Titan Energy Services Limited
and controlled entities
ACN 150 110 017

ASX Preliminary Final Report
For the year ended 30 June 2012

This financial 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 2012

(Previous corresponding reporting period: Period ended 30 June 2011)

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Key Information	2012	2011	$ Change	% Change
Revenue from ordinary activities	33,499,897	18	33,499,879	N/A
Profit after tax from ordinary activities attributable to members	2,270,190	(113,630)	2,383,820	N/A
Profit attributable to members	2,270,190	(113,630)	2,383,820	N/A

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

These financial statements and notes represent those of Titan Energy Services Limited and Controlled Entities (the “Group”). Titan Energy Services Limited is a publicly listed company incorporated and domiciled in Australia. The company was incorporated on 28 March 2011, and listed on 7 December 2011. Prior year comparative information presented is for the period 28 March 2011 to 30 June 2011. The Consolidated group was not in existence as at 30 June 2011. Comparative information is for Titan Energy Services Limited only.

DIVIDENDS PAID AND PROPOSED
SUBSEQUENT TO YEAR END

	Amount per Security	Franked Amount per Security
Ordinary shares:		
2012 final – declared 21 August 2012	2.0c	2.0c
Record date for determining entitlements to the final dividend:		
Ordinary shares	21 September 2012	

Explanation of Key Information and Dividends

Refer to the accompanying directors’ report.

DIVIDEND REINVESTMENT PLAN

Titan Energy Services Limited is pleased to announce the formation of a Dividend Reinvestment Plan as of 21 August 2012. The plan will be open to all shareholders based in Australia and New Zealand. Shareholders from other countries can participate in the DRP, subject to board approval.

Shareholders will have until 21 September 2012 to nominate participation in the DRP.

COMMENTARY ON THE RESULTS FOR THE PERIOD

The commentary on the results for the period is contained in the “Review of Operations” included within the Directors’ Report.

STATUS OF AUDIT

The 30 June 2012 financial report and accompanying notes for Titan Energy Services Limited have been audited and are not subject to any disputes or qualifications.

Appendix 4E – Preliminary Final Report for the year ended 30 June 2012

(Previous corresponding reporting period: Period ended 30 June 2011)

NET TANGIBLE ASSETS PER SECURITY

	30 June 2012 ($)	30 June 2011 ($)
Net tangible assets per share	$0.69	N/A

DETAILS OF CONTROL GAINED OR LOST OVER ENTITIES DURING THE YEAR

Acquisition of Atlas Drilling Co Pty Ltd

On 12 September and 31 October 2011, pursuant to share exchange agreements, Titan Energy Services Limited issued a total of 7,087,025 ordinary shares to existing shareholders of Atlas Drilling Co Pty Ltd (on the basis of one Titan Energy Services Limited share for every one Atlas Drilling Co Pty Ltd ordinary share held) in order to effect a business restructure to create Titan Energy Services Limited as the holding company for the Group.

The acquired business reported revenues of $24,504,180 and net profit before tax of $2,497,413 to the Group for the period from 1 July 2011 to 30 June 2012.

The net profit before tax for the year ended 30 June 2011 was $28,211.

Acquisition of the business operations and assets of Resources Camp Hire

On 16 August 2011, the Titan Group, via its subsidiaries Titan Resources Camp Hire Pty Ltd and Titan Plant Logistics Pty Ltd, entered into an Asset Sale Agreement to acquire the business operations and assets of the Resources Camp Hire temporary accommodation hire business, for a purchase consideration of $16,707,077. The acquisition was completed on 24 September 2011, and is effective from 1 July 2011.

The acquired business contributed revenues of $9,133,860 and net profit before tax of $2,536,848 to the Group for the period from 1 July 2011 to 30 June 2012.

A profit comparison to the prior year is not available as the business assets were purchased by the Titan Group during the reporting period.

DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2012.

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 (appointed 27 October 2011)

Stephen Bizzell

Simon Keyser

Wayne Seabrook

James Sturgess

Jim Diakogiannis (appointed 27 October 2011)

Principal Activities

The principal activities of the Group during the financial year were the provision of drilling, accommodation and catering services predominately to the coal seam gas and associated industries.

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

- The Group was formed during the year via the acquisition of Atlas Drilling Co Pty Ltd, and acquisition of the business operations and assets of the Resources Camp Hire temporary accommodation hire business, which enabled the Group to commence the provision of drilling and accommodation hire services.

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

Operating Results and Review of Operations for the Year

	Drill Rigs	Camps	Catering	Total
	$	$	$	$
Year ended 30 June 2012				
Revenue				
Revenue from external customers	24,314,074	9,102,625	-	33,416,699
Inter-segment revenue	140,940	24,943	30,952	196,835
Total segment revenue	**24,455,014**	**9,127,568**	**30,952**	**33,613,534**
Segment result – EBITDA	**4,904,684**	**4,244,872**	**(38,559)**	**9,110,997**
Unallocated:				
Interest revenue				74,143
Interest expense and borrowing costs				(654,013)
Depreciation				(3,513,413)
Corporate expenses				(1,754,681)
Net profit before tax from continuing operations				**3,263,033**
Tax expense				(992,843)
Net profit after tax from continuing operations				**2,270,190**

DIRECTORS' REPORT (CONTINUED)

Review of Operations

In its maiden year, Titan Energy Services Limited has achieved a net profit after tax of $2,270,190. The profit result is in line with previous market updates and represents a strong second half performance since listing on the ASX in December 2011.

During the year, Titan's focus has been on diversification, people, safety and profitable growth.

The Group continues to focus on safety and places people's safety first. Safety reporting across the Group is consistent and transparent and seeks to reinforce the policy of continuous improvement in safety outcomes. The Group achieved an overall Total Recordable Incident Frequency Rate result of 17.9 which included one Lost Time Injury. Whilst this result is an improvement on the prior year, the Group is committed to providing a safe environment for all staff and contractors.

