp maintenance and housekeeping services to two of these permanent camps at the time of this engagement.

**Directors' Report (continued)**
**Review of Operations (continued)**
Resources Camp Hire (RCH) continued)
The tender activity levels for temporary accommodation camps have shown marked improvement during recent months, however decisions to commence project work and confirm deployment of camps have not yet been realised.

The Accommodation Services team is actively seeking opportunities for deployment of camps and services in areas outside the traditional CSG-LNG industry, including pipeline, road, rail, infrastructure and regional construction projects in Queensland, Northern Territory and New South Wales.

Nektar Remote Hospitality (Nektar)
Nektar revenue for the period was $13.1 million, compared to the FY14 revenue of $17.5 million. Statutory EBITDA for the period was $0.3 million loss compared with $2.7 million EBITDA result for FY14. Underlying EBITDA was a profit of $0.5 million after adjusting for restructuring costs of $0.8 million.

Nektar continued to provide camp management, catering and housekeeping services to the two permanent camps it contracted in FY14, representing 400 rooms until contract completion in March 2015 and April 2015. Nektar provided services to three other RCH camps during the year with the contracts ending in September 2014, November 2014 and early December 2014. Nektar also provided services to the Atlas rigs during the year.

There are currently no active camp management, catering and housekeeping service contracts in place.

Base Transport and Logistics (BASE)
BASE provides water and waste cartage for drilling, permanent and temporary camp operations. BASE revenue for the period was $2.0 million compared with FY14 revenue of $2.4 million. FY15 Statutory EBITDA loss of $0.5 million declined compared to the FY14 EBITDA profit result of $0.1 million.

With the reduced level of activity across the industry, BASE is not currently providing services to any clients.

The Accommodation Services pillar has been impacted significantly by a reduction in demand for its remote temporary accommodation camp rooms and related services, camp management, catering, housekeeping and water and waste cartage. The tender opportunities and inquiries received recently from potential clients reflect a preference for turnkey solutions provided by one supplier delivering the full range of remote camp services. Accommodation Services is well placed to provide full turnkey solutions or any combination of these services to meet client needs.

**Financial Position**
In May 2015, the Group repaid all of the facilities held with GE Commercial Corporation (Australia) Pty Ltd (GE). The operating lease facility established with Commonwealth Bank of Australia in FY14 was not utilised and has been closed as it is no longer required.

As a result of the aforementioned restructuring activities and reduced operational activity across the Group, cash flow continues to be monitored and managed closely.

The divestment of Hofco Oil Field Services and resulting repayment of the Group's debt facilities in May 2015 has strengthened the Group's balance sheet to assist with managing current market conditions while awaiting the outcomes on tenders submitted in recent months.

The Group's cash outflow from continuing operations for FY15 was $4.6 million and was impacted by the significant downturn in business activity. FY14 cash flow from continuing operations was $13.9 by comparison. FY15 net cash outflow of $3.1 million includes $12.5 of net proceeds from the sale of Hofco and the outflow of $12.9 associated with the repayment of senior debt facilities and deferred payments from a key supplier.

Capital expenditure was restricted during the year with a total of $1.6 million utilised in maintaining operational capability for plant and equipment.

**Business Strategies and Outlook**
The adverse factors influencing oil, coal and commodity prices continue to show some signs of improvement. Titan business units have significant dollar value tenders in place for a number of projects relating to infrastructure, coal, regional construction and CSG related programs. While a number of these tenders remain subject to various government and corporate approvals we continue to actively engage with the respective counterparties and we are ready to respond as soon as these hurdles are cleared.

**Directors' Report (continued)**
**Review of Operations (continued)**
**Business Strategies and Outlook (continued)**

The Group's short-term strategy is focussed on identifying new opportunities to diversify revenue streams, providing innovative, cost effective solutions to our customers and preparing for future improvements in demand for the Group's services from the oil and gas sector.

To significantly enhance the operational and financial performance of the Group, Titan is focused on planning, executing and managing all aspects of the business. To assist in driving these outcomes, Titan has implemented a number of initiatives linking remuneration to performance including short and long term incentives. In addition, the Board and management has a broad range of experience covering the operational and corporate governance requirements of the Titan Group. Titan continues to adhere to strong financial controls and disciplines to ensure important fiscal principles and stewardship of capital remain in place. These principles are intended to lead to consistency in operational performance, strong financial performance and increasing shareholder value.

The Group will continue to supply its clients and target markets with:

- Safe and efficient work environments for our staff, contractors and clients;
- Highly competent teams and processes to deliver solutions to support our clients' requirements;
- Fit-for-purpose products and services that deliver reliable results; and
- Experienced, efficient and effective teams to meet and exceed client expectations.

The Directors and management are focused on delivering shareholder value and this philosophy drives the business strategy of creating a diversified group that provides relevant turnkey solutions to the oil and gas, mining, pipeline, rail, road and infrastructure sectors. This long-term strategy remains sound, underpinned by 20 year+ Queensland CSG-LNG project commitments as well as pipeline, infrastructure, rail, road and mining opportunities in Queensland and throughout Australia.

Titan will continue to make strategic acquisitions to complement existing business operations and management experience, together with organic opportunities to provide goods and services compatible to the current service offerings.

Whilst subdued market conditions continue to create uncertainty as to the timing of anticipated increases in demand for the Group's services, forecasting future results remains challenging. The Directors therefore cannot provide FY16 guidance in this report but will provide updates to shareholders as required.

**Key Risk Factors**

The business is subject to a number of risk factors both specific to its business and of a general nature. Titan's business, financial condition and results of operations could be materially and adversely affected by the occurrence of any of the risks associated with its business. As a result, the trading price of Titan's shares could decline and shareholders could lose all or part of their investment. The risks outlined should not be considered exhaustive of the risks faced by Titan and its investors but these and other risks could have a material impact on the financial performance of Titan and the value of Titan's shares.

*Financial risk and going concern*

Titan's growth is reliant on having sufficient finance and cashflow to fund asset and working capital requirements. The Group's core financing is currently provided through cash on hand and cashflow from operations. The Group continues to investigate new financing arrangements, capital raising options and/or asset divestments in order to provide additional funding whilst the present challenging market conditions persist. There can be no assurance that additional funds may be available, or asset sales can be executed on acceptable terms or at all and in these circumstances it is likely that Titan would become insolvent and unable to continue as a going concern.

*Customer demand and outlook*

The Company's business depends on, amongst other things, the level of activity in the Oil and Gas industry and Coal Seam Gas (CSG) in particular.

Levels of activity depend on a number of factors outside the control of the Company, including, but not limited to, continued global economic growth, continued demand and infrastructure constraints experienced by the Company's clients. Any prolonged decline in the demand for energy may result in a corresponding decline in the use of the Company's services, which will have an adverse effect on the financial performance and/or financial position of the Company.

**Directors' Report (continued)**
**Review of Operations (continued)**
**Key Risk Factors (continued)**

*Customer demand and outlook (continued)*

Commodity prices are volatile. Industry experience indicates that when commodities prices fall below certain levels, mining expenditure and activity is adversely affected. There is a risk that a significant fall in commodities prices (or increase in costs) could substantially reduce activity and accordingly demand for the services offered by Titan.

*Asset impairment*

There is a risk that the current carrying value of the Company's assets in its accounts may need to be treated as further impaired in future, in accordance with the relevant accounting standards, if the carrying values do not reflect the current valuations of those assets. If the carrying value of the assets is assessed to be impaired, this may have an adverse effect on the Company's financial performance.

*Contractual risks*

Titan's financial performance is reliant on the revenue produced from the utilisation and productivity of its key assets. To ensure that the productivity of the Company's assets is maximised, where possible the Company engages in contracts with its customers and certain suppliers. As in any contractual relationship, the ability of the Company to ultimately receive benefit of the contracts is dependent upon the relevant third party complying with its contractual obligations.

The Company's contracts are generally able to be terminated by the customer with a short period of notice. Any early termination of existing or future material contracts relating to the Company's assets may adversely affect the financial performance and/or financial position of the Company.

To the extent that third parties default in their obligations and become insolvent, it may be necessary for the Company to enforce its rights under any of the contracts and pursue legal action. Such legal action may be costly and no guarantee can be given by the Company that a legal remedy will ultimately be granted on appropriate terms.

The Company has also entered into contracts with third party product and service providers, who the Company may be reliant upon to efficiently conduct its operations. Any non-compliance by these third parties may have adverse consequences on the financial position of the Company.

Disputes may arise with these third parties to the extent that there is uncertainty over the terms that govern the relationship. These disputes may require legal action which, as noted above, may prove costly with the ultimate outcome being uncertain.

*Asset utilisation*

Titan's financial performance is reliant on the utilisation and productivity of its key assets. Central to the Company achieving its objectives is ensuring that its temporary accommodation camps, drill rigs and other assets achieve forecast utilisation. Any unscheduled downtime or periods where assets are uncontracted or unable to be utilised may have a material adverse affect on the financial performance of the Company.

*Sustainability of growth and margins*

The sustainability of growth and the level of profit margins are dependent on the Company's ability to secure new customers and contracts. Failure to secure contracts may have a material adverse affect on the Company.

*Reversals in outsourcing trends*

Titan is dependent on customers continuing to outsource drilling, field accommodation and other services. Should customers undertake these works then the reduced need for externally provided services may negatively affect the growth prospects and financial performance of the Company.

*Operational risks*

The Company will be exposed to operations risks present in the current business including risks arising from business operations, staff skills and performance. Operational risks have the potential to have a material adverse effect on the Company's financial performance and positions as well as its reputation.

**Directors' Report (continued)**
**Review of Operations (continued)**
**Key Risk Factors (continued)**
*Operational Risks (continued)*
The Company will endeavour to take appropriate action or obtain appropriate insurance to mitigate these risks, however certain residual risk will remain with the Company. These risks are set out below:

- *Adverse weather conditions and natural disasters*
  Titan's operations are conducted in regions that are vulnerable to severe weather conditions and natural disasters. These events may amongst other things reduce the Company's ability to complete service contracts resulting in performance delays, increased costs and loss of revenue, which may adversely affect Titan's financial performance.

- *Key operational personnel and labour shortages*
  The Company's operations may be vulnerable to the loss of key operational personnel and an inability to recruit suitably trained and experienced replacements in the regional areas where the Company usually operates.

- *Industrial accidents*
  The Company's financial performance is based upon its subsidiaries fulfilling the requirements of various operating contracts. In the performance of the operations, industrial accidents may occur, resulting in injury to the Company's employees and contractors, as well as damage to the Company's or a third party's property, and environmental contamination.

  Occupational health and safety and environmental performance is very important to our clients and as such, industrial accidents may impact the ability of Titan to complete contracts or obtain new contracts in the future. While Titan has a commitment to achieving safety performance on its sites to all clients, due to the labour intensive nature of our services there are inherent risks to people and equipment, including major safety incidents, general operational hazards, failing to comply with policies, terrorism and general health and safety. These outcomes could have adverse financial impacts on Titan. In order to mitigate the risks of industrial accidents, Titan has implemented detailed training and occupational workplace and safety regimes.

*Competitors*
The service industry in which Titan operates is competitive and accordingly increased competition from existing competitors or the entry of new competitors in the market could result in reduced operating margins, loss of market share, increased labour costs, and loss of key staff to competitors.

Such occurrences could adversely affect the Company's operating and financial performance. The competitive nature of the sectors means that there is no assurance the Titan will continue to compete successfully.

*CSG Specific regulatory and environmental risk*
Due to the ongoing public debate surrounding the environmental impacts of CSG, the industry is subject to substantial public and regulatory scrutiny, and is subject to rigorous environmental approval and monitoring processes by the government. The implementation of future regulations or approval processes in the CSG industry may lead to a decreased demand for the services of the Company, and as a result may have an adverse affect on the financial performance of the Company.

*Reliance on key personnel*
The loss of existing key personnel or failure to secure and retain additional key personnel as the Company's activities develop may significantly affect the ability of the Company to meet its objectives. Titan has ensured that all Management are on contracts.

*Equipment constraints*
In order to conduct its business, the Company relies on purpose-built drilling rigs, temporary accommodation camps and other assets. Titan may have difficulty in gaining access to this equipment at appropriate prices and in a timely manner or the quality of the available equipment may not be acceptable or suitable for its intended use. Titan may also not be able to make the necessary capital investment to maintain or expand its assets at critical times. Any of these factors may constrain the Company's ability to provide services and may ultimately have an adverse effect on its growth and/or financial performance.

**Directors' Report (continued)**
**Review of Operations (continued)**
**Key Risk Factors (continued)**

*Environmental risk*

The Company's operations with respect to environmental hazards are subject to State and Federal laws and regulations. These laws and regulations set various standards and provide for penalties and other liabilities for the violation of such standards. The main environmental risk identified by the Company is the possibility of a diesel spill or leak. The Company minimises this risk by storing diesel fuel in double skinned tanks, and conducting its activities in a environmentally responsible manner, in accordance with applicable laws and regulations and, where possible, by carrying appropriate insurance coverage.

*Insurance arrangements*

The Company is exposed to a risk of liability from defective products and services, including indirect or consequential losses suffered by third parties.

The exposure to this risk is mitigated by the Company limiting its liability contractually, as well as ensuring that insurance is maintained within ranges of coverage that the Company believes to be consistent with industry practice and having regard to the nature of activities being conducted. However, there is a risk that the Company's insurance coverage will be insufficient to meet a very large claim or a number of large claims, or that Titan is unable to secure insurance to satisfactorily cover all anticipated risks or that the cost of insurance will increase beyond anticipated levels. Accordingly, Titan could be adversely impacted by increases in the cost of insurance premiums or an inability to access insurance coverage arising from circumstances that might or might not be related to the business of the Company.

*Share market risk*

The market price of Shares can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resource services sector in particular.

There are a number of factors (both national and international) that may affect the share price and neither the Company nor its Directors have control of those factors.

*General economic conditions*

Changes in the general economic climate in which Titan operates may adversely affect the financial performance of the Company. Factors that may contribute to that economic climate include the general level of economic activity, interest rates, gas prices, inflation and other economic factors.

*Legislative change*

Changes in government regulations and policies may adversely affect the financial performance or the current and proposed operations generally of the Company. Titan is not aware of any current or proposed material changes in relevant regulations or policy.

*Unforseen expenses*

While the Company is not aware of any expenses that may need to be incurred that have not been taken into account, if such expenses were subsequently incurred, the financial performance of the Company may be adversely affected.

**Environmental Regulation**

Except as described above in the environmental risks, the Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. However, the Group does provide services to entities that are licenced or otherwise subject to conditions for the purposes of environmental legislation or regulation. In these instances, the Group acts in accordance with the contractor regime implemented by the licenced or regulated entity.

**Directors' Report (continued)**
**Information on the Directors**

| **Shaun Scott** | Age 50 B.Bus, BA, ACA, MAICD |
|---|---|
| Role | Independent Non-Executive Chairman<br>Appointed 27 October 2011 |
| Experience | Shaun is a Chartered Accountant with over 25 years of experience in upstream and downstream projects, mergers and acquisitions and finance in the energy sector in Australia, Asia, and the United States.<br><br>Shaun is currently a Chairman of ASX listed Anaeco Ltd and a Non-executive Director of Dart Energy Ltd. He was previously a Non-executive Director of ACER Energy Ltd, Buccaneer Energy Ltd and Site Group International Ltd.<br><br>Shaun previously held the roles of Chief Executive Officer (Australia), Chief Commercial Officer and Chief Financial Officer with Arrow Energy Limited prior to its acquisition by Royal Dutch Shell plc and PetroChina in 2010. Prior to joining Arrow Energy Limited in 2004, Shaun held a variety of senior executive roles in the oil and gas industry. |
| Special Responsibilities | Audit Committee, Environmental Risk and OHS Committee (Chairman), Nominations and Remuneration Committee (Chairman) |
| Interest in Shares and Options (direct and indirect) | Shares – 2,541,401<br>Options – Nil |

| **Mark Snape** | Age 64 B.Ec, MBA, ACA, FAICD |
|---|---|
| Role | Independent Non-Executive Director<br>Appointed 18 October 2012 |
| Experience | Mark has considerable experience in the energy sector, large scale transport infrastructure development, risk management, public private partnerships and project financing.<br><br>Mark has held various senior management positions including Chief Executive Officer Rivercity Motorway, Group General Manager – Infrastructure, Finance and Investment for John Holland, Managing Director in Australia for American Electric Power, Director of Deloitte Corporate Finance, Director of Country Natwest Corporate Finance and Director of BZW Corporate Finance. Mark is also a Non-executive Director of Whitehelm Capital Pty Limited and has previously held non-executive director positions for ASX-listed entities Connecteast Group, Brisconnections Group, and Pacific Hydro Limited. |
| Special Responsibilities | Audit Committee (Chairman), Environmental Risk and OHS Committee, Nominations and Remuneration Committee |
| Interest in Shares and Options (direct and indirect) | Shares – 233,355<br>Options - Nil |

| **Stephen Bizzell** | Age 47 B.Comm, MAICD |
|---|---|
| Role | Non-Executive Director<br>Appointed 28 March 2011 |
| Experience | Stephen is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. He is also a Non-executive Director of Armour Energy Ltd, Stanmore Coal Ltd, Queensland Treasury Corporation and UIL Energy Ltd and Chairman of Diversa Ltd, Laneway Resources Ltd and Renascor Resources Limited. He was previously a Non-executive director of Dart Energy Ltd, Bow Energy Ltd, Apollo Gas Ltd and Hot Rock Ltd.<br><br>Stephen was an Executive Director of Arrow Energy Ltd from 1999 until its acquisition in 2010 by Shell and PetroChina for $3.5 billion. He was instrumental in Arrow's corporate and commercial success and its growth from a junior explorer to a large integrated energy company.<br><br>Stephen qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years' corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies. |
| Special Responsibilities | Audit Committee, Environmental Risk and OHS Committee, Nominations and Remuneration Committee |
| Interest in Shares and Options (direct and indirect) | Shares – 2,261,285<br>Options – 280,576 |

**Directors' Report (continued)**

**Company Secretary**

The Company Secretary is Christine Hayward – B.Comm, Grad Dip Applied Corporate Governance, FCPA, FGIA. Christine was appointed as Company Secretary of Titan Energy Services Limited on 17 September 2014.

Christine has over 25 years experience in senior finance positions across a range of industries, including infrastructure, transport, accommodation and retail. Most recently, Christine was CFO and Company Secretary for the RiverCity Motorway Group. Christine was appointed the CEO of the Group on 11 June 2015.

**Meetings of Directors**

During the financial year, 56 meetings of Directors (including committees of Directors) were held. Attendances by each Director during the year were as follows:

| | Directors' Meetings | | Audit Committee | | Environmental Risk and OHS Committee | | Nominations and Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended | Number eligible to attend | Number attended |
| Shaun Scott | 50 | 50 | 3 | 3 | 2 | 2 | 1 | 1 |
| Stephen Bizzell | 50 | 49 | 3 | 3 | 2 | 2 | 1 | 1 |
| Mark Snape | 50 | 49 | 2 | 2 | 2 | 2 | 1 | 1 |
| James Sturgess (1) | 23 | 23 | - | - | - | - | - | - |
| Jim Diakogiannis (2) | 9 | 9 | - | - | - | - | - | - |
| Simon Keyser (3) | 4 | 4 | 1 | 1 | - | - | - | - |

(1) Resigned 24 December 2014
(2) Resigned 24 October 2014
(3) Resigned 3 September 2014

**Indemnifying Officers**

During or since the end of the financial year, the Group paid insurance premiums of $17,915 to insure Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of Director of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

**Options**

At the date of this report, the unissued ordinary shares of Titan Energy Services Limited under option are as follows:

| | Grant Date | Options | Number under Option | Exercise Price of Options | Expiry Date |
|---|---|---|---|---|---|
| Directors of the Company | 4 Nov 2011 | Options | 280,576 | $1.11 | 7 Dec 2015 |
| Other | 4 Nov 2011 | Options | 280,576 | $1.11 | 7 Dec 2015 |

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or in any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since the end of the reporting period.

For details of options issued to Directors and executives as remuneration, refer to the Remuneration Report on page 19 of the Directors' Report.

**Directors' Report (continued)**

During the year ended 30 June 2015, the following ordinary shares of Titan Energy Services Limited were issued on the exercise of performance rights granted:

| | Issue Date | Exercise Price | Number of Shares Issued |
|---|---|---|---|
| Directors – Performance Rights | 12 Aug 2014 | - | 23,250 |
| KMP – Performance Rights | 12 Aug 2014 | - | 61,500 |
| Other Personnel – Performance Rights | 12 Aug 2014 | - | 282,000 |

No further shares have been issued relating to options or performance rights since the end of the financial year. No amounts are unpaid on any of the shares issued.

**Proceedings on behalf of the Company**

No person has applied for leave of the Court to bring proceedings on behalf of the Company or 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 any part of those proceedings.

The Company was not a party to any such proceedings during the year.

**Non-audit Services**

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with *APES 110*: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to PKF Hacketts Audit and its related practices for non-audit services provided during the year ended 30 June 2015:

Taxation services $42,166

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s307C of the *Corporations Act 2001* is set out on page 21 for the year ended 30 June 2015.

**ASIC Class Order 98/100 Rounding of Amounts**

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest thousand dollars.

**Remuneration Report - Audited**

**Remuneration Policy**

The remuneration policy of Titan Energy Services Limited has been designed to align key management personnel (KMP) objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific short and long-term incentives based on key performance areas affecting the Group's financial results. The Board of Titan Energy Services Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain high-quality KMP to operate and manage the Group, as well as create goal congruence between Directors, Executives and Shareholders.

**Directors' Report (continued)**
**Remuneration Report – Audited (continued)**
**Remuneration Policy (continued)**

The Board's policy for determining the nature and amount of remuneration for KMP of the Group is as follows:

- The remuneration policy is developed by the Nominations and Remuneration Committee and approved by the Board;
- All executive KMP receive a base salary (which is based on factors such as experience and market rates of pay), superannuation, fringe benefits, performance rights and performance incentives;
- Performance incentives are generally only paid once predetermined key performance indicators (KPIs) have been met;
- Incentives paid in the form of options or rights are intended to align the interests of the key personnel and Company with those of the Shareholders. In this regard, KMP are prohibited from limiting risk attached to those instruments by use of derivatives or other means; and
- The Nominations and Remuneration Committee reviews KMP packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

The performance of KMP is measured against criteria agreed annually with each Executive and is based predominantly on the forecast growth of the Group's profits. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the Committee's recommendations. Any change must be justified by reference to measurable performance criteria. The policy is designed to reward KMP for performance results leading to long-term growth in shareholder wealth.

KMP receive a superannuation guarantee contribution required by the government and do not receive any other retirement benefits.

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align KMPs' interests with Shareholders' interests. Options and performance rights granted under the arrangement do not carry dividend or voting rights. Each option and performance right is entitled to be converted into one ordinary share once the applicable hurdles have been met and is valued using the Black-Scholes or Monte Carlo methodologies.

All remuneration paid to KMP is valued at cost to the Company and expensed.

The Board's policy is to remunerate Non-Executive Directors at market rates for time, commitment and responsibilities. The Nominations and Remuneration Committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting.

The Board has maintained the current level of Directors and Committee Member fees since 1 July 2013. Current remuneration for Non-Executive Directors is as follows:

| | **Base fees including superannuation** |
|---|---|
| Chairman | $65,000 |
| Non-Executive Director | $40,000 |

In addition to the base fees, Committee Members are entitled to the following fees:

| | |
|---|---|
| Committee Chairman | $7,500 |
| Committee Non-Executive Director Member | $5,000 |

**Performance-based Remuneration**

KPIs are set annually, with a certain level of consultation with KMP. The measures are specifically tailored to the area each individual is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Nominations and Remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals before the KPIs are set for the following year.

**Directors' Report (continued)**
**Remuneration Report – Audited (continued)**
**Performance-based Remuneration (continued)**

In determining whether or not a financial KPI has been achieved, Titan Energy Services Limited bases the assessment on audited figures.

**Relationship between Remuneration Policy and Company Performance**

The remuneration policy has been tailored to increase goal congruence between Shareholders, Directors and Executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on KPIs, and the second being the issue of options and performance rights to the majority of Directors and Executives to encourage the alignment of personal and shareholder interests.

The following table shows the gross revenue, profits and dividends for the last three years for the listed entity, as well as the share prices at the end of the respective financial years. Analysis of the actual figures shows an increase in profits as well as an increase in dividends paid to shareholders, for the 2013 and 2014 years. The Company's performance over the last twelve months has been affected by the pressures of global market forces and the contributing impacts this has had on demand for the Group's services. The Board is of the opinion that the previously described remuneration policy remains appropriate to ensure future growth in Shareholder returns.

| | | 2015 | 2014 | 2013 |
|---|---|---|---|---|
| Revenue | $'000 | 43,003 | 87,681 | 72,904 |
| Net profit after tax | $'000 | (50,558) | 12,211 | 9,103 |
| Share price at year-end | $ per share | 0.07 | 2.02 | 1.39 |
| Dividends declared | Cents per share | - | 7.5 | 5.5 |

**Performance Conditions Linked to Remuneration**

The Group seeks to emphasise reward incentives for results and continued commitment to the Group through the provision of various cash bonus reward schemes, specifically the incorporation of incentive payments based on the achievement of earnings targets, KPIs, and continued employment with the Group.

The performance-related proportions of remuneration based on these targets are included in the following table. The objective of the reward schemes is to both reinforce the short and long-term goals of the Group and provide a common interest between management and Shareholders.

The satisfaction of the performance conditions is based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

**Employment Details of Members of Key Management Personnel**

The following table provides employment details of persons who were, during the financial year, members of KMP of the Group. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of options or performance rights.

| | Position Held as at 30 June 2015 and any Change during the Year | Proportions of Elements of Remuneration Related to Performance | | | Proportions of Elements of Remuneration Not Related to Performance | |
|---|---|---|---|---|---|---|
| | | Non-salary Cash-based Incentives[1] | Shares/ Units | Options/ Rights | Fixed Salary/ Fees | Total |
| **Group KMP** | | % | % | % | % | % |
| Christine Hayward | CEO appointed 11/06/2015<br>CFO appointed 8/9/2014 | 0% | 20% | 0% | 80% | 100% |
| Rowan Greene | CFO appointed 11/06/2015 | 16% | 0% | 0% | 84% | 100% |
| James Sturgess | Managing Director (24/12/2014 resigned) | 28% | 0% | 0% | 72% | 100% |
| Jim Diakogiannis | Executive Director (24/10/2014 resigned) | 41% | 0% | 0% | 59% | 100% |
| David Thornton [(2)] | GM Resources Camp Hire appointed 8/09/2014<br>(31/12/2014 resigned) | 25% | 0% | 0% | 75% | 100% |
| Gus van der Heide | COO (resigned 31/10/2014) | 30% | 0% | 0% | 70% | 100% |

(1) *Based on meeting performance targets agreed by the Board. Total KMP incentive is subject to Board review and approval.*
(2) *David Thornton held the position of CFO from 1 July 2014 until appointment as GM Resources Camp Hire*

**Directors' Report (continued)**
**Remuneration Report – Audited (continued)**
**Employment Details of Members of Key Management Personnel (continued)**

The employment terms and conditions of KMP are formalised in contracts of employment. Key terms of the contract are as follows:

| KMP | Contract Duration | Notice Period | Termination Payments |
|---|---|---|---|
| Christine Hayward – Chief Executive Officer | Employment will continue until terminated by notice in accordance with the provisions of the agreement | Titan or Christine Hayward to give three months | Titan may make a payment in lieu.<br>Issue of shares connected to performance rights in accordance with the Performance Rights Plan |
| Rowan Greene – Chief Financial Officer | Employment will continue until terminated by notice in accordance with the provisions of the agreement | Titan or Rowan Greene to give three months | Titan may make a payment in lieu.<br>Issue of shares connected to performance rights in accordance with the Performance Rights Plan |