The Group's stated objective is to grow existing businesses and enter into new areas either by organic start up or acquisitions. During the year, the Group has moved to take advantage of the fast growing CSG industry by broadening its service offering in addition to drilling services. In September 2011, the Group acquired RCH, a portable camp hire business. The camps are self contained units based on shipping containers. They are designed for frequent transportation and purpose built for remote applications. RCH was initially focused on CSG drilling clients however since the acquisition by the Group has extended its customer base to include road, civil and construction industries.

As a natural extension of the camp business, the Group launched Nektar Remote Hospitality, a catering and camp management company that will seek to take advantage of the Group's existing network of contacts from Atlas and RCH. In particular, Nektar is a logical extension to the RCH camp business as currently this service is outsourced to third parties. Nektar's target market is much wider than remote camps and can extend to other customers and industries.

People remain a key priority for the Group and attracting and retaining staff in a buoyant and competitive industry is an ongoing challenge. The Group is rolling out a number of initiatives to assist in meeting the needs of staff. These items include incentive schemes, both short and long term, flexible packaging arrangements and financial assistance for items such as medical insurance. The Group aims to be an employer of choice.

Atlas Drilling

Atlas Drilling owns two production rigs and operates a third rig under an O&M Agreement from an external party. During the second half of the year, the Atlas business has recorded strong utilisation across the three rigs. Utilisation for the second half was 95% and ended the full year at 82% which was up significantly from the first half result of 73%. Atlas currently contracts to two major CSG companies with the first contract through to December 2013 and the second under contract to the end of August but with an option through to the end of 2013. Atlas management are confident this contract will be renewed as the client has indicated a strong forward drilling program and Atlas has been able to demonstrate effective drilling outcomes.

Rig 3, run under an O&M Agreement, is currently working for the rig owners.

In January 2012, Atlas Drilling appointed Gus van der Heide to the role of CEO. He has a strong understanding of the oil and gas industry through a long employment history in Australia and overseas. This appointment has allowed Atlas co-founder, Jim Diakogiannis to focus on client relations and contract continuity. The change has enabled the Atlas business to line up a strong forward contract book.

RCH

In September 2011, Titan acquired the business and assets of RCH which is a full service portable accommodation business targeting the CSG industry. RCH also provides transport, maintenance and catering services to its clients. At the time of purchase, RCH had 110 rooms. Since then, the business has grown to 236 rooms, an increase of 115%. Demand in this business remains strong and RCH is well placed at the start of the new financial year. Utilisation of available rooms for the year was 86%. Under Titan ownership, RCH has continued to grow in FY12.

Since the acquisition of RCH in September, the business has appointed a new management team headed by Darren Bishell as the General Manager. Darren has extensive experience in remote area logistics in the Armed Forces and private industry. The business has also appointed a dedicated National Sales Manager, Lynda Shields, who has extensive experience in sales, marketing and new business development across a range of industries.

Nektar

Nektar Remote Hospitality commenced operations in May 2012 focusing on catering and camp services to remote sites. The Nektar business is a logical extension to RCH and won its first contract in conjunction with RCH for an 18 month catering and camp management contract. Nektar has appointed a General Manager, Lee Buckingham, who has extensive food and beverage experience and will maximise the extensive industry contacts already in place with Atlas and RCH.

Financial Position

The key to maintaining growth is the ability to fund the expansion. During the year, the Group entered into new finance facilities. The facilities have been used to fund the initial payment of the RCH business and incremental capex requirements for both RCH and Atlas. In addition to the debt facilities, Titan Energy Services Limited raised $5.0m through an IPO in early December 2011. The proceeds have been used to settle the deferred RCH payment in January 2012 and ongoing capital expenditure requirements.

Due to expansion and upgrades particularly in the second half of the year, the Group's capital expenditure has grown but is expected to reduce during the first part of the new year. Capital expenditure funding has been via the debt and equity issues noted above with the balance from the operating cashflow of the business.

The Group position at 30 June 2012 is strong. Current contracts in the business will support high utilisation rates and solid operating cashflow. At 30 June 2012, the group had $1.4m in cash and access to additional $1.3m in capex facilities and a $1.0m overdraft facility.

Significant Changes in the State of Affairs

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

1. On 12 September and 31 October 2011, pursuant to share exchange agreements, Titan Energy Services Limited issued a total of 7,087,025 ordinary shares to existing shareholders of Atlas Drilling Co Pty Ltd (on the basis of one Titan Energy Services Limited share for every one Atlas Drilling Co Pty Ltd ordinary share held) in order to effect a business restructure to create Titan Energy Services Limited as the holding company for the Group.
2. On 16 August 2011, the Group, via its subsidiaries Titan Resources Camp Hire Pty Ltd and Titan Plant Logistics Pty Ltd, entered into an Asset Sale Agreement to acquire the business operations and assets of the Resources Camp Hire temporary accommodation hire business, for a purchase consideration of $16,707,077. The acquisition was completed on 24 September 2011, and is effective from 1 July 2011.
3. On 7 December 2011, Titan Energy Services Limited listed on the ASX after successfully raising $5.0m predominately from new retail investors. The proceeds from the capital raising were used to finalise the purchase of the RCH business via the payment of a deferred settlement amount. The balance of the IPO funds was used to fund the listing costs and fund future capital expenditure.
4. On 18 May 2012, Titan Energy Services Limited established Nektar Remote Hospitality Services to further the service offering to our clients. Nektar will provide camp catering and management services to internal and external clients. Nektar entered into its first contract with a civil construction company in June 2012. The contract term is for 18 months.

Events after the Reporting Period

The directors have recommended a final fully franked ordinary dividend of $569,135 (2.0 cents per fully paid share) be paid on 19 October 2012 out of retained profits and a positive net asset balance at 30 June 2012. The dividend is 25% of NPAT, in line with the stated objective contained in the Prospectus.

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.

Likely Developments and Expected Results of Operations

Likely developments, future prospects and business strategies of the operations of the Group and the expected results of those operations in future financial years have not been included in this report because the directors believe, on reasonable grounds, that the inclusion of such information would be likely to result in unreasonable prejudice to the Group.

Dividends

No dividends were paid or declared during the financial period.