**Remuneration Details for the Year Ended 30 June 2015**

The following table of benefits and payments details, in respect to the 2015 and 2014 financial years, the components of remuneration for each director and member of KMP of the Group. The amounts have been calculated in accordance with Australian Accounting Standards.

| Directors and Key Management Personnel Remuneration | | Short-term | | | | Post-employment | Other Long-term | Share-based Payments | Termination Benefits (5) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Salary & Fees (1) | Cash Bonus (2) | Non-Cash Benefits | Other | Super-annuation (3) | Benefits | Options / Perf. Rights (4) | | Total |
| **Non-executive Directors** | | | | | | | | | | |
| Shaun Scott (*Chairman*) | **2015** | **81,050** | **-** | **-** | **-** | **7,700** | **-** | **-** | **-** | **88,750** |
| | 2014 | 75,650 | - | - | - | 6,998 | - | - | - | 82,648 |
| Stephen Bizzell | **2015** | **49,583** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **49,583** |
| | 2014 | 50,000 | - | - | - | - | - | - | - | 50,000 |
| Mark Snape | **2015** | **55,365** | **-** | **-** | **-** | **5,260** | **-** | **-** | **-** | **60,625** |
| | 2014 | 48,140 | - | - | - | 4,453 | - | - | - | 52,593 |
| Simon Keyser (*Resigned 03/09/14*) | **2015** | **7,916** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **7,916** |
| | 2014 | 47,500 | - | - | - | - | - | - | - | 47,500 |
| **Subtotal - Non-executive Directors' remuneration** | **2015** | **193,914** | **-** | **-** | **-** | **12,959** | **-** | **-** | **-** | **206,873** |
| | 2014 | 221,290 | - | - | - | 11,451 | - | - | - | 232,741 |
| **Executive Directors** | | | | | | | | | | |
| Jim Sturgess - Former MD | **2015** | **198,724** | **91,911** | **6,553** | **13,445** | **20,789** | **-** | **-** | **56,334** | **387,756** |
| *(Resigned 24/12/14)* | 2014 | 330,116 | 97,027 | 4,154 | 25,389 | 25,862 | - | 28,109 | - | 510,657 |
| Jim Diakogiannis - Former Executive | **2015** | **62,557** | **62,211** | **6,094** | **15,805** | **4,636** | **-** | **-** | **-** | **151,303** |
| Director (*Resigned 24/10/14*) | 2014 | 292,940 | 66,906 | 2,964 | 22,534 | 25,000 | - | 18,316 | - | 428,660 |
| **Subtotal - Executive directors' remuneration** | **2015** | **261,281** | **154,122** | **12,647** | **29,250** | **25,425** | **-** | **-** | **56,334** | **539,059** |
| | 2014 | 623,056 | 163,933 | 7,118 | 47,923 | 50,862 | - | 46,425 | - | 939,317 |
| **Key Management Personnel** | | | | | | | | | | |
| Christine Hayward - CEO | **2015** | **258,300** | **-** | **4,368** | **21,842** | **15,653** | **-** | **75,000** | **-** | **375,163** |
| *(Appointed 11/6/15)* | 2014 | - | - | - | - | - | - | - | - | - |
| Rowan Greene - CFO | **2015** | **176,156** | **39,125** | **3,640** | **11,538** | **17,127** | **248** | **-** | **-** | **247,834** |
| *(Appointed 11/6/15)* | 2014 | - | - | - | - | - | - | - | - | - |
| Gus van der Heide - Former COO | **2015** | **94,172** | **54,315** | **3,640** | **15,731** | **14,660** | **-** | **-** | **57,692** | **240,210** |
| *(Resigned 31/10/14)* | 2014 | 300,000 | 63,264 | 2,964 | 23,077 | 41,162 | - | 24,577 | - | 455,044 |
| David Thornton - Former CFO | **2015** | **84,419** | **34,137** | **5,825** | **7,958** | **6,558** | **-** | **-** | **-** | **138,897** |
| *(Resigned 31/12/14)* | 2014 | 220,912 | 38,905 | 4,154 | 17,121 | 16,659 | - | 24,577 | - | 322,328 |
| **Subtotal - Key Management Personnel remuneration** | **2015** | **613,047** | **127,577** | **17,473** | **57,069** | **53,998** | **248** | **75,000** | **57,692** | **1,002,104** |
| | 2014 | 520,912 | 102,169 | 7,118 | 40,198 | 57,821 | - | 49,154 | - | 777,372 |
| **Total Directors and Key Management Personnel Remuneration** | **2015** | **1,068,242** | **281,699** | **30,120** | **86,319** | **92,383** | **248** | **75,000** | **114,026** | **1,748,037** |
| | 2014 | 1,365,258 | 266,102 | 14,236 | 88,121 | 120,134 | - | 95,579 | - | 1,949,430 |

(1) *Salary and Director's fees may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. Directors and executives are offered a competitive base salary that comprises the fixed component of salary and rewards. Base salaries are reviewed annually to ensure the rate is competitive with the market.*

(2) *A portion of the KMP salary is by way of an at risk bonus. This is subject to satisfactory completion of a set of predominantly profit-related KPIs and payable at the discretion of the Board. Amounts included in the table relate to performance for that year.*

(3) *Post-employment benefits consist of statutory superannuation that was calculated as 9.5% of the base pay. Stephen Bizzell and Simon Keyser's superannuation components are included in the Director's fees and are paid on receipt of invoice by Titan Energy Services Limited. There are no other retirement benefits paid by Titan Energy Services Limited.*

(4) *Option and performance rights values have been determined using the Black-Scholes and Monte Carlo methods.*

(5) *Termination benefits consists of payment in lieu of notice*

(6) *Includes remuneration for the whole period including pre / post appointment to/from the Key Management Personnel.*

(7) *Jim Diakogiannis continues to provide services to the Group on a consulting basis.*

**Directors' Report (continued)**
**Remuneration Report – Audited (continued)**
**Remuneration Received that are not Performance Related**

No members of the KMP are entitled to receive securities that are not performance-based as part of their remuneration package. During the period the Board agreed a one-off retention bonus for Christine Hayward and Rowan Greene, the retention conditions were met as at 30 June 2015. The retention payment was payable on 2 July 2015 by way of cash or in Titan Shares (5 day VWAP to 30 June 2015). Titan issued 1,146,789 securities to Christine Hayward on 20 July 2015 and the retention payment to Rowan Greene was settled by way of cash.

**Share-based Payments**

***Options***

The terms and conditions relating to the options are detailed on page 16 of the Directors' Report. Movements during the year are as follows:

| | Balance at Beginning of Year | Issued During the Year | Exercised During the Year | Lapsed During the Year | Other Changes During the Year | Balance at End of Year |
|---|---|---|---|---|---|---|
| Stephen Bizzell<br>*Director* | 280,576 | - | - | - | - | 280,576 |
| Simon Keyser<br>*Director*<br>*(resigned 3/09/2014)* | 280,576 | - | - | (280,576) | - | - |
| **Total** | **561,152** | **-** | **-** | **(280,576)** | **-** | **280,576** |

***Performance Rights***

The terms and conditions relating to performance rights granted as remuneration during the year to KMP are as follows:

| | Balance at Beginning of Year | Issued During the Year | Vested During the Year | Lapsed During the Year[1] | Other Changes During the Year | Balance at End of Year |
|---|---|---|---|---|---|---|
| James Sturgess<br>*Former MD – Titan*<br>*(resigned 24/12/2014)* | 13,000 | - | - | (13,000) | - | - |
| Jim Diakogiannis<br>*Former Executive Director*<br>*(resigned 24/10/2014)* | 10,250 | - | - | (10,250) | - | - |
| **Total** | **23,250** | **-** | **-** | **(23,250)** | **-** | **-** |

(1) *The Board has determined that profit targets for the year ended 30 June 2014 were not met and accordingly, 23,250 performance rights lapsed.*

During the financial year, other KMP were also each issued 9,000 performance rights each under the Company's Long Term Incentive Plan (LTI Plan). The Board has determined that profit targets for the year end 30 June 2015 were not met, accordingly these performance rights have lapsed.

**KMP Shareholdings**

The number of ordinary shares in Titan Energy Services Limited held by each KMP of the Group during the financial year is as follows:

| 30 June 2015 | Balance at Beginning of Year | Issued on Exercise of Options during the Year | Issued on Vesting of Performance Rights during the Year | Other Changes during the Year | Balance at End of Year |
|---|---|---|---|---|---|
| Shaun Scott | 460,439 | - | - | 2,080,962 | 2,541,401 |
| Stephen Bizzell | 1,087,447 | - | - | 1,173,838 | 2,261,285 |
| Mark Snape | - | - | - | 233,355 | 233,355 |
| Rowan Greene[1] | 25,750 | - | - | 62,121 | 87,871 |
| **Total** | **1,573,636** | **-** | **-** | **3,550,276** | **5,123,912** |

(1) *Shares held at the time of appointment to Acting Chief Financial Officer on 24 December 2014.*

**Other Equity-related KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables and information above relating to options, performance rights and shareholdings.

**Directors' Report (continued)**
**Remuneration Report – Audited (continued)**
**Other Transactions with KMP and/or their Related Parties**

There were no transactions conducted between the Group and KMP or their related parties that were conducted other than in accordance with normal employee, customer or supplier relationships on terms no more favourable than those reasonably expected under arm's length dealings with unrelated persons.

This Directors' Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Shaun Scott
Chairman
Dated: 28 August 2015

**AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**
**TO THE DIRECTORS OF**
**TITAN ENERGY SERVICES LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2015, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

PKF HACKETTS

**PKF HACKETTS AUDIT**

**Liam Murphy**
**Partner**

Brisbane, 28 August 2015



PKF Hacketts Audit
ABN 33 873 151 348

Level 6, 10 Eagle Street, Brisbane QLD 4000
GPO Box 1568, Brisbane QLD 4001
p +61 7 3839 9733
f +61 7 3832 1407

8 East Street, PO Box 862
Rockhampton QLD 4700
p +61 7 4927 2744
f +61 7 4927 4317

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED
30 JUNE 2015**

| | Note | Consolidated Group 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Revenue** | 2 | 43,003 | 87,681 |
| **Expenses** | | | |
| Drilling and consumables | | (3,291) | (6,512) |
| Camp expenses | | (11,657) | (13,214) |
| Logistics expenses | | (883) | (1,577) |
| Catering expenses | | (4,879) | (4,868) |
| Hire expenses | | - | - |
| Depreciation and amortisation expense | | (2,559) | (4,734) |
| Employee benefits expense | | (20,738) | (33,719) |
| Travel and accommodation | | (1,027) | (1,623) |
| Motor vehicle lease and maintenance | | (898) | (984) |
| Finance costs | 2 | (1,155) | (1,140) |
| Investment review costs | | (524) | - |
| Corporate restructuring expenses | | (1,864) | - |
| Corporate refinancing expenses | | (601) | - |
| Impairment of assets | 2 | (27,394) | - |
| Administration and other expenses | | (5,748) | (6,905) |
| **Profit / (loss) before income tax** | | **(40,215)** | **12,405** |
| Income tax (expense) / benefit | 4 | 721 | (3,764) |
| **Profit / (loss) from continuing operations** | | **(39,494)** | **8,641** |
| Profit / (loss) from discontinued operations (after tax) | 3 | (11,064) | 3,570 |
| **Profit (loss) for the year** | | **(50,558)** | **12,211** |
| **Other comprehensive income** | | | |
| Other comprehensive income / (loss) for the year, net of tax | | - | - |
| **Total comprehensive income / (loss) for the year** | | **(50,558)** | **12,211** |
| Profit / (loss) attributable to members of the parent entity | | (**50,558**) | 12,211 |
| Total comprehensive income / (loss) attributable to members of the parent entity | | (**50,558**) | 12,211 |
| **Earnings per share** | | | |
| **From continuing and discontinued operations** | | | |
| • basic earnings / (loss) per share (cents) | 19 | (81.17) | 24.47 |
| • diluted earnings / (loss) per share (cents) | 19 | (81.17) | 24.08 |
| **Earnings per share** | | | |
| **From continuing operations:** | | | |
| • basic earnings / (loss) per share (cents) | 19 | (63.41) | 17.32 |
| • diluted earnings / (loss) per share (cents) | 19 | (63.41) | 17.04 |

The accompanying notes form part of these financial statements.

## STATEMENT OF FINANCIAL POSITION
## AS AT 30 JUNE 2015

| | | Consolidated Group | |
|---|---|---|---|
| | | 2015 | 2014 |
| | Note | $'000 | $'000 |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 1,141 | 4,258 |
| Trade and other receivables | 7 | 1,001 | 16,078 |
| Inventories | 8 | 784 | 3,069 |
| **Total current assets** | | **2,926** | **23,405** |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 17,816 | 48,268 |
| Deferred tax assets | 13 | - | 446 |
| Intangible assets | 10 | - | 20,412 |
| **Total non-current assets** | | **17,816** | **69,126** |
| **Total assets** | | **20,742** | **92,531** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 11 | 2,680 | 10,070 |
| Borrowings | 12 | - | 4,304 |
| Current tax liabilities | 13 | - | 797 |
| Provisions | 14 | 328 | 802 |
| Other current liabilities | 15 | 395 | 2,122 |
| **Total current liabilities** | | **3,403** | **18,095** |
| **Non-current liabilities** | | | |
| Borrowings | 12 | - | 8,611 |
| Provisions | 14 | 37 | 216 |
| **Total non-current liabilities** | | **37** | **8,827** |
| **Total liabilities** | | **3,440** | **26,922** |
| **NET ASSETS** | | **17,302** | **65,609** |
| **EQUITY** | | | |
| Issued capital | 16 | 50,479 | 45,761 |
| Reserves | 17 | 296 | 856 |
| Retained earnings | | (33,473) | 18,992 |
| **TOTAL EQUITY** | | **17,302** | **65,609** |

The accompanying notes form part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
30 JUNE 2015**

| Consolidated Group | Note | Ordinary Share Capital $'000 | Retained Earnings $'000 | Share Based Payments Reserve $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2013** | | **40,758** | **10,174** | **849** | **51,781** |
| **Comprehensive income** | | | | | |
| Profit / (loss) for the year | | - | 12,211 | - | 12,211 |
| **Total comprehensive income / (loss) for the full year** | | - | 12,211 | - | 12,211 |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | | |
| Acquisition of assets via share-based payment | | 3,218 | - | - | 3,218 |
| Contributions of equity on exercise of options | | 389 | - | - | 389 |
| Dividends paid | | - | (3,393) | - | (3,393) |
| Dividend reinvestment plan | | 513 | - | - | 513 |
| Performance rights and options converted | | 920 | - | (920) | - |
| Performance rights and options granted | | - | - | 927 | 927 |
| Transaction costs | | (37) | - | - | (37) |
| **Total transactions with owners and other transfers** | | **5,003** | **(3,393)** | **7** | **1,617** |
| **Balance at 30 June 2014** | | **45,761** | **18,992** | **856** | **65,609** |
| **Comprehensive income** | | | | | |
| Profit / (loss) for the year | | - | (50,558) | - | (50,558) |
| **Total comprehensive income / (loss) for the full year** | | **-** | **(50,558)** | **-** | **(50,558)** |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | | |
| Issue of ordinary shares | 16 | 4,450 | - | - | **4,450** |
| Dividends paid | 18 | - | (2,038) | - | **(2,038)** |
| Dividend reinvestment plan | 18 | 365 | - | - | **365** |
| Performance rights and options converted | 17 | 752 | - | (752) | **-** |
| Performance rights and options granted | 17 | - | - | 396 | **396** |
| Performance rights and options lapsed | 17 | - | 131 | (204) | **(73)** |
| Transaction costs | 16 | (849) | - | - | **(849)** |
| **Total transactions with owners and other transfers** | | **4,718** | **(1,907)** | **(560)** | **2,251** |
| **Balance at 30 June 2015** | | **50,479** | **(33,473)** | **296** | **17,302** |

The accompanying notes form part of these financial statements.

**STATEMENT OF CASH FLOWS**
**FOR THE YEAR ENDED**
**30 JUNE 2015**

| | | Consolidated Group | |
|---|---|---|---|
| | | **2015** | **2014** |
| | **Note** | **$'000** | **$'000** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from customers (inclusive of GST) | | 69,177 | 108,186 |
| Payments to suppliers and employees (inclusive of GST) | | (71,683) | (83,493) |
| Interest received | | 45 | 83 |
| Finance costs | | (1,168) | (1,078) |
| Income tax payment | | (552) | (6,737) |
| **Net cash provided by / (used in) operating activities** | 25 | **(4,181)** | **16,961** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for plant, property and equipment | | (1,636) | (11,030) |
| Proceeds from disposal of plant, property and equipment | | 730 | 388 |
| Proceeds from disposal of subsidiary | 3 | 12,510 | - |
| Payment for acquisition of subsidiary | | - | (5,812) |
| **Net cash provided by (used) in investing activities** | | **11,604** | **(16,454)** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Net (repayment of) / proceeds from borrowings | | (12,914) | (362) |
| Proceeds from exercise of options | | - | 389 |
| Proceeds from issue of shares | | 4,815 | 513 |
| Capital raising costs paid | | (403) | (37) |
| Dividends paid | | (2,038) | (3,393) |
| **Net cash (used in)/provided by financing activities** | | **(10,540)** | **(2,890)** |
| | | | |
| **Net increase/(decrease) in cash held** | | (3,117) | **(2,383)** |
| Cash and cash equivalents at beginning of year | | 4,258 | 6,641 |
| **Cash and cash equivalents at end of year** | 6 | **1,141** | **4,258** |

The accompanying notes form part of these financial statements.

## Notes to the financial statements for the year ended 30 June 2015

These consolidated financial statements and notes represent those of Titan Energy Services Limited (the Company) and its Controlled Entities (the Group).

Titan Energy Services Limited is a public company incorporated and domiciled in Australia. The Company was incorporated on 28 March 2011, and listed on the Australian Securities Exchange on 7 December 2011.

The separate financial statements of the parent entity, Titan Energy Services Limited, have not been presented within the financial report as permitted by the *Corporations Act 2001.*

The financial statements were authorised for issue on 24 August 2015 by the directors of the Company.

**Note 1: Summary of Significant Accounting Policies**

**Basis of Preparation**

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**Going concern**

The financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Group will be able to pay its debts as and when they become due and payable and will be able to realise its assets and discharge its liabilities in the normal course of operations and at amounts stated in the financial report.

The Group has incurred net cash outflows for the twelve months ended 30 June 2015 of $3.1 million (30 June 2014: $2.4 million). At 30 June 2015, the Group has cash balances of $1.1 million (30 June 2014: $4.3 million) and a net working capital deficit (current assets less current liabilities) of $0.5 million (30 June 2014: $5.3 million surplus).

In light of trading conditions during the year, and as outlined at Note 16, the Group undertook an equity raising, comprising a placement and an entitlement offer, to allow the Group to settle its Hofco retention payment obligations of approximately $2.2 million and to strengthen the Group's balance sheet.

On 19 January 2015, a net amount of $0.99 million in placement funds was received. A further $3.03 million in net funding was received on settlement of the entitlement offer on or about 3 February 2015. The total net funding of $4.02 million received was sufficient to satisfy conditions precedent to refinancing arrangements in place with the Group's Senior Lender and one of its key suppliers (Refer Note 12).

Despite the downturn in sector demand, the Board of Directors believes that the outlook for the Group, together with the impact of the repayment of facilities to the Group's Senior Lender and deferred amounts to key suppliers (Refer Note 12), and the additional funding provided by the equity capital raise, provide confidence that the Group can achieve its long-term objectives.

The Group's future success depends on, amongst other things, the level of activity in the energy and infrastructure industries and, more recently, coal seam gas in particular. Levels of activity in these sectors depend on a number of factors outside the control of the Group including commodity prices, continued global economic growth, continued international energy demand and infrastructure constraints experienced by the Group's clients. Commodity price volatility and any prolonged decline in the demand for energy and infrastructure development have the potential to adversely affect the demand for the services offered by the Group.

As described in the Directors' Report on page 5, the current economic environment is challenging and the Group has reported an operating loss of $50.6 million for the twelve months to 30 June 2015. The Directors consider that the outlook presents significant challenges in terms of sales volume, pricing and consequently to cash flow funding. While the Directors have instituted measures to preserve cash and secure additional finance these circumstances create material uncertainties over future trading results and cash flows.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 1: Summary of Significant Accounting Policies**
**Going concern**

In response to the uncertainties referred to above, the Directors have commenced a number of processes including options to refinance the business, potential business combinations and / or disposal of businesses and / or assets to provide additional working capital in the event that the current challenging economic conditions continue. The Group has engaged external advisors to assist and while there can be no certainty that any of these options will proceed, the Directors have a reasonable expectation that one will proceed successfully if required. If not, the Group will need to secure additional finance facilities.

The ability to raise such funding in the future will depend on the prevailing capital market conditions as well as the performance of the Group. In these circumstances, there can be no assurance that additional funds may be available, or that asset sales can be executed on acceptable terms, or at all. Failure to obtain additional funding on a timely basis and on acceptable terms could cause the Group to reduce or terminate its operations.

The Directors have concluded that the combination of these circumstances represent a material uncertainty that casts significant doubt about the Group's and the Company's ability to continue as a going concern. Nevertheless, after making enquiries and considering the initiatives implemented as described above, the Directors have a reasonable expectation that the Group and the Company has and will have adequate resources to continue in operational existence and be able to pay its debts as and when they become due and payable. For these reasons they continue to adopt the going concern basis in preparing the financial report. As a result, no adjustments have been made relating to the recoverability and classification of assets or liabilities reported in these financial statements that might be necessary should the Group not continue as a going concern.

These financial statements were authorised for issue on 28 August 2015 by the Directors of the Company.

**(a) Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Titan Energy Services Limited, and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it 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 over the entity. A list of the subsidiaries is provided in Note 21.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as 'non-controlling interests'. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

**Business Combinations**

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 1: Summary of Significant Accounting Policies (continued)**

**(a) Principles of Consolidation (Continued)**

All transaction costs (with the exception of stamp duty) incurred in relation to business combinations are expensed to the statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

**Goodwill**

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

(i) the consideration transferred;
(ii) any non-controlling interest; and
(iii) the acquisition date fair value of any previously held equity interest;

over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination shall form the cost of the investment in the separate financial statements.

Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed.

**(b) Income Tax**

The income tax expense for the year comprises current income tax expense (benefit) and deferred tax expense.

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 1: Summary of Significant Accounting Policies (continued)**

**(b) Income Tax (Continued)**

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**Tax Consolidation Legislation**

Titan Energy Services Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 23 September 2011.

The head entity, Titan Energy Services Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the stand-alone taxpayer approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Titan Energy Services Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details of the tax funding agreement are disclosed at Note 4.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised in equity as a contribution to (or distribution from) wholly-owned tax consolidated entities.

**(c) Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

**Property**

The Group held no property during the year.

**Plant and Equipment**

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in either profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(f) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of comprehensive income during the financial period in which they are incurred.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 1: Summary of Significant Accounting Policies (continued)**
**(c) Property, Plant and Equipment (Continued)**
**Depreciation**
The depreciable amount of all motor vehicles and plant and equipment is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use.

The depreciable amount of drill rigs, camps and rental assets are depreciated on a unit of production basis, with usage calculated by the actual number of days in use.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Drill Rigs | 10% |
| Camps | 10% |
| Motor Vehicles | 15 – 30% |
| Plant and Equipment | 10 – 33.33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

**(d) Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values.

Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

**(e) Financial Instruments**

**Recognition and Initial Measurement**
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (ie. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

**Classification and Subsequent Measurement**
Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 1: Summary of Significant Accounting Policies (continued)**

**(e) Financial Instruments (continued)**

**Classification and Subsequent Measurement (continued)**

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

*(i) Financial Assets at Fair Value Through Profit or Loss*

Financial assets are classified at 'fair value through profit or loss' when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

*(ii) Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

*(iii) Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a 'loss event') having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 1: Summary of Significant Accounting Policies (continued)**

**(e) Financial Instruments (Continued)**

**Impairment**
When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

**De-recognition**
Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**(f) Impairment of Assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

**(g) Foreign Currency Transactions and Balances**

**Functional and Presentation Currency**
The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

**Transactions and Balances**
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

**(h) Employee Benefits**

**Short-Term Employee Benefits**
Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, including wages and salaries. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 1: Summary of Significant Accounting Policies (continued)**

**(h) Employee Benefits (continued)**

The Group's obligations for short-term employee benefits such as wages and salaries are recognised as a part of current trade and other payables in the statement of financial position. The Group's obligations for employees' annual leave and long service leave entitlements are recognised as provisions in the statement of financial position.

**Other Long-Term Employee Benefits**

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within twelve months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on corporate bonds that have maturity dates that approximate the terms of the obligations. Any re-measurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The Group's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least twelve months after the end of the reporting period, in which case the obligations are presented as current provisions.

**Retirement Benefit Obligations**

*Defined Contribution Superannuation Benefits*

All employees of the Group receive defined contribution superannuation entitlements, for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

**Equity-Settled Compensation**

The Group operates an employee share ownership plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share based payments reserve. The fair value of options is determined using the Black-Scholes pricing model. The fair value of performance rights issued is determined using the Monte Carlo method.

The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

The employee share ownership plan is administered by the Titan Equity Plan trust (Trust). When options and performance rights are exercised, the Trust transfers the appropriate number of shares to the employee. Any proceeds received, net of directly attributable costs, are credited directly to equity.

**(i) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

**(j) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 1: Summary of Significant Accounting Policies (continued)**

**(k) Revenue and Other Income**

Revenue is measured at the fair value of the consideration received or receivable. Interest revenue is recognised using the effective interest method.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period, where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

**(l) Trade and Other Receivables**

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within twelve months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(e) for further discussion on the determination of impairment losses.

**(m) Inventories**

Inventory includes goods available for sale, and material and spare parts to be used in constructing and maintaining the assets held by the Group, as well as stock held for the provision of catering services. Inventories are valued at the lower of cost and net realisable value.

Net realisable value of items expected to be consumed, for example used in the construction of another asset, is the net value expected to be earned through future use.

**(n) Trade and Other Payables**

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

**(o) Unearned Revenue**

Revenue received in advance is deferred and recognised as a current liability. Unearned revenue is recognised as revenue in the statement of comprehensive income when the service or event to which the revenue relates has occurred.

**(p) Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(q) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 1: Summary of Significant Accounting Policies (continued)**
**(q) Goods and Services Tax (GST) (continued)**
Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

**(r) Comparative Figures**
When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a material retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

**(s) Rounding of Amounts**
The parent entity has applied the relief available to it under ASIC Class Order 98/100. Accordingly, amounts in the financial statements and Directors' Report have been rounded to the nearest $1,000.

**(t) Critical Accounting Estimates and Judgments**
The directors evaluate estimates and judgments incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

**Key Estimates**
(i) *Impairment – General*
The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations, which incorporate various key assumptions, and/or fair market values.

With respect to cash flow projections for the Accommodation Services – Camps cash generating unit, perpetual growth rates of 0.5% have been factored into the valuation model on the basis of management's expectations regarding the Group's continued ability to capture market share from competitors. Perpetual cash flow growth rates of 0.5% have been factored into the valuation models for the Oilfield Services – Drilling cash generating units. The rates used incorporate an allowance for inflation. A pre-tax discount rate of 19.44% has been used in all models.

Goodwill, inventory and property, plant and equipment are considered to be sensitive to these assumptions and are carried in the statement of financial position at the following written-down values:
- Goodwill $Nil
- Inventory $ 0.8 million
- Property, plant and equipment $17.8 million

An increase of 1% in the pre-tax discount rate would result in further impairment of inventory and property, plant and equipment.