Environmental Regulation

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Information on the Directors

Shaun Scott	Age 47. B.Bus, BA, ACA
Role	Independent Non-executive Chairman
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. Shaun is currently an Executive Director of ASX listed Dart Energy Ltd, a Non-executive Director of ACER Energy Ltd, Site Group International Ltd and Chairman of Anaeco Ltd. 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 in 2004, Shaun held a variety of senior executive roles in the oil and gas industry.
Special Responsibilities	Audit Committee, Risk and Safety Committee, Remuneration Committee
Interest in Shares and Options (direct and indirect)	Shares – 696,354 Options – 350,719
Stephen Bizzell	Age 44. B.Comm, MAICD
Role	Non-executive Director
Experience	Stephen is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd, Executive Director of Dart Energy Ltd and a Non-executive Director of Hot Rock Ltd, Stanmore Coal Ltd, Diversa Ltd and Armour Energy Ltd. He is Chairman of Renison Consolidated Mines NL and Renaissance Uranium Limited. Stephen was previously an Executive Director of Arrow Energy Ltd from 1999 until its recent acquisition 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. Stephen is 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, Remuneration Committee
Interest in Shares and Options (direct and indirect)	Shares – 2,417,585 Options – 280,576
Simon Keyser	Age 44. B.Bus, ACA
Role	Non-executive Director
Experience	Simon has over 20 years experience in the finance industry including specialising in the resources and energy sectors. Simon is a director of XLX an investment company focused on the resources and energy sectors. XLX is a major shareholders in Titan Energy Services Limited. Simon is the co owner of Ironstone Capital a corporate advisory business.

Information on the Directors (continued)

	Simon has held senior investment banking positions with Wilson HTM and Chase (now JPMorgan Chase) and has advised companies on capital raisings and mergers and acquisitions in Australia and Europe. Simon holds a B.Bus from the Queensland University of Technology, Grad Dip from FINSIA and is a Chartered Accountant.
Special Responsibilities	Audit Committee
Interest in Shares and Options (direct and indirect)	Shares – 448,609 Options – 280,576 Simon Keyser owns 20% of XLX Pty Ltd and therefore will have a relevant interest in Shares that XLX Pty Ltd has. XLX Pty Ltd will hold a relevant interest in 6,836,970 Shares, including Shares under management and those Shares in which Wayne Seabrook and Simon Keyser also have an interest.
Wayne Seabrook	Age 52. B.Eng (Chem - 1st Hons)
Role	Non-executive Director
Experience	Wayne has more than 30 years experience in the resource and resource-service sectors. Wayne has had senior corporate finance roles with Macquarie Bank, Challenger International and Wilson HTM. He has managed capital raisings and corporate transactions for many resource, energy and resource-services companies. His development & operations background includes senior, executive, and board roles with: Apollo Gas Ltd, PMA Ltd, Alcoa of Australia, Macraes Mining Ltd, Minproc Engineers Ltd and Barclay-Mowlem. Wayne is a director of XLX Pty Ltd, an investment company focused on the resources and energy sectors. XLX is a major shareholder in Titan Energy Services Limited. He is also a director of Blakefield Coal Pty Ltd and Ironstone Capital Pty Ltd a corporate advisory firm. Wayne holds a B.Eng (Chem – 1st Hons) from the University of Canterbury, New Zealand.
Special Responsibilities	Risk and Safety Committee, Remuneration Committee
Interest in Shares and Options (direct and indirect)	Shares – 424,240 Options – 280,576 Wayne Seabrook owns 20% of XLX Pty Ltd and therefore will have a relevant interest in Shares that XLX Pty Ltd has. XLX Pty Ltd will hold a relevant interest in 6,836,970 Shares, including Shares under management and those Shares in which Wayne Seabrook and Simon Keyser also have an interest.
Jim Diakogiannis	Age 43. B.Eng, B.Sc
Role	Executive Director
Experience	Jim is a co-founder of Atlas Drilling and has 18 years experience in the oil and gas industry in Australia. Jim's specialties are in the area of drilling, completion and production engineering and he has been involved in the CSG sector since 2001. Jim has held various positions in a number of large and small Operating companies during his career including Santos, Inland Oil Refiners, Oil Company of Australia, Origin Energy and Blue Energy and has been involved in the drilling service sector since the formation of Atlas Drilling in 2007.
Special Responsibilities	Risk and Safety Committee
Interest in Shares and Options (direct and indirect)	Shares – 1,734,032 Performance Rights – 255,000

DIRECTORS' REPORT (CONTINUED)

Information on the Directors (continued)

James Sturgess	Age 49. B.Comm, FCA
Role	Managing Director
Experience	Jim has been Managing Director of Titan Energy Services Limited since May 2011. Jim was previously CEO of the City of Brisbane Investment Corporation. Prior to this, Jim spent over 7 years at Flight Centre Limited as Chief Financial Officer and then Executive General Manager of Global Property, Procurement & Projects. Jim was a Regional General Manager at Ernst & Young and the Director of Finance and HR at Starwood Hotels & Resorts. Aside from his management skills, Jim brings to the Board extensive experience in acquisitions and growth companies.
Special Responsibilities	Nil
Interest in Shares and Options (direct and indirect)	Shares – 240,000 Performance Rights – 255,000

Company Secretary

The Company Secretary is David Thornton – B-Bus, CPA, MAICD.

David was appointed as Company Secretary of Titan Energy Services Limited on 27 October 2011. He has worked in senior finance roles including most recently as CFO of The Bradnam Group and APN News and Media, Regional Publishing. David is also the CFO of the Group.