(ii) *Recognition of deferred tax assets for carried forward tax losses*
The Group recognises deferred tax assets relating to carried forward tax losses and temporary timing differences to the extent that Directors assess it is probable that future taxable profit will be available against which the unused tax losses can be utilised. As described in the Directors' Report on page 5, the current economic environment is challenging and the Group has reported an operating loss for the twelve months to 30 June 2015 which raises concerns that the Group may fail to make taxable profits in the future sufficient to utilise the carried forward tax losses. Given this uncertainty, deferred tax assets of $7,421,229 have not been recognised in this financial report. The Directors will continue to monitor the outlook for the Group and recognise deferred tax assets once it becomes probable that future profits will be available against which these amounts can be utilised.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 1: Summary of Significant Accounting Policies (continued)**
**(t) Critical Accounting Estimates and Judgments (continued)**
(iii) *Estimated Useful Lives of Property, Plant and Equipment*

The Group's management determines the useful lives and related depreciation charges for items of property, plant and equipment. Management estimate the useful lives of the Group's assets based on their experience with similar assets in the industry. Management monitor the useful lives of the assets and will adjust the depreciation charge where the estimated useful lives are revised.

(iv) *Performance Rights*

The Group determines the amount to be posted to the share based payments reserve based on management's best estimate of employees that will meet their performance objectives for the year. The value of performance rights are determined based on several variables, including the estimated number of employees that will meet their performance targets. The value of performance rights could change materially if the number of employees that meet their performance targets differs significantly from management's estimates.

**(u) New Accounting Standards for Application in Future Periods**
Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2015 reporting period and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

At the date of authorisation of the financial report, the following relevant Standards and Interpretations were issued but not yet effective:

(i) AASB 9 Financial Instruments (December 2014) and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018);
(ii) AASB 15: Revenue from Contracts with Customers (applicable to annual reporting periods commencing on or after 1 January 2017).

The Group does not expect to adopt the new standards before their operative date. The Group is currently evaluating the impact of the new standards, however they are not expected to have a material impact on the Group.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

**Note 2: Profit/(Loss) from ordinary activities**

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| **Revenue** | **$'000** | **$'000** |
| **From Continuing Operations** | | |
| Services revenue | 42,903 | 87,605 |
| Interest revenue | 45 | 83 |
| Net gain/(loss) on disposal of property, plant and equipment | 55 | (7) |
| **Total revenue and other income from continuing operations** | **43,003** | **87,681** |

| **Expenses** | | |
|---|---|---|
| Profit before income tax from continuing operations includes the following specific expenses: | | |
| *Rental expense on operating leases* | | |
| Drill rigs | 117 | 190 |
| Catering | 11 | 66 |
| Camps | 6,301 | 7,982 |
| Logistics | 179 | 98 |
| | **6,608** | **8,246** |
| *Impairment charges (i)* | | |
| Goodwill | 5,276 | - |
| Inventory | 726 | - |
| Property, plant and equipment | 21,392 | - |
| | **27,394** | **-** |
| *Finance costs* | | |
| Interest and finance charges paid | 932 | 1,078 |
| Borrowing costs amortisation | 223 | 62 |
| | **1,155** | **1,140** |

(i) *Impairment of assets*

The Company has reassessed the recoverable amount of its cash generating units (CGU's) goodwill, plant and equipment and other non-financial assets. The difference between the 31 December 2014 carrying value and recoverable amount of the CGU's at 30 June 2015 was as follows:

- Accommodation Services – Camps: $4.9 million
- Oilfield Services – Drilling: $5.8 million

This has resulted in a total impairment expense of $27.4 million being recorded for the year. This is reflected in the financial statements as a $5.3 million impairment expense against goodwill, a $0.7 million impairment expense against inventory and a $21.4 million impairment expense against property, plant and equipment. The goodwill impairment expense was allocated against the Accommodation Services - Camps CGU.

The property, plant and equipment impairment expense was allocated as follows:

- Accommodation Services – Camps: $10.2 million.
- Oilfield Services – Drilling: $11.2 million.

The recoverable amount of the CGU's was determined based on a comparison of value-in-use calculations and market valuations. The value-in-use calculations use cash flow projections based on financial forecasts prepared by management covering a five-year period or, in some cases, the remaining useful life. Where appropriate, a terminal value calculation was used for cash flows beyond the five-year period.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 2: Profit / (Loss) from ordinary activities (continued)**
**Key assumptions used for value-in-use calculations**
The calculation of value-in-use for the CGUs is most sensitive to the following assumptions:

i) Daily hire rates
ii) Asset utilisation
iii) Discount rates
iv) Growth rates used to determine terminal values

The Company has determined the assumptions based on past performance and expectations for the future. In performing the value-in-use calculations, the Company has applied a pre-tax discount rate to discount the forecast future attributable pre-tax cash flows. Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates.

The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is derived from recent comparable market transactions and market analysis carried out by the company.

The pre-tax discount rate used is 19.4% (30 June 2014: 18.6%).

The perpetual growth rate used for the Accommodation Services – Camps CGU was 0.5%. The Directors have determined this growth rate does not exceed the long term average growth rates for the industry in which the CGU operates.

Value in use calculations were not used for the Oilfield Services – Drilling CGUs as management believe fair market values better reflect the future economic value of these assets.

**Impact of reasonably possible changes in key assumptions**
The implications of the key assumptions for the recoverable amount are discussed below:
**i) Daily hire rates**
The following changes in the daily hire rates would be required to result in further impairment for CGUs considered to be significant in comparison with the CGU's carrying amount of assets:

- Accommodation Services – Camps: a decrease of more than $5 per day.
- Oilfield Services – Drilling: a decrease of more than 10%.

**ii) Asset utilisation**
The following changes in asset utilisation rates would be required to result in impairment for CGUs considered to be significant in comparison with the CGU's carrying amount of assets:

- Accommodation Services – Camps: a reduction of more than 20%.
- Oilfield Services – Drilling: a reduction of 10%.

**iii) Discount rates**
The following changes in the pre-tax discount rate would be required to result in further impairment for CGUs considered to be significant in comparison with the CGU's carrying amount of assets:

- Accommodation Services – Camps: an increase of 1%.
- Oilfield Services – Drilling: an increase of 1%.

**iv) Growth rates**
The Company recognises that the volatility of the current economic climate and competitive pressures in the industry has an impact on growth rate assumptions. The following changes in the long-term growth rate would be required to result in impairment for CGUs considered to be significant in comparison with the CGU's carrying amount of assets:

- Accommodation Services – Camps: a reduction of 1%.
- Oilfield Services – Drilling: a reduction of 0.5%.

Goodwill is fully impaired, therefore a change in key assumptions will not result in further impairment.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 3: Discontinued Operations**

On 22 May 2015, the Group announced the divestment of its equipment, rental services subsidiary, Hofco Oil Field Services Pty Ltd. The subsidiary is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

**a) Financial performance and cash flow information**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Revenue | 7,223 | 9,688 |
| Expenses | (5,588) | (4,586) |
| **Profit / (loss) before income tax from discontinued operation** | **1,635** | **5,102** |
| Income tax expense | (477) | (1,532) |
| **Profit / (loss) after tax from discontinued operation** | **1,158** | **3,570** |
| Loss on sale of subsidiary | **(12,222)** | **-** |
| **Net Profit / (loss) from discontinued operation** | **(11,064)** | **3,570** |

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Net cash used in operating activities | 445 | 3,107 |
| Net cash from investing activities | (445) | (3,688) |
| **Net cash flow generated by the discontinued operation** | **-** | **(581)** |

**b) Details of the sale of the subsidiary**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Consideration received: | | |
| Cash | 12,510 | - |
| Transaction costs | (736) | - |
| Carrying amount of net assets sold | (23,996) | - |
| **Loss of sale before income tax expense** | **(12,222)** | - |
| Income tax expense | - | - |
| **Loss on sale after income tax expense** | **(12,222)** | **-** |

**c) Carrying amount of assets and liabilities at date of sale:**

| | 22 May 2015 $'000 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | - |
| Trade and other receivables | 1,050 |
| Inventories | 1,477 |
| Goodwill | 15,136 |
| Property, plant and equipment | 7,364 |
| Deferred tax assets | - |
| **Total Assets** | **25,027** |
| **Liabilities** | |
| Trade and other payables | (425) |
| Provisions (Employee benefits) | (130) |
| Deferred tax liabilities | - |
| GST Payable | (476) |
| **Total Liabilities** | **(1,031)** |
| **Net Assets** | **23,996** |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 4: Income Tax Expense**

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| **a) The components of tax expense comprise:** | | |
| *Current tax* | | |
| Current tax on profits for the year | - | 4,383 |
| Adjustments for current tax of prior periods | (244) | 18 |
| **Total current tax expense** | **(244)** | **4,401** |
| | | |
| *Deferred tax* | | |
| Decrease (increase) in deferred tax assets (note 13) | - | 561 |
| (Decrease) increase in deferred tax liabilities (note 13) | - | 334 |
| **Total deferred tax expense/(benefit)** | **-** | **895** |
| **Income tax expense** | **(244)** | **5,296** |
| | | |
| *Income tax expense is attributable to:* | | |
| Profit from continuing operations | (721) | 3,764 |
| Profit from discontinued operation | 477 | 1,532 |
| | **(244)** | **5,296** |

| | | |
|---|---|---|
| **b) The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:** | | |
| Profit from continuing operations before income tax expense | (40,215) | 12,405 |
| Profit from discontinuing operation before income tax expense | (11,541) | 5,102 |
| | **(51,756)** | **17,507** |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2014: 30%) | (15,377) | 5,252 |
| Add tax effect of: | | |
| • Other non-allowable items | 11 | 22 |
| • DTA arising from timing differences not brought to account | 6,839 | |
| • DTA arising from revenue losses not brought to account | 3,753 | |
| • Performance rights expensed during year | - | 278 |
| • Impairment expense | 1,583 | |
| • Loss on disposal of subsidiary | 3,191 | |
| • Under / (over) provision for income tax in prior year | (244) | 18 |
| | (244) | 5,570 |
| Less tax effect of: | | |
| • Deductible employee share scheme contributions | - | (274) |
| Income tax attributable to entity | **(244)** | 5,296 |
| The applicable weighted average effective tax rates are as follows | **(0.47%)** | 30.25% |

**Tax Consolidation**

(i) **Members of the Tax Consolidated Group and the Tax Sharing Arrangement**

Titan Energy Services Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 23 September 2011. Titan Energy Services Limited is the head entity of the tax consolidated group. Members of the Group have entered into a tax sharing agreement that provides for 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 on the basis that the possibility of default is remote.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 4: Income Tax Expense (continued)**

(ii) **Tax Effect Accounting by Members of the Tax Consolidated Group**

*Measurement method adopted under AASB interpretation 1052 tax consolidation accounting*

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the stand-alone taxpayer approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and used tax credits assumed from controlled entities in the tax consolidated group.

*Nature of the Tax Funding Agreement*

Members of the tax consolidated group have entered into a tax funding agreement. Under the funding agreement, the funding of tax within the Group is based on the stand-alone taxpayer approach. The tax funding agreement requires payment to / from the head entity to be recognised via an inter-entity receivable (payable) which is at call. To the extent that there is a difference between the amount charged under the tax funding agreement and the allocation under AASB Interpretation 1052, the head entity accounts for these as equity transactions with the subsidiaries.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

**Note 5: Operating Segments**

**(a) Description of Segments**

The Group has determined the operating segments based on the internal reports reviewed by the Board of Directors that are used to make strategic decisions.

The following segments have been identified by the Group:

**Drill Rigs**

Atlas Drilling Co Pty Ltd (Atlas) currently owns and operates four exploration and production rigs. During the financial year, only three rigs were contracted for the provision of drilling services, Rig 4 was not contracted. As at the date of this report, one rig is operating with a junior explorer and operator on a three well exploration program. Atlas's other rigs are currently being marketed to potential customers.

The rig packages are self contained and include drilling rigs, drill pipe, tanks, generators, offices and accommodation. Staff work on a roster basis. Meals and accommodation are provided whilst on roster.

**Camps**

Resources Camp Hire (RCH) is a portable camp hire business. The camps are self-contained units utilising shipping containers. The containers are designed for frequent transportation and are purpose built for remote applications. RCH was initially focused on CSG drilling clients. However, since acquisition by the Group, it has extended its customer base to include road, civil and construction industries.

Over the course of the year, RCH capacity reduced to 557 rooms in response to the changing market conditions (1,138 rooms at 30 June 2014). Contracts historically range from three to nine months, with a usual term of six months. There are presently no rooms on hire however tender responses have been issued for a total number of rooms in excess of the company's available capacity.

**Catering**

Nektar provides catering and camp management services to remote sites. The business is not currently servicing any clients.

**Logistics**

Base Logistics was launched by the Group in December 2013 to provide water and waste transportation services to camps. The business serviced temporary and permanent camps utilising potable water tankers and vacuum tankers for waste removal.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 5: Operating Segments (continued)**
**(b) Segment Information Provided to the Board of Directors**

*(i) Segment Performance*

| | Drill Rigs $'000 | Catering $'000 | Camps $'000 | Logistics $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2015** | | | | | |
| **Revenue** | | | | | |
| Revenue from external customers | 15,543 | 5,627 | 21,314 | 419 | 42,903 |
| Inter-segment revenue | - | 7,473 | 47 | 1,592 | 9,112 |
| **Total segment revenue** | **15,543** | **13,100** | **21,361** | **2,011** | **52,015** |
| **Segment result - EBIT** | **(15,047)** | **(400)** | **(18,616)** | **(680)** | **(34,743)** |
| Unallocated: | | | | | |
| Net gain on disposal of property, plant & equipment | | | | | 55 |
| Depreciation | | | | | (96) |
| Corporate expenses | | | | | (4,321) |
| **EBIT** | | | | | **(39,105)** |
| Interest revenue | | | | | 45 |
| Interest expense and borrowing costs | | | | | (1,155) |
| **Net profit/(loss) before tax from continuing operations** | | | | | **(40,215)** |
| Tax expense | | | | | 721 |
| **Net profit/(loss) after tax from continuing operations** | | | | | **(39,494)** |
| Net loss from discontinued operations (net of tax) | | | | | (11,064) |
| **Net profit/(loss) for the year** | | | | | **(50,558)** |

| | Drill Rigs $'000 | Catering[1] $'000 | Camps $'000 | Logistics $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year ended 30 June 2014** | | | | | |
| **Revenue** | | | | | |
| Revenue from external customers | 41,998 | 4,943 | 38,491 | 2,173 | 87,605 |
| Inter-segment revenue | 51 | 12,581 | 645 | 259 | 13,536 |
| **Total segment revenue** | **42,049** | **17,524** | **39,136** | **2,432** | **101,141** |
| **Segment result - EBIT** | **5,822** | **2,563** | **8,617** | **51** | **17,053** |
| Unallocated: | | | | | |
| Net gain/(loss) on disposal of property, plant & equipment | | | | | (7) |
| Depreciation | | | | | (66) |
| Corporate expenses | | | | | (3,518) |
| **EBIT** | | | | | **13,462** |
| Interest revenue | | | | | 83 |
| Interest expense and borrowing costs | | | | | (1,140) |
| **Net profit/(loss) before tax from continuing operations** | | | | | **12,405** |
| Tax expense | | | | | (3,764) |
| **Net profit/(loss) after tax from continuing operations** | | | | | **8,641** |
| Net profit/(loss) from discontinued operations (net of tax) | | | | | 3,570 |
| **Net profit/(loss) for the year** | | | | | **12,211** |

(1) Nektar Remote Hospitality provided services to third parties through Resources Camp Hire (RCH) and Atlas Drilling (Atlas). Where RCH and Atlas hold the third party contracts, catering revenue is included in these segments.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 5: Operating Segments (continued)**
**(b) Segment Information Provided to the Board of Directors (continued)**
*(ii) Segment Assets and Liabilities*

| | Drill Rigs $'000 | Catering $'000 | Camps $'000 | Logistics $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 30 June 2015** | | | | | |
| Segment assets | 12,188 | 188 | 6,625 | 135 | 19,136 |
| Unallocated assets | | | | | 1,606 |
| **Closing balance 30 June 2015** | | | | | **20,742** |
| Segment liabilities | 1,827 | 129 | 784 | 66 | 2,806 |
| Unallocated liabilities | | | | | 634 |
| **Closing balance 30 June 2015** | | | | | **3,440** |

| | Drill Rigs $'000 | Catering $'000 | Camps $'000 | Logistics $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 30 June 2014** | | | | | |
| Segment assets | 28,029 | 2,036 | 30,885 | 712 | 61,662 |
| Discontinued operations assets | | | | | 10,408 |
| Unallocated assets | | | | | 20,461 |
| **Closing balance 30 June 2014** | | | | | **92,531** |
| Segment liabilities | 3,677 | 1,857 | 5,524 | 340 | 11,398 |
| Discontinued operations liabilities | | | | | 1,084 |
| Unallocated liabilities | | | | | 14,440 |
| **Closing balance 30 June 2014** | | | | | **26,922** |

*(iii) Other Segment Information*

| | Drill Rigs $'000 | Catering $'000 | Camps $'000 | Logistics $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 30 June 2015** | | | | | |
| Acquisitions of property, plant and equipment, intangibles, and other non-current segment assets | 488 | 2 | 154 | 119 | 763 |
| Unallocated assets | | | | | 155 |
| | | | | | **918** |
| Depreciation and amortisation expense | 1,278 | 107 | 946 | 132 | 2,463 |
| Unallocated depreciation | | | | | 96 |
| | | | | | **2,559** |

| | Drill Rigs $'000 | Catering $'000 | Camps $'000 | Logistics $'000 | Total $'000 |
|---|---|---|---|---|---|
| **As at 30 June 2014** | | | | | |
| Acquisitions of property, plant and equipment, intangibles, and other non-current segment assets | 8,720 | 346 | 3,172 | 229 | 12,467 |
| Unallocated assets | | | | | 169 |
| | | | | | **12,636** |
| Depreciation and amortisation expense | 2,967 | 86 | 1,532 | 83 | 4,668 |
| Unallocated depreciation | | | | | 66 |
| | | | | | **4,734** |

*(iv) Geographical Information*
The Group operates in one geographical segment, being Australia.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 6: Cash and Cash Equivalents**

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Cash at bank and on hand [1] | 1,141 | 4,258 |
| **Total cash and cash equivalents** | **1,141** | **4,258** |

(1) On 30 June 2014, the Group transferred cash of $914,000 to the Titan Equity Plan Trust (the Trust). The Trust was established by the Group during the 2014 financial year to facilitate the provision of shares under the Company's equity based compensation plans. As at 30 June 2015, the balance of cash above included cash held by the Trust of $85,534. This cash is only available for the Group to satisfy its obligations under the plans.

**Reconciliation of Cash**

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Cash and cash equivalents | 1,141 | 4,258 |
| | **1,141** | **4,258** |

**Risk Exposure**

The Group's exposure to interest rate risk is discussed in Note 27. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

**Note 7: Trade and Other Receivables**

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Trade receivables | 493 | 11,422 |
| Provision for doubtful debts | (161) | (30) |
| Other receivables | 28 | 882 |
| Accrued revenue | 5 | 3,076 |
| Deposits paid | 272 | 81 |
| GST receivable | 119 | - |
| Prepayments | 245 | 647 |
| **Total trade and other receivables** | **1,001** | **16,078** |

**Provision for doubtful debts**

The movement in the allowance for impairment of trade receivables recognised in provision for doubtful debts during the year was as follows:

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Opening balance | (30) | - |
| Impairment loss recognised | 161 | (30) |
| Amounts written off | 30 | - |
| **Closing balance** | **(161)** | **(30)** |

Other classes within trade and other receivables do not contain impaired assets. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 7: Trade and Other Receivables (continued)**
**Credit Risk**

The Group currently has one significant contract with a junior explorer. The exposure to the contractor has been assessed with the residual risk not considered significant as the counter party is considered to be of high credit quality and the terms of business are covered by appropriate contracts.

The following table details the Group's trade receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled within 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 the solvency of the debtors and are provided for where there are circumstances indicate that the debt may not be fully repaid.

The balance of receivables that are within trade terms (as detailed below) are considered to be of high credit quality.

| | Gross Amount | Past Due And Impaired | Within Initial Trade Terms < 30 days | Within Initial Trade Terms < 45 days | Past Due but Not Impaired (Days Overdue) 31 - 60 | >61days |
|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **2015** | | | | | | |
| Trade and term receivables | 493 | 228 | 255 | - | 3 | 7 |
| **Total** | **493** | **228** | **255** | **-** | **3** | **7** |
| **2014** | | | | | | |
| Trade and term receivables | 11,422 | - | 8,707 | - | 1,915 | 800 |
| **Total** | **11,422** | **-** | **8,707** | **-** | **1,915** | **800** |

**Note 8: Inventories**

| | Consolidated Group 2015 $'000 | 2014 $'000 |
|---|---|---|
| Spare parts and stores | 1,828 | 3,169 |
| Provision for obsolescence | (318) | (100) |
| Provision for impairment (refer Note 2) | (726) | - |
| **Total inventories** | **784** | **3,069** |

**Note 9: Property, Plant and Equipment**

| | Consolidated Group 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Drill Rigs** | | |
| At cost | 28,495 | 28,441 |
| Accumulated depreciation | (8,884) | (8,192) |
| Accumulated impairment | (10,092) | - |
| | 9,519 | 20,249 |
| **Camps** | | |
| At cost | 22,918 | 23,261 |
| Accumulated depreciation | (5,992) | (5,324) |
| Accumulated impairment | (10,330) | - |
| | 6,596 | 17,937 |
| **Motor Vehicles** | | |
| At cost | 3,542 | 3,649 |
| Accumulated depreciation | (2,018) | (1,859) |
| Accumulated impairment | (423) | - |
| | 1,101 | 1,790 |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 9: Plant and Equipment (continued)**

| | Consolidated Group | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| **Plant and Equipment** | | |
| At cost | 2,432 | 9,686 |
| Accumulated depreciation | (1,377) | (1,394) |
| Accumulated impairment | (455) | - |
| | 600 | 8,292 |
| **Total property, plant and equipment** | **17,816** | **48,268** |

**Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

| | Drill Rigs $'000 | Camps $'000 | Motor Vehicles $'000 | Plant and Equipment $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2013 | 15,187 | 16,736 | 1,040 | 6,662 | 39,625 |
| Additions | 7,943 | 2,765 | 796 | 2,745 | 14,249 |
| Reclassification | (481) | - | 378 | (265) | (368) |
| Disposals – written-down value | - | (25) | - | (172) | (197) |
| Depreciation expense | (2,400) | (1,539) | (424) | (678) | (5,041) |
| **Carrying amount at 30 June 2014** | **20,249** | **17,937** | **1,790** | **8,292** | **48,268** |
| Additions | 289 | 134 | 225 | 270 | 918 |
| Reclassification [1] | (72) | 7 | - | (7) | (72) |
| Disposal of subsidiary | - | - | (37) | (6,977) | (7,014) |
| Disposals – written-down value | - | (287) | (37) | (101) | (425) |
| Depreciation expense | (855) | (865) | (417) | (422) | (2,559) |
| Impairment losses accumulated (refer Note 2) | (10,092) | (10,330) | (423) | (455) | (21,300) |
| Carrying amount at 30 June 2015 | 9,519 | 6,596 | 1,101 | 600 | 17,816 |

(1) Plant and equipment transferred to the discontinued operation.

**Note 10: Intangible Assets**

| | Consolidated Group | |
|---|---|---|
| **Goodwill** | 2015 $'000 | 2014 $'000 |
| Cost | 5,276 | 20,412 |
| Accumulated impairment losses | (5,276) | - |
| **Net carrying amount** | **-** | **20,412** |
| Balance at the beginning of the year | 20,412 | 20,412 |
| Disposal of subsidiary (refer Note 3) | (15,136) | - |
| Accumulated impairment losses (refer Note 2) | (5,276) | - |
| **Balance at the end of the year** | **-** | **20,412** |

Goodwill is allocated to cash-generating units which are based on the Group's reporting segments.

The total balance of goodwill was written down during the year as a result of the impairment of the Camps segment and the disposal of the Equipment Hire segment.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 10: Intangible Assets (continued)**

| | Consolidated Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Camps | - | 5,276 |
| Equipment hire | - | 15,136 |
| **Total** | **-** | **20,412** |

**Note 11: Trade and Other Payables**

| | Consolidated Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Trade payables | 1,260 | 7,020 |
| Other creditors | 1,420 | 2,600 |
| GST payable | - | 450 |
| **Total trade and other payables** | **2,680** | **10,070** |

**Note 12: Borrowings**

| | Consolidated Group | |
|---|---|---|
| | 2015 | 2014 |
| **Current** | $'000 | $'000 |
| Bank loan – secured | - | 4,370 |
| Borrowing costs | - | (66) |
| Total current borrowings | - | 4,304 |
| | | |
| **Non-current** | | |
| Bank loan – secured | - | 8,765 |
| Borrowing costs | - | (154) |
| Total non-current borrowings | - | 8,611 |
| **Total borrowings** | **-** | **12,915** |

The facilities between the Company and GE Commercial Corporation (Australia) Pty Ltd (GE) were fully repaid during the year.

During the year the agreement with the Commonwealth Bank of Australia for the provision of a $3,000,000 Asset Finance Facility was terminated.

**Note 13: Tax**

| | Consolidated Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| **Current** | | |
| Income tax payable | - | 797 |
| Total current income tax payable | - | 797 |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 13: Tax**
**Non-current**

| | Opening Balance $'000 | Under / (Over) Provision | Additions through Business Combinations $'000 | Charged to Income $'000 | Charged Directly to Equity $'000 | DTA Not Brought to Account $'000 | Closing Balance $'000 |
|---|---|---|---|---|---|---|---|
| **Consolidated Group** | | | | | | | |
| **Deferred tax liability** | | | | | | | |
| Property plant and equipment: | | | | | | | |
| • Tax allowances | 20 | 5 | - | 561 | - | - | 586 |
| **Balance at 30 June 2014** | **20** | **5** | **-** | **561** | **-** | **-** | **586** |
| Property plant and equipment: | | | | | | | |
| • Tax allowances | 586 | - | - | (586) | - | - | - |
| **Balance at 30 June 2015** | **586** | **-** | **-** | **(586)** | **-** | **-** | **-** |
| **Deferred tax assets** | | | | | | | |
| Provisions | 941 | (126) | - | (173) | - | - | 642 |
| Transaction costs on equity issue | 520 | - | - | (151) | - | - | 369 |
| Other | 31 | - | - | (10) | - | - | 21 |
| **Balance at 30 June 2014** | **1,492** | **(126)** | **-** | **(334)** | **-** | **-** | **1,032** |

| | Opening Balance $'000 | Under / (Over) Provision | Additions through Business Combinations $'000 | Charged to Income $'000 | Charged Directly to Equity $'000 | DTA Not Brought to Account $'000 | Closing Balance $'000 |
|---|---|---|---|---|---|---|---|
| Provisions | 642 | - | - | 131 | - | (773) | - |
| Property plant and equipment: | | | | | | | |
| • Tax allowances | - | - | - | 6,344 | - | (6,344) | - |
| Transaction costs on equity issue | 369 | - | - | (185) | 121 | (305) | - |
| Other | 21 | - | - | (21) | | - | - |
| **Balance at 30 June 2015** | **1,032** | **-** | **-** | **6,269** | **121** | **(7,422)** | **-** |

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| **Set-off of Tax** | | |
| Deferred tax asset | - | 1,032 |
| Deferred tax liability | - | (586) |
| **Net tax asset** | **-** | **446** |

**Note 14: Provisions**

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| Provision for employee entitlements - Current | 128 | 802 |
| Other provisions - Current | 200 | - |
| Provision for employee entitlements - Non-current | 37 | 216 |
| **Total provisions** | **365** | **1,018** |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 15: Other Current Liabilities**

| | Consolidated Group | |
|---|---|---|
| | 2015 | 2014 |
| | $'000 | $'000 |
| Unearned revenue | 395 | 2,122 |
| **Total other current liabilities** | **395** | **2,122** |

**Note 16: Issued Capital**

| | 2015 Shares | 2014 Shares | 2015 $'000 | 2014 $'000 |
|---|---|---|---|---|
| **a) Issued Capital** | | | | |
| Ordinary shares – fully paid | 80,606,283 | 50,585,915 | 50,479 | 45,761 |
| **Total issued capital** | **80,606,283** | **50,585,915** | **50,479** | **45,761** |

**Ordinary Shares**

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Ordinary shares have no par value, and the Company does not have a limited amount of authorised share capital.