Meetings of Directors

During the financial year, 11 meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

	Directors' Meetings		Audit Committee		Risk and Safety Committee		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	7	7	1	1	1	1	2	2
Stephen Bizzell	7	7	1	1			2	2
Simon Keyser	7	7	1	1				
Wayne Seabrook	7	6			1	1	2	2
James Sturgess	7	7						
Jim Diakogiannis	7	6			1	1		

Indemnifying Officers

During or since the end of the financial year, the Group paid insurance premiums of $22,365 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:

	Granted Date	Options/ Performance Rights	Number under Option	Exercise Price of Options	No. of Shares Issued 2012	Expiry Date
Directors of Titan Energy Services Limited	4 Nov 2011	Options	1,192,447	$1.20	-	7 December 2015
	7 Nov 2011	Performance Rights	503,625	-	-	30 June 2014
Key Management Personnel	7 Nov 2011	Performance Rights	320,000	-	-	30 June 2014

Option holders do not have any rights to participate in any issues of shares or other interests in the company or 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 11 of the Directors' Report.

During the year ended 30 June 2012, there were no options exercised.

Proceedings on Behalf of Company

No person has applied for leave of 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 Lawler Hacketts Audit and its related practices for non-audit services provided during the year ended 30 June 2012:

	$
Taxation services	28,379
Due diligence investigations	86,697
	115,076

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 17 for the year ended 30 June 2012.

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 run and manage the Group, as well as create goal congruence between directors, executives and shareholders.

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

– The remuneration policy is to be developed by the 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 directors 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.

– The 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 are also entitled and encouraged to participate in the employee share and option arrangements to align directors' 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 hurdles have been met and is valued using the Black-Scholes or Monte Carlo methodologies.

All remuneration paid to KMP is valued at the 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 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.

Current remuneration for non-executive directors is as follows:

	Fees including Superannuation
Chairman	$65,000
Non Executive Director	$40,000

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 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.

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

REMUNERATION REPORT (AUDITED)

(CONTINUED)

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 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 2012 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	**Shares/ Units**	**Options/ Rights**	**Fixed Salary/ Fees**	**Total**
		%	**%**	**%**	**%**	**%**
James Sturgess	Managing Director	21%	0%	10%	69%	100%
Jim Diakogiannis	Executive Director	21%	0%	10%	69%	100%
David Thornton	CFO	14%	0%	8%	78%	100%
Gus van der Heide	CEO – Atlas Drilling	22%	0%	5%	73%	100%
Darren Bishell	GM - RCH	20%	0%	9%	71%	100%

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
James Sturgess	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan to James Sturgess 6 months James Sturgess to Titan 4 months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
Jim Diakogiannis	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or Jim Diakogiannis to give 3 months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
David Thornton	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or David Thornton to give 3 months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
Gus van der Heide	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or Gus van der Heide to give 3 months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
Darren Bishell	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or Darren Bishell to give 3 months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan

REMUNERATION REPORT (AUDITED)
(CONTINUED)

Remuneration Details for the Year Ended 30 June 2012

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each director and member of KMP of the Group:

Table of Benefits and Payments for the Year Ended 30 June 2012

Name	Commencement Date	Salary and Fees [1]	Post Employment Benefits Super [2]	Cash Bonus [3]	Share Based Payments Options/ PR's [4]	Total
Directors						
Shaun Scott Chairman	27/10/2011	34,786	3,131	-	41,830	79,747
Stephen Bizzell Director	28/03/2011	23,333	-	-	33,464	56,797
Simon Keyser Director	28/03/2011	23,333	-	-	33,464	56,797
Wayne Seabrook Director	28/03/2011	23,333	-	-	33,464	56,797
James Sturgess Managing Director	16/05/2011	300,000	27,000	-	38,450	365,450
Jim Diakogiannis Executive Director	1/11/2011	292,936	17,065	-	44,825	354,826
Other KMP						
Gus van der Heide CEO – Atlas	3/01/2012	137,615	12,385	-	20,811	170,811
Darren Bishell GM – RCH	10/10/2011	127,029	11,433	-	1,094	139,556
David Thornton CFO	19/09/2011	159,443	12,442	-	1,094	172,979
Total		1,121,808	83,456	-	248,496	1,453,760

Note 1: Salary and Directors Fees may be delivered as a combination of cash and prescribed non financial benefits at the executives discretion. Directors and Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pays are reviewed annually to ensure the rate is competitive with the market.

Note 2: Post employment benefits is statutory superannuation and calculated as 9% of the base pay. Stephen Bizzell, Simon Keyser and Wayne Seabrook superannuation components are included in the Directors 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.

Note 3: A portion of the KMP pay is by way of an at risk bonus. This is subject to satisfactory completion of set KPI's and payable at the discretion of the Managing Director.

Note 4: Option and Performance Rights values have been determined using the Black-Scholes and Monte Carlo methods.

Securities Received that Are Not Performance Related

No members of KMP are entitled to receive securities which are not performance-based as part of their remuneration package.

Share-based Payments

Options

The terms and conditions relating to the options are detailed on page 10 of the Director's 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
Shaun Scott Chairman	-	350,719	-	-	-	350,719
Stephen Bizzell Director	-	280,576	-	-	-	280,576
Simon Keyser Director	-	280,576	-	-	-	280,576
Wayne Seabrook Director	-	280,576	-	-	-	280,576
Total	-	1,192,447	-	-	-	1,192,447

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 [3]	Lapsed During the Year	Other Changes During the Year	Balance at End of Year
James Sturgess CEO – Titan [1]	-	255,000	(36,125)	(6,375)	-	212,500
Jim Diakogiannis Executive Director [1]	-	255,000	(42,500)	-	-	212,500
Gus van der Heide CEO – Atlas [2]	-	120,000	(20,000)	-	-	100,000
Darren Bishell GM – RCH [2]	-	120,000		(20,000)	-	100,000
David Thornton CFO [2]	-	120,000	-	(20,000)	-	100,000
Total	-	870,000	(98,625)	(46,375)	-	725,000

Share-based Payments (continued)

Note 1: Executive directors have been issued 255,000 performance rights each which are split as follows

a) 127,500 Performance Rights divided into three (3) equal tranches of 42,500 Performance Rights each for the first three years of employment vesting when business unit or group profit targets are met.
b) 127,500 Performance Rights divided into three (3) equal tranches of 42,500 Performance Rights based on the ten day volume weighted average price (VWAP) exceeding
    a. $1.76
    b. $2.06
    c. $2.35

Note 2: Other KMP have been issued 120,000 performance rights each which are split as follows

a) 60,000 Performance Rights divided into three (3) equal tranches of 20,000 Performance Rights each for the first three years of employment vesting when business unit or group profit targets are met.
b) 60,000 Performance Rights divided into three (3) equal tranches of 20,000 Performance Rights based on the ten day volume weighted average price (VWAP) exceeding
    a. $1.50
    b. $1.75
    c. $2.00

Note 3: Performance Rights will vest as KMP met the required performance hurdles. The Board has determined that these employees met their performance targets during the year. Their rights will be converted to ordinary shares within 30 days of the Audited Financial Statements of the Group being completed. No Performance Rights have vested as a result of Titan Energy Services Limited share price meeting the VWAP requirements.

There have not been any alterations to the terms or conditions of any grants since grant date.

Securities Received that Are Performance Related

There were no ordinary shares issued in Titan Energy Services Limited as a result of the exercise of remuneration options or Performance Rights to any director of Titan Energy Services during the year.

This director's report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

James Sturgess
Director
Dated: 21 August 2012

lawler hacketts chartered accountants

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

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012, 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.

LAWLER HACKETTS AUDIT

Liam Murphy
Partner

Brisbane, 21 August 2012

Lawler Hacketts Audit
ABN 33 873 151 348

www.lawlerhacketts.com.au

Brisbane

Level 3, 549 Queen Street
Brisbane QLD 4000 Australia

telephone 07 3839 9733
facsimile 07 3832 1407

advice@lawlerhacketts.com.au

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED
30 JUNE 2012

	Note	Consolidated Group	
		2012	**2011**
		$	**$**
Revenue	2	33,499,897	18
Expenses			
Drilling and consumables		(6,674,089)	-
Camp expenses		(3,175,140)	-
Depreciation and amortisation expense		(3,513,413)	(83)
Employee benefits expense		(12,771,371)	(44,045)
Travel and accommodation		(224,313)	(2,596)
Motor vehicle lease and maintenance		(335,611)	(2,156)
Finance costs		(654,013)	-
Administration and other expenses		(2,888,914)	(64,768)
Profit (loss) before income tax	3	3,263,033	(113,630)
Income tax expense	4	(992,843)	-
Profit (loss) for the period		2,270,190	(113,630)
Other comprehensive income		-	-
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		2,270,190	(113,630)
Profit (loss) attributable to members of the parent entity		2,270,190	(113,630)
Total comprehensive income attributable to members of the parent entity		2,270,190	(113,630)
Earnings per share			
From continuing operations:			
– basic earnings per share (cents)	21	10.81	-
– diluted earnings per share (cents)	21	10.78	-

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	Consolidated Group	
		2012	2011
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	1,419,374	15,802
Trade and other receivables	8	6,536,348	-
Inventories	9	76,354	-
Other assets	10	113,341	27,116
TOTAL CURRENT ASSETS		8,145,417	42,918
NON-CURRENT ASSETS			
Property, plant and equipment	11	28,868,406	3,543
Deferred tax assets	15	676,747	-
Intangible assets	12	5,276,185	-
TOTAL NON-CURRENT ASSETS		34,821,338	3,543
TOTAL ASSETS		42,966,755	46,461
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	7,419,465	34,000
Borrowings	14	2,054,568	122,242
Current tax liabilities	15	826,058	-
Provisions	16	117,898	3,846
Other current liabilities	17	80,100	-
TOTAL CURRENT LIABILITIES		10,498,089	160,088
NON-CURRENT LIABILITIES			
Borrowings	14	7,387,311	-
Deferred tax liabilities	15	28,777	-
TOTAL NON-CURRENT LIABILITIES		7,416,088	-
TOTAL LIABILITIES		17,914,177	160,088
NET ASSETS		25,052,578	(113,627)
EQUITY			
Issued capital	18	22,570,842	3
Reserves	19	325,176	-
Retained earnings		2,156,560	(113,630)
TOTAL EQUITY		25,052,578	(113,627)

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2012

Consolidated Group	Note	Ordinary Share Capital	Retained Earnings	Share Based Payments Reserve	Total
		$	$	$	$
Balance at 1 July 2010		-	-	-	-
Comprehensive income					
Profit (loss) for the period		-	(113,630)	-	(113,630)
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the full year		-	(113,630)	-	(113,630)
Transactions with owners, in their capacity as owners, and other transfers					
Contributions of equity, net of transaction costs and tax		3	-	-	3
Performance rights and options		-	-	-	-
Total transactions with owners and other transfers		3	-	-	3
Balance at 30 June 2011		3	(113,630)	-	(113,627)
Balance at 1 July 2011		3	(113,630)	-	(113,627)
Comprehensive income					
Profit (loss) for the period		-	2,270,190	-	2,270,190
Other comprehensive income for the period		-	-	-	-
Total comprehensive income for the full year		-	2,270,190	-	2,270,190
Transactions with owners, in their capacity as owners, and other transfers					
Contributions of equity, net of transaction costs and tax	18	22,570,839	-	-	22,570,839
Performance rights and options	19	-	-	325,176	325,176
Total transactions with owners and other transfers		22,570,839	-	325,176	22,896,015
Balance at 30 June 2012		22,570,842	2,156,560	325,176	25,052,578

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	Consolidated Group	
		2012	2011
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		33,797,186	-
Payments to suppliers and employees (inclusive of GST)		(26,658,505)	(73,563)
Interest received		74,143	18
Finance costs		(654,013)	(2,156)
Income tax refund (payment)		(96,333)	-
Net cash (used in)/provided by operating activities	27	6,462,478	(75,701)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from acquisition of subsidiary		1,824,193	-
Payments for plant, property and equipment		(6,338,920)	(3,626)
Proceeds from disposal of plant, property and equipment		72,727	
Payment for acquisition of subsidiary		(16,499,381)	-
Net cash used in investing activities		(20,941,381)	(3,626)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net movement in related party loan		-	122,242
Net proceeds from borrowings		4,762,051	-
Proceeds from issue of shares		12,500,000	3
Payments for deferred capital raising costs		-	(27,116)
Capital raising costs paid		(1,379,576)	-
Net cash used in/(provided by) financing activities		15,882,475	95,129
Net increase/(decrease) in cash held		1,403,572	15,802
Cash and cash equivalents at beginning of period	7	15,802	-
Cash and cash equivalents at end of period	7	1,419,374	15,802

The accompanying notes form part of these financial statements.

These consolidated financial statements and notes represent those of Titan Energy Services Limited (the “company”) and 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. Any comparative information presented is for the company only for the period 28 March 2011 to 30 June 2011.

The financial statements were authorised for issue on 21 August 2012 by the directors of the company.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. 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 principle

Notwithstanding the Group’s deficiency in net current assets of $2,352,672 the financial statements have been prepared on a going concern basis as the company directors believe that the company will be able to pay its debts as and when they fall due and payable.

In reaching this opinion, the Directors have considered the company’s operations and cash flow requirements for the next 12 months and the ability of the company to raise future funds through debt and equity. Supporting this position, since the end of the financial year, the company has:

- Strong forward profit and cashflow forecast. This forecast is supported by the drilling and camp businesses currently running at near full utilisation and long term forward contracts currently in place indicating asset utilisation will continue to remain high.
- Positive forecast cashflow from operations highlighting underlying business generating cash before investment in capital expenditure and loan repayments (the net current liability position results from cash proceeds being used to fund non-current asset additions, while a portion of the financing facility over these assets is required to be disclosed as current).
- Access to funding through the following facilities:
    - $6,000,000 Revolving Asset Financing Facility, of which $1,175,485 was undrawn at 30 June 2012
    - $1,000,000 from an undrawn business overdraft facility
- Trade creditors include an amount of $1,477,300 payable in relation to the purchase of a new camp. An extended settlement has been negotiated through to the end of August 2012, allowing the acquisition to be purchased by future cash flows from operations.

As a result of the above the Directors are confident as to the future profitability of the company, the ongoing support of its major shareholders and are of the opinion that the company’s financiers will continue to provide financial support sufficient to enable the company to meet working capital requirements, and to satisfy current and future liability obligations.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Titan Energy Services Limited at the end of the reporting period. A controlled entity is any entity over which Titan Energy Services Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 23 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

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.

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.

Refer to Note 22 for information on the goodwill policy adopted by the Group for acquisitions.

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 not larger than an operating segment.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(e) 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.

Depreciation

The depreciable amount of all camps, 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 is depreciated on a unit of production method, 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	20–33.33%

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. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

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*.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm’s length transactions, reference to similar instruments and option pricing models.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Financial Instruments (continued)

(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.

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.

Derecognition

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 (eg 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

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wages increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Employee Benefits (continued)

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.

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.

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 12 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m. 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.

n. 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.

o. 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.

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.

p. 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 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.

q. 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.

(ii) *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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q. Critical Accounting Estimates and Judgments (continued)

(iii) *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.

r. New Accounting Standards for Application in Future Periods

The AASB has issued the following new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt:

- AASB 9: Financial Instruments (December 2010)
- AASB 2010–7: Amendments to Australian Accounting Standards arising from AASB 9
- AASB 2010–8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]
- AASB 10: Consolidated Financial Statements,
- AASB 11: Joint Arrangements,
- AASB 12: Disclosure of Interests in Other Entities,
- AASB 127: Separate Financial Statements (August 2011),
- AASB 128: Investments in Associates and Joint Ventures (August 2011)
- AASB 2011–7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards
- AASB 13: Fair Value Measurement
- AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13
- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income
- AASB 119: Employee Benefits (September 2011) and
- AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The directors anticipate that the adoption of these standards and other proposed changes to IFRS in future periods will have no material financial impact on the financial statements of the entity.

NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Group	
	2012	**2011**
	$	**$**
From continuing operations:		
Sales revenue:		
Drilling revenue	20,424,292	-
Camp revenue	12,298,367	-
Other revenue	694,040	-
	33,416,699	-
Sundry revenue:		
Interest revenue	74,143	18
	74,143	18
Other income		
Net gain on disposal of property, plant and equipment	9,055	-
	9,055	-
Total revenue and other income from continuing operations	33,499,897	18

NOTE 3: PROFIT FOR THE YEAR

	Consolidated Group	
	2012	**2011**
	$	**$**
Profit before income tax from continuing operations includes the following specific expenses:		
a. **Expenses**		
Depreciation	3,513,413	83
Rental expense on operating leases	730,409	-
Finance costs	654,013	-

NOTE 4: INCOME TAX EXPENSE

		Consolidated Group	
		2012	2011
		$	$
a.	The components of tax expense comprise:		
	Current tax	1,211,099	-
	Deferred tax	(218,256)	-
		992,843	-
b.	The prima facie tax on profit from ordinary activities before income tax is reconciled to income tax as follows:		
	Profit from ordinary activities before income tax	3,263,033	-
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2011: 30%)	978,910	-
	Add:		
	Tax effect of:		
	– other non-allowable items	30,656	-
	– employee share issues expensed during year	44,729	-
	– performance rights expensed during year	70,646	-
	– bonus options expensed during year	6,907	-
		1,131,848	-
	Less:		
	Tax effect of:		
	– other allowable items	(106,070)	-
	Recoupment of prior year tax losses not previously brought to account	(32,935)	-
	Income tax attributable to entity	992,843	-
	The applicable weighted average effective tax rates are as follows:	**30%**	**-%**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2012

NOTE 4: INCOME TAX EXPENSE (CONTINUED)

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

(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 AASB112 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 assume 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 installments.

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 owns two drill rigs and has an operating and maintenance agreement with a third party on a third rig. During the year, total rig utilisation was 82% which includes the impact of one of the owned rigs not being under contract due to a major overhaul and upgrade. During this time management elected to maintain the rig crew to ensure continuity of labour supply once the upgrade was complete. As a result of maintaining the crew, the business carried additional costs and profit dipped in the first half of the year. During the second half of the year, all three rigs were under contract to tier one clients with contracts and drilling programs extending well into the FY13 year.

Camps

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

Over the course of the year, RCH has grown its capacity from 110 rooms at the time of acquisition to 234 rooms at the end of June. Over the same period, camp utilisation averaged 86%. During this period, RCH took delivery of its first ensuite camp which will broaden the potential customer base beyond the core CSG drilling market. Enquiry from new and existing customers remains very strong including expansion into civil, construction and infrastructure industries.

Catering

In May 2012, the business established a remote catering and camp management business as part of the long term strategy of developing businesses to take a advantage of existing industry demand and contacts. Nektar won its first contract in June 2012 in conjunction with RCH. The contract will run for 18 months.

b) Segment information provided to the Board of Directors

(i) Segment performance

	Drill Rigs	Camps	Catering	Total
	$	$	$	$
Year ended 30 June 2012				
Revenue				
Revenue from external customers	24,314,074	9,102,625	0	33,416,699
Inter-segment revenue	140,940	24,943	30,952	196,835
Total segment revenue	**24,455,014**	**9,127,568**	**30,952**	**33,613,534**
Segment result - EBITDA	**4,904,684**	**4,244,872**	**(38,559)**	**9,110,997**
Unallocated:				
Interest revenue				74,143
Interest expense and borrowing costs				(654,013)
Depreciation				(3,513,413)
Corporate expenses				(1,754,681)
Net profit before tax from continuing operations				**3,263,033**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 5: OPERATING SEGMENTS (CONTINUED)

	Drill Rigs	Camps	Catering	Total
	$	$	$	$
Year ended 30 June 2011				
Revenue				
Revenue from external customers	-	-		-
Inter-segment revenue	-	-		-
Total segment revenue	**-**	**-**		**-**
Segment result - EBITDA	**-**	**-**		**-**
Unallocated:				
Interest revenue				18
Interest expense and borrowing costs				-
Depreciation				(83)
Corporate expenses				(113,565)
Net profit before tax from continuing operations				**(113,630)**

(ii) Segment assets and liabilities

	Drill Rigs	Camps	Catering	Total
	$	$	$	$
Segment assets	21,806,232	20,673,245	4,045	42,483,522
Unallocated assets				483,233
Closing balance 30 June 2012				42,966,755
Segment liabilities	10,840,099	18,897,281	30,916	29,768,296
Unallocated liabilities				(11,854,119)
Closing balance 30 June 2012				17,914,177

(iii) Other segment information

	Drill Rigs	Camps	Catering	Total
	$	$	$	$
Acquisitions of property, plant and equipment, intangibles, and other non-current segment assets	16,783,078	15,700,852	-	32,483,930
Depreciation and amortisation expense	2,091,971	1,418,246	-	3,510,217
Unallocated depreciation				3,196
				3,513,413

NOTE 5: OPERATING SEGMENTS (CONTINUED)

(iv) Geographical information

The Group operates in one geographical segment, being Australia.

(v) Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies three external customers in the Drill Rigs/Camps segment who accounts for 67% of external revenue.

NOTE 6: REVISION OF ESTIMATES

a) Revision of useful lives of property, plant and equipment

During the final interim period, the Group re-assessed the estimated useful lives of a number of items of property, plant and equipment. The net effect of the change in the final interim period was a decrease in depreciation expense of $215,591.

Assuming the assets are held until the end of their estimated useful lives, depreciation in future years in relation to these assets will be at the same rate as assessed in the final interim period.

NOTE 7: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2012	**2011**
	$	**$**
Cash at bank	1,418,474	15,802
Cash on hand	900	-
	1,419,374	15,802

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:		
Cash and cash equivalents	1,419,374	15,802
	1,419,374	15,802

Risk exposure

The Group's exposure to interest rate risk is discussed in Note 29. 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 8: TRADE AND OTHER RECEIVABLES

	Consolidated Group 2012 $	Consolidated Group 2011 $
Trade receivables	3,287,549	-
Other receivables	1,225,872	-
Accrued revenue	1,921,440	-
Deposits paid	60,950	-
Loan to related party	40,537	-
	6,536,348	-

Credit risk

The Group has no significant concentration of credit risk with respect to any single counterparty or group of counterparties. The class of assets described as “trade receivables” is considered to be the main source of credit risk related to the Group.

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, with the terms and conditions agreed between the Group and the customer or counterparty to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

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

	Gross Amount $	Past Due and Impaired $	Within Initial Trade Terms < 30 $	Past Due but Not Impaired (Days Overdue) 31–60 $	Past Due but Not Impaired (Days Overdue) >61 $
2012					
Trade and term receivables	3,287,549	-	3,016,007	271,542	-
Total	3,287,549	-	3,016,007	271,542	-

2011

There were no trade receivables as at 30 June 2011.

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.

Further information relating to loans to related parties is set out in Note 23.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 9: INVENTORIES

	Consolidated Group	
	2012	2011
	$	$
Raw materials and stores	76,354	-
	76,354	-

NOTE 10: OTHER ASSETS

	Consolidated Group	
	2012	2011
	$	$
Prepayments	87,666	-
Other	25,675	27,116
	113,341	27,116

NOTE 11: PLANT AND EQUIPMENT

	Consolidated Group	
	2012	2011
	$	$
DRILL RIGS		
At Cost	15,779,619	-
Accumulated depreciation	(4,038,711)	-
	11,740,908	-
CAMPS		
At Cost	17,558,395	-
Accumulated depreciation	(1,856,032)	-
	15,702,363	-
MOTOR VEHICLES		
At Cost	2,180,123	-
Accumulated depreciation	(1,075,556)	-
	1,104,567	-
PLANT AND EQUIPMENT		
At Cost	728,090	3,626
Accumulated depreciation	(407,522)	(83)
	320,568	3,543
Total plant and equipment	28,868,406	3,543

NOTE 11: PLANT AND EQUIPMENT (CONTINUED)

a. **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	Camps	Motor Vehicles	Plant and Equipment	Total
	$	$	$	$	$
Balance at 1 July 2010	-	-	-	-	-
Additions	-	-	-	3,626	3,626
Disposals – written-down value	-	-	-	-	-
Depreciation expense	-	-	-	(83)	(83)
Carrying amount at 30 June 2011	-	-	-	3,543	3,543
Additions	13,187,034	17,317,445	1,527,270	466,102	32,497,851
Disposals – written-down value	-	(55,903)	(63,672)	-	(119,575)
Depreciation expense	(1,446,126)	(1,559,179)	(359,031)	(149,077)	(3,513,413)
Carrying amount at 30 June 2012	11,740,908	15,702,363	1,104,567	320,568	28,868,406

NOTE 12: INTANGIBLE ASSETS

	Note	Consolidated Group	
		2012	2011
		$	$
Goodwill:			
Cost	22 (b)	5,276,185	-
Accumulated impairment losses		-	-
Net carrying amount		5,276,185	-
Consolidated Group:			
Year ended 30 June 2012			
Balance at the beginning of the year		-	-
Additions		-	-
Acquisitions through business combinations		5,276,185	-
Amortisation charge		-	-
Impairment losses		-	-
Closing value at 30 June 2012		5,276,185	-

NOTE 12: INTANGIBLE ASSETS (CONTINUED)

Impairment disclosures

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

	2012 $	2011 $
Drill Rigs	-	-
Camps	5,276,185	-
Catering	-	-
Total	5,276,185	-

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a five year period with the period extending beyond one year extrapolated using an estimated growth rate. The cash flows are discounted using the yield of a five year government bond, adjusted for specific risks relating to the relevant segments in which they operate, at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations:

	Growth Rate	Discount Rate
Drill Rigs	N/A	N/A
Camps	2.0-5.0%	7.7%
Catering	N/A	N/A

Management has based the value-in-use calculations on budgets for each reporting segment. Costs are calculated taking into account historical gross margins and management's expectation of anticipated growth, as well as estimated weighted average inflation rates over the period, which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

NOTE 13: TRADE AND OTHER PAYABLES

	Consolidated Group	
	2012	2011
	$	$
Trade payables	5,120,590	33,327
Other creditors	2,009,361	-
GST payable	289,514	673
	7,419,465	34,000

NOTE 14: BORROWINGS

	Consolidated Group	
	2012	2011
	$	$
CURRENT		
Asset finance facility secured	2,054,568	-
Related party loan	-	122,242
	2,054,568	122,242
NON-CURRENT		
Asset finance facility secured	7,387,311	-
	7,387,311	-
TOTAL	9,441,879	122,242

Total assets are pledged as security for current and non-current borrowings.

The Group, via its subsidiary, Atlas Drilling Co Pty Ltd, has access to an Asset Financing Facility with the National Australia Bank totaling $6,000,000, of which $4,824,515 had been accessed at reporting date.

It also has an Equipment Loan and Goods Mortgage with the National Australia Bank totaling $5,700,000, of which $4,617,364 is outstanding at reporting date.

Loans provided under this facility are secured by a fixed and floating charge over all of the present and future rights, property and undertaking of entities within the Group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 15: TAX

	Consolidated Group 2012 $	Consolidated Group 2011 $
CURRENT		
Income tax payable	826,058	-

NON-CURRENT

	Opening Balance $	Charged to Income $	Charged Directly to Equity $	Changes in Tax Rate $	Exchange Differences $	Closing Balance $
Consolidated Group						
Deferred tax liability						
Property plant and equipment:						
– tax allowance	-	-	-	-	-	-
Balance at 30 June 2011	-	-	-	-	-	-
Property plant and equipment:						
– tax allowance	-	28,777	-	-	-	28,777
Balance at 30 June 2012	-	28,777	-	-	-	28,777
Deferred tax assets						
Provisions	-	-	-	-	-	-
Transaction costs on equity issue	-	-	-	-	-	-
Other	-	-	-	-	-	-
Balance at 30 June 2011	-	-	-	-	-	-
Provisions	-	264,859	-	-	-	264,859
Transaction costs on equity issue	-	-	368,031	-	-	368,031
Other	-	43,857	-	-	-	43,857
Balance at 30 June 2012	-	308,716	368,031	-	-	676,747

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 16: PROVISIONS

	Consolidated Group	
	2012	**2011**
	$	**$**
Current	117,898	3,846
Non-current	-	-
	117,898	3,846

No provision for Long Service Leave has been taken up in the accounts. In this initial period of establishment, there is currently a low probability of staff achieving the minimum length of service required for the statutory accrual rate. This policy is currently under review.

NOTE 17: OTHER CURRENT LIABILITIES

	Consolidated Group	
	2012	**2011**
	$	**$**
Unearned revenue	80,100	-
	80,100	-

NOTE 18: ISSUED CAPITAL

	2012	2011	2012	2011
	Shares	**Shares**	**$**	**$**
a) Issued Capital				
Ordinary shares – fully paid	28,456,745	3	22,570,842	3
	28,456,745	3	22,570,842	3

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 18: ISSUED CAPITAL (CONTINUED)

b) Movements in ordinary share capital during the year:

Date	Details	Note	#	Issue Price	$
1 July 2011	Opening balance		3		3
12 September 2011	Share Exchange Agreement – Atlas ordinary shares	(i)	6,380,781	$1.30	8,295,015
12 September 2011	Share Exchange Agreement – Atlas performance shares	(i)	493,744	$1.30	641,867
31 October 2011	Share Exchange Agreement – Atlas performance shares	(i)	212,500	$1.30	276,250
	Total shares acquired under Share Exchange Agreements	(i)	7,087,025		9,213,132
	Total issued capital post share exchange		7,087,028		9,213,135
4 November 2011	Share split	(ii)	1.70		
	Total issued capital after share split	(ii)	12,071,512		9,213,135
7 December 2011	Converting Preference Shares – Atlas	(iii)	1,986,000	$0.83	1,655,000
7 December 2011	Converting Preference Shares	(iv)	9,000,000	$0.83	7,500,000
7 December 2011	Capital raising