**b) Movements in Ordinary Share Capital during the Year**

| Date | Details | Note | # | Issue Price | $'000 |
|---|---|---|---|---|---|
| 01 Jul 2014 | Opening balance | | 50,585,915 | | 45,761 |
| 12 Aug 2014 | Performance rights | (i) | 23,250 | $1.63 | 38 |
| 12 Aug 2014 | Performance rights | (i) | 343,500 | $2.08 | 714 |
| 16 Sep 2014 | Dividend reinvestment plan | (ii) | 198,036 | $1.84 | 365 |
| 12 Jan 2015 | Ausdrill Placement | (iii) | 5,500,000 | $0.18 | 990 |
| 21 Jan 2015 | Institutional Entitlement Offer | (iv) | 5,445,683 | $0.15 | 817 |
| 4 Feb 2015 | Retail Entitlement Offer | (v) | 16,287,677 | $0.15 | 2,443 |
| 26 May 2015 | Ironstone Capital Placement | (vi) | 2,222,222 | $0.09 | 200 |
| | | | | | 51,328 |
| Transaction costs arising on share issue | | | | | (849) |
| | | (vii) | **80,606,283** | | **50,479** |

i) During the half year ended 31 December 2014, 366,750 ordinary shares were issued in accordance with the Company's Performance Rights Plan.

ii) On 16 September 2014, 198,036 ordinary shares were issued under the Company's Dividend Reinvestment Plan at $1.84 per share. The shares were issued in settlement of the 4.0c final dividend for the year ended 30 June 2014 in relation to 9,113,388 securities.

iii) On 12 January 2015, 5,500,000 ordinary shares were issued at $0.18 per share as a placement the purpose of which was to fund the Company's working capital requirements and settle the Hofco retention payment.

iv) On 21 January 2015, 5,445,683 ordinary shares were issued at $0.15 per share under the Institutional Entitlement Offer, the purpose of which was to fund the Company's working capital requirements and settle the Hofco retention payment.

v) On 4 February 2015, 16,287,677 ordinary shares were issued at $0.15 per share under the Retail Entitlement Offer, the purpose of which was to fund the Company's working capital requirements and settle the Hofco retention payment.

vi) On 26 May 2015, 2,222,222 ordinary shares were issued at $0.09 per share as a placement to settle advisory fees in connection with the successful divestment of Hofco Oilfield Services Pty Ltd.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 16: Issued Capital (continued)**

**b) Movements in Ordinary Share Capital during the Year (continued)**

vii) On 12 August 2014, Titan Equity Plan Trust, subscribed for 42,000 shares (Treasury Shares) in the Company over and above those shares required to settle the Company's obligation under the terms of the Performance Rights Plan and the Employee Share and Option Plan. At 30 June 2015, the Treasury Shares were still held by the Titan Equity Plan Trust and are not included in the total number of shares on issue disclosed above.

**c) Options**

For information relating to share options issued to key management personnel, refer to Note 26.

**d) Capital Management**

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities, supported by its assets.

Management effectively manages the Group's capital by assessing the Group's financial risks 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 capital management strategy adopted by management to control the capital of the Group continues to be monitored and reviewed as business trading conditions change.

Titan Energy Services Limited has complied with the financial covenants of its borrowing facilities during the 2015 reporting period up to the point when the facilities were repaid in full.

**Note 17: Reserves**

| | Consolidated Group | |
|---|---|---|
| | **2015 $'000** | **2014 $'000** |
| **Share Based Payments Reserve** | | |
| Balance at 1 July | 856 | 849 |
| Option expense | 105 | - |
| Options lapsed | (131) | - |
| Retention payment expense | 75 | - |
| Performance rights expense | 216 | 927 |
| Performance rights granted | (752) | (920) |
| Performance rights lapsed | (73) | - |
| Balance at 30 June | 296 | 856 |

The share based payments reserve is used to recognise:

- The grant date fair value of options issued to employees but not exercised.
- The grant date fair value of performance rights attaching to shares not yet issued.

**Note 18: Dividends**

| | Consolidated Group | |
|---|---|---|
| **a) Ordinary shares** | **2015 $'000** | **2014 $'000** |
| Fully franked final dividend for the year ended 30 June 2013 – 3.5 cents per share | - | 1,683 |
| Fully franked interim dividend for the year ended 30 June 2014 – 3.5 cents per share | - | 1,710 |
| Fully franked final dividend for the year ended 30 June 2014 – 4.0 cents per share | 2,038 | - |
| | 2,038 | 3,393 |
| Paid in cash | 1,673 | 2,880 |
| Satisfied under the Dividend Reinvestment Plan | 365 | 513 |
| **Total Dividends** | **2,038** | **3,393** |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 18: Dividends (continued)**

**b) Franked dividends**

| | Parent entity | |
|---|---|---|
| | **2015 $'000** | **2014 $'000** |
| Franking credits available for subsequent reporting periods based on a tax rate of 30% (2014 – 30%) | 13,495 | 13,316 |

The above amount represents the balance of the franking account as at the end of the reporting period. It has not been adjusted for any decrease in franking credits that may arise from the amended tax returns lodged by the Group subsequent to year end.

**Note 19: Earnings Per Share**

| | **2015 Cents** | **2014 Cents** |
|---|---|---|
| **a) Basic Earnings / Loss Per Share** [1] | | |
| From continuing operations attributable to the ordinary equity holders of the Company | (63.41) | 17.32 |
| From discontinued operations attributable to the ordinary equity holders of the Company | (17.76) | 7.15 |
| **Total basic earnings / loss per share attributable to the ordinary equity holders of the Company** | **(81.17)** | **24.47** |
| | | |
| **b) Diluted Earnings / Loss Per Share** [1] | | |
| From continuing operations attributable to the ordinary equity holders of the Company | (63.41) | 17.04 |
| From discontinued operations attributable to the ordinary equity holders of the Company | (17.76) | 7.04 |
| **Total diluted earnings / loss per share attributable to the ordinary equity holders of the Company** | **(81.17)** | **24.08** |

*(1) EPS previously reported at 30 June 2014 has been retrospectively adjusted to reflect the impact of the shares issued during the current year that, if in existence at 30 June 2014, would have impacted the EPS calculation, per the requirements of AASB133 (FP) Earnings Per Share.*

**c) Reconciliation of Earnings Used in Calculating Earnings Per Share**

| | **2015 $'000** | **2014 $'000** |
|---|---|---|
| **Basic Earnings per Share** | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share: | | |
| From continuing operations | (39,494) | 8,641 |
| From discontinued operations | (11,064) | 3,570 |
| | **(50,558)** | **12,211** |
| | | |
| **Diluted Earnings per Share** | | |
| Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share: | | |
| From continuing operations | (39,494) | 8,641 |
| From discontinued operations | (11,064) | 3,570 |
| | **(50,558)** | **12,211** |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 19: Earnings Per Share (continued)**

**d) Weighted Average Number of Shares Used as the Denominator**

| | Number of Shares | Number of Shares |
|---|---|---|
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **62,285,573** | 49,899,885 |
| Adjustments for calculation of diluted earnings per share: | | |
| • Options | - | 476,194 |
| • Performance rights | - | 329,022 |
| Weighted average number of ordinary shares and potential ordinary share used as the denominator in calculating diluted earnings per share | 62,285,573 | 50,705,101 |

**Note 20: Related Party Transactions**

**a) Related Parties**

The Group's main related parties are as follows:

*(i) Key Management Personnel*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 22.

*(ii) Other Related Parties*

Other related parties include entities over which key management personnel have joint control.

**b) Transactions with Related Parties**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The Company entered into an agreement with Ironstone Capital Pty Ltd, an entity associated with Mr Simon Keyser, a former Director of the Company, for the provision of corporate advisory services in relation to projects undertaken by the Company. The Company paid Ironstone Capital Pty Ltd $602,401 during the year in relation to these services.

The Company paid $108,426 to Bizzell Capital Partners in respect of its advisory and underwriting services provided in connection with the equity capital raising undertaken on 9 January 2015.

**Note 21: Interests in Subsidiaries**

**Information about Principal Subsidiaries**

The subsidiaries listed below have share capital consisting solely of ordinary shares or, in the case of the Titan Equity Plan Trust, ordinary units, which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

| Name of Subsidiary | Principal Place of Business | Ownership Interest Held by the Group | |
|---|---|---|---|
| | | 30 June 2015 | 30 June 2014 |
| Atlas Drilling Co Pty Ltd | Australia | 100% | 100% |
| Atlas Drilling Services Pty Ltd | Australia | 100% | 100% |
| Titan Plant Logistics Pty Ltd | Australia | 100% | 100% |
| Titan Resources Camp Hire Pty Ltd | Australia | 100% | 100% |
| Nektar Remote Hospitality Pty Ltd | Australia | 100% | 100% |
| Base Hospitality Pty Ltd | Australia | 100% | 100% |
| Base Transport and Logistics Pty Ltd | Australia | 100% | 0% |
| Titan Energy Services Holdings Pty Ltd (previously Hofco Services Pty Ltd) | Australia | 100% | 100% |
| Hofco Oil Field Services Pty Ltd (divested 22 May 2015) | Australia | 0% | 100% |
| Titan Equity Plan Trust | Australia | 100% | 100% |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 21: Interests in Subsidiaries (continued)**
**Information about Principal Subsidiaries (continued)**

Subsidiary financial statements used in the preparation of these consolidated financial statements have also been prepared as at the same reporting date as the Group's financial statements.

**Note 22: Key Management Personnel Compensation**

Refer to the Remuneration Report contained in the Directors' Report on page 18 for details of the remuneration paid or payable to each member of the Group's key management personnel (KMP) for the year ended 30 June 2015.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Short-term employee benefits | 1,467 | 1,734 |
| Post-employment benefits | 92 | 120 |
| Termination benefits | 114 | - |
| Share-based payments | 75 | 95 |
| **Total KMP compensation** | **1,748** | **1,949** |

**Note 23: Auditor's Remuneration**

| | Consolidated Group | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| Remuneration of the auditor for: | | |
| • Auditing or reviewing the financial statements | 131,190 | 122,500 |
| • Taxation services provided by related practice of auditor | 42,166 | 42,400 |

**Note 24: Capital and Leasing Commitments**

| | Consolidated Group | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| **a) Operating Lease Commitments** | | |
| Payable – minimum lease payments: | | |
| • Within one year | 3,940 | 7,865 |
| • Later than one year but not later than five years | 4,751 | 15,295 |
| • Later than five years | - | 249 |
| | **8,691** | **23,409** |

Of the operating lease commitments at 30 June 2015 above, $5.9 million is subject to the the Royal Wolf Holdings Ltd security arrangements. Prior period commitments were not subject to these arrangements.

The Group has entered into an agreement with the lessor of the Group's former corporate office at 1/170 Montague Road, South Brisbane, and a sub-lessee to sub-lease the premises at Montague Road for the remaining term of the lease. The head lease between the Group and lessor will expire on 14 January 2016.

The sub-leasing agreement will reduce the Group's operating lease commitments by $44,200 within one year. The reduction in operating lease commitments as a result of the sub-leasing agreement is not reflected in the minimum lease payment disclosed above. Any shortfall between the rent payable under the head lease and the rent receivable under the sub-lease remains a commitment of the Group.

**b) Capital Expenditure Commitments**

In July 2015, the Group entered into an arrangement with Centrepoint Alliance Premium Funding to provide insurance premium funding covering the renewal of Group insurance policies for the insurance year ended 17 July 2016. Post 30 June 2015, the Group has committed to make $436,543 (2014: $476,710) in payments under this arrangement.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 25: Cash Flow Information**

| | Consolidated Group | |
|---|---|---|
| | **2015** | **2014** |
| | **$'000** | **$'000** |
| **a) Reconciliation of Cash Flow from Operations with Profit after Income Tax** | | |
| Profit after income tax | (39,494) | 8,641 |
| Non-cash flows in profit: | | |
| • Depreciation | 2,559 | 4,734 |
| • Impairment expense | 27,394 | - |
| • Amortisation of borrowing costs | 223 | 62 |
| • Net gain on disposal of property, plant and equipment | (55) | 7 |
| • Share based payments | 416 | 927 |
| • Issue of options | 105 | - |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | |
| • Change in trade and term receivables | 12,878 | (799) |
| • Change in prepayments | 402 | (788) |
| • Change in inventory | (65) | 2,356 |
| • Change in trade payables and other creditors | (8,259) | (603) |
| • Change in tax assets | 475 | (2,550) |
| • Change in income taxes payable | (796) | 1,603 |
| • Change in deferred tax balances | - | 317 |
| • Change in provisions | (409) | (53) |
| Cash flow from continuing operations | (4,626) | 13,854 |
| Cash flow from discontinued operations | 445 | 3,107 |
| **Cash flow from operating activities** | **(4,181)** | **16,961** |

| | | |
|---|---|---|
| **b) Loan Facilities** | | |
| Loan facilities | - | 37,745 |
| Amount utilised | - | (13,135) |
| Amounts unavailable to be re-drawn | - | (3,793) |
| Total available loan facility | - | 20,817 |

Facilities entered into between the Company and GE Commercial Corporation (Australia) Pty Ltd were fully repaid during the year, therefore no available facilities exist at the date of this report.

**Note 26: Share-based Payments**

**a) Non-Executive Directors**

The Non-Executive Directors of Titan Energy Services Limited during the financial year are as follows:
Shaun Scott, Stephen Bizzell, Mark Snape and Simon Keyser (resigned 3/09/2014).

**Notes to the financial statements for the year ended 30 June 2015**
**Note 26: Share-based Payments (continued)**
**Options**

In a prior financial year the Non-Executive Directors were issued with options with the following key conditions attached:

(i) The options were issued for nil consideration.
(ii) The commencement date for the exercise of the options is 7 December 2012.
(iii) Unexercised options will expire on the earlier of:
- Three years after the commencement date;
- The business day after the expiration of three months after the option holder ceases to be a Director of Titan Energy Services Limited or such other period as determined by the Board of Directors; or
- The date on which the option holder ceases to be a Director of Titan Energy Services Limited due to fraud or dishonesty.

(iv) The exercise price is $1.11. The exercise price for the options was reduced following a rights issue as per the Employee Share and Option Plan rules.
(v) Option holders do not have the right to participate in new issues of securities or dividends.

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding at June 2014 | 561,152 | 1.11 |
| Exercised during the year | - | 1.11 |
| Options outstanding at June 2015 | 561,152 | 1.11 |

The options hold no voting or dividend rights and have not been listed.

The options were fully vested in a prior financial year and, as a result, no amount was included under employee benefits expense in the statement of comprehensive income in relation to the options for the year ended 30 June 2015 (2014: $Nil). The values ascribed to the options were calculated using the Black-Scholes option pricing model applying the following inputs.

| | |
|---|---|
| Expected share price volatility: | 44.9% |
| Risk-free interest rate: | 3.89% |
| Dividend yield | 6.0% |

Further details of these options are provided in the Directors' Report.

**b) Other KMP**

In addition to the Non-Executive Directors, the following persons had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

| Name | Position | Entity |
|---|---|---|
| James Sturgess | Managing Director (resigned 24/12/2014) | Titan Energy Services Limited |
| Jim Diakogiannis | Executive Director (resigned 24/10/2014) | Titan Energy Services Limited |
| David Thornton | CFO / GM (resigned 31/12/2014) | Titan Energy Services Limited |
| Gus van der Heide | COO (resigned 31/10/2014) | Titan Energy Services Limited |
| Christine Hayward | CEO / Company Secretary | Titan Energy Services Limited |
| Rowan Greene | CFO | Titan Energy Services Limited |

**Retention Bonus**

During the period the Board agreed a one-off retention bonus for Christine Hayward, the retention conditions were met as at 30 June 2015. The retention payment was payable on 2 July 2015 by way of cash or in Titan Shares (5 day VWAP to 30 June 2015). Titan issued 1,146,789 securities to Christine Hayward on 20 July 2015.

**Notes to the financial statements for the year ended 30 June 2015**

**Note 26: Share-based Payments (continued)**

KMP were issued with a series of performance rights as part of the Group's long term incentive arrangements. The performance rights vest based on the following:

- The Group achieving a minimum EBIT growth; and
- KMP remaining employed up to the release of FY15 audited results.

The performance rights hold no voting or dividend rights and have not been listed. The performance rights lapse when a member of the KMP ceases their employment with the Group. No targets were met during the period and accordingly all of the performance rights on issue have lapsed.

Further details of the performance rights are provided in the Directors' Report.

Included under employee benefits expense in the statement of comprehensive income is $416,952 which relates to equity-settled share-based payment transactions (2014:$95,579).

**c) Other Staff**

On 13 August 2014 the Company issued 437,000 performance rights to other staff of the Company under the Performance Rights Plan as a long term incentive to staff. These performance rights vest when the Audited Financial Statements for the year ended 30 June 2015 are completed (Completion Date) provided the employees to whom they were issued have remained in the continuous employment of the Group up until the Completion Date. The Board has determined that performance targets have not been met therefore these performance rights have lapsed.

On 16 August 2013, three other staff of the Company were each issued 75,000 performance rights which are split as follows:

(i) 37,500 performance rights divided into three (3) equal tranches of 12,500 performance rights each for the first three years of employment vesting when business unit or Group profit targets are met.

The tranches issued to other staff in respect of the 30 June 2015 financial year have lapsed as the Board has determined that performance targets have not been met.

(ii) 37,500 performance rights divided into three (3) equal tranches of 12,500 performance rights based on the ten day VWAP exceeding:

a. $2.40
b. $2.80
c. $3.20

All three share price performance targets were met during the previous financial year.

**d) Other Share Based Payments**

The Company entered into an agreement with Ironstone Capital Pty Ltd, an entity associated with Mr Simon Keyser, a former Director of the Company, for the provision of corporate advisory services in relation to projects undertaken by the Company. The Company paid Ironstone Capital Pty Ltd $602,401 during the year in relation to these services of which $200,000 was settled by the issue of ordinary shares.

**Note 27: Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

| | | Consolidated Group | |
|---|---|---|---|
| | Note | 2015 $'000 | 2014 $'000 |
| **Financial Assets** | | | |
| Cash and cash equivalents | 6 | 1,141 | 4,258 |
| Trade and other receivables [1] | 7 | 756 | 15,431 |
| Total financial assets | | 1,897 | 19,689 |

**Notes to the financial statements for the year ended 30 June 2015**
**Note 27: Financial Risk Management (continued)**

| | | Consolidated Group | |
|---|---|---|---|
| | Note | 2015 $'000 | 2014 $'000 |
| **Financial Liabilities** | | | |
| Trade and other payables | 11 | 2,680 | 10,070 |
| Borrowings | 12 | - | 12,915 |
| Total financial liabilities | | 2,680 | 22,985 |

(1) Excludes prepayments.

**Financial Risk Management Policies**
The overall setting and management of the Group's financial risk policies is the responsibility of the Board of Directors and has been delegated to the Audit Committee. The Audit Committee has been delegated responsibility by the Board of Directors for, among other matters, managing financial risk exposures of the Group. The Audit Committee monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to counterparty credit risk, currency risk, liquidity risk and interest rate risk. The Audit Committee meets regularly and minutes of the Audit Committee are reviewed by the Board.

The Audit Committee's overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging, derivative instruments, credit risk policies and future cash flow requirements.

**Specific Financial Risk Exposures and Management**
The main risks the Group is exposed to through its financial instruments are credit, liquidity and interest rate risk.

There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and procedures for managing or measuring the risks from the previous period.

**1. Credit Risk**
Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 14 to 30 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the Audit Committee has otherwise assessed as being financially sound.

*Credit risk exposures*
The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period excluding the value of any collateral or other security held is equivalent to the carrying amount and classification of those financial assets (net of any provisions) as presented in the statement of financial position. Credit risk also arises through the provision of financial guarantees, as approved at board level, given to parties securing the liabilities of certain subsidiaries (refer to Note 29 for details).

The Group currently has one significant contract with a junior explorer. On a geographical basis, the Group has significant credit risk exposures to Australia given the substantial operations in this region. Details with respect to credit risk of trade and other receivables are provided in Note 7.

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 7.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 27: Financial Risk Management (continued)**
**Credit Risk (continued)**

Credit risk related to balances with banks and other financial institutions is managed by the Audit Committee in accordance with approved board policy. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard & Poor's counterparty credit ratings.

| | | Consolidated Group | |
|---|---|---|---|
| | | 2015 | 2014 |
| | Note | $'000 | $'000 |
| Cash and cash equivalents: | | | |
| • AA- rated | | 1,141 | 4,258 |
| Total cash and cash equivalents | 6 | 1,141 | 4,258 |

**2. Liquidity Risk**

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- Preparing forward-looking cash flow analyses in relation to its operational, investing and financing activities;
- Monitoring undrawn credit facilities;
- Obtaining funding from a variety of sources;
- Maintaining a reputable credit profile;
- Managing credit risk related to financial assets;
- Only investing surplus cash with major financial institutions; and
- Comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities. Financial guarantee liabilities are treated as payable on demand since the Group has no control over the timing of any potential settlement of the liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

**Financial Liability Maturity Analysis**

| | | Within 1 Year | | 1 to 5 Years | | Total | |
|---|---|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| **Consolidated Group** | **Note** | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial liabilities due for payment** | | | | | | | |
| Bank overdrafts and loans | 12 | - | 4,304 | - | 8,611 | - | 12,915 |
| Trade and other payables | 11 | 2,680 | 10,070 | - | - | 2,680 | 10,070 |
| Total contractual outflows | | 2,680 | 14,374 | - | 8,611 | 2,680 | 22,985 |
| Total expected outflows | | 2,680 | 14,374 | - | 8,611 | 2,680 | 22,985 |

**3. 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 financial instruments which primarily expose the Group to interest rate risk are cash and cash equivalents. Interest rate risk is managed using appropriate fixed interest and other hedging arrangements as determined by the Board.

**Sensitivity Analysis**

At 30 June 2015, the Group had no borrowings and therefore interest rate risk is negligible and sensitivity analysis has not been performed.

**Notes to the financial statements for the year ended 30 June 2015**
**Note 28: Parent Information**

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards | | |
| **STATEMENT OF FINANCIAL POSITION** | | |
| **Assets** | | |
| Current assets | 28,971 | 3,660 |
| Non-current assets | 9,534 | 61,923 |
| **Total assets** | **38,505** | **65,583** |
| **Liabilities** | | |
| Current liabilities | 970 | 5,886 |
| Non-current liabilities | 1 | 8,773 |
| **Total liabilities** | **971** | **14,659** |
| **Equity** | | |
| Issued capital | 50,564 | 45,761 |
| Option reserve | 128 | (107) |
| Retained earnings / (Accumulated losses) | (13,158) | 5,269 |
| **Total equity** | **37,534** | **50,923** |
| **STATEMENT OF COMPREHENSIVE INCOME** | | |
| Total profit (loss) | (17,671) | (984) |
| **Total comprehensive income** | **(17,671)** | **(984)** |

**Guarantees**
Titan Energy Services Limited has entered into guarantees in relation to the debts of its subsidiaries. Refer Note 29 for further details.

**Contractual Commitments**
No contractual commitments exist at 30 June 2015.

**Contingent Liabilities**
Refer to Note 29 below for details of contingent liabilities that exist at 30 June 2015.

**Note 29: Contingent Liabilities**
The Group had contingent liabilities at 30 June 2015 in respect of:

*Guarantees*
The Group has entered into guarantees in respect of certain commercial property lease arrangements, the guarantees are provided by GE Commercial Corporation (Australia) Pty Ltd and are secured in full by cash at call provided by the Company.

*Royal Wolf*
Titan Energy Services Ltd, Atlas Drilling Co Pty Ltd, Titan Plant Logistics Pty Ltd and Titan Resources Camp Hire Pty Ltd (together Guarantors) jointly and severally unconditionally guarantee payment of debt owed to Royal Wolf Trading Australia Ltd (RWT). The Guarantors jointly and severally indemnify RWT against any loss in relation to the non payment or recovery of debt owing.

During the year the Group entered into new security arrangements with RWT. Obligations under these arrangements are secured by a fully perfected first priority fixed and floating charge over all existing and after acquired assets of the Group and all proceeds thereof (including any insurance or other proceeds).

**Notes to the financial statements for the year ended 30 June 2015**

**Note 29: Contingent Liabilities (continued)**

*Deed of Cross Guarantee*

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries of the Company are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

*Legal Claim*

During the year the Company received legal proceedings against its subsidiary, Titan Plant Logistics Pty Ltd ("TPL"), claiming payments and damages totalling $603,329.43 under the terms of a lease termination agreement. TPL has denied liability and will vigorously defend the claims. The Company believes the claims have not been validly made and that no provision is required as it is not probable that a future sacrifice of future economic benefit will be required, or alternatively that any liability is not currently capable of reliable measurement.

The Directors are not aware of any other contingent liabilities or assets that are likely to have a material effect on the results of the Group, as disclosed in these financial statements.

**Note 30: Events After the end of the Reporting Period**

Following a detailed review of prior period tax returns by its tax advisors, the Group submitted amended tax returns subsequent to the reporting date. The amended returns are expected to result in a tax refund amount of $2.2 million. The refund is expected to be received early September 2015 and will be utilised to provide further support to the Group's working capital and funding position. The impact of the amended returns has not been reflected in the reported results herein.

Except for the above, no other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years**.**

**Note 31: Company Details**

The registered office and principal place of business of the Company is:

Level 5, 189 Grey Street
South Brisbane, QLD 4101

The principal places of business are:

Atlas Drilling Co Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Atlas Drilling Services Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Base Hospitality Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Titan Resources Camp Hire Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Titan Plant Logistics Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Base Transport and Logistics Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Nektar Remote Hospitality Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Titan Energy Services Holdings Pty Ltd
Level 5, 189 Grey Street
South Brisbane, QLD 4101

Titan Equity Plan Trust
C/- Pacific Custodians Pty Ltd
Level 12, 680 George Street
Sydney, NSW 2000

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 22 to 60 are in accordance with the *Corporations Act 2001* and:

    a) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

    b) give a true and fair view of the financial position as at 30 June 2015 and of the performance for the year ended on that date of the consolidated Group.

2. In the directors' opinion there are reasonable grounds to believe that Titan Energy Services Limited will be able to pay its debts as and when they become due and payable.

3. The directors have been given the declarations required by s295A of the *Corporations Act* 2001 from the Chief Executive Officer and Chief Financial Officer.

The Company and its wholly owned subsidiaries have entered into a deed of cross guarantee under which the Company and its subsidiaries guarantee the debts of each other.

At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become, subject to by virtue of the deed.

This declaration is made in accordance with a resolution of the Board of Directors.

Shaun Scott
Chairman

Brisbane, 28 August 2015

**INDEPENDENT AUDITOR'S REPORT**
**TO THE MEMBERS OF TITAN ENERGY SERVICES LIMITED**

**Report on the Financial Report**

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

*Directors' Responsibility for the Financial Report*

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

In Note 1, the Directors also state that, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

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

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

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

*Independence*

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



PKF Hacketts Audit
ABN 33 873 151 348

Level 6, 10 Eagle Street, Brisbane QLD 4000
GPO Box 1568, Brisbane QLD 4001
p +61 7 3839 9733
f +61 7 3832 1407

8 East Street, PO Box 862
Rockhampton QLD 4700
p +61 7 4927 2744
f +61 7 4927 4317

*Opinion*

In our opinion:

a) the financial report of Titan Energy Services Limited and its controlled entities is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 1 in the financial statements, which indicates that the consolidated entity incurred a net loss after tax of $50.6 million during the year ended 30 June 2015 and net operating cash outflows of $4.2 million. At year end it had a cash balance of $1.1 million and a net working capital deficit of $0.5 million. This result, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

**Report on the Remuneration Report**

We have audited the Remuneration Report included on pages 15 to 20 of the Directors' Report for the year ended 30 June 2015. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

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

PKF HACKETTS

**PKF HACKETTS AUDIT**

**Liam Murphy**
**Partner**

Brisbane, 28 August 2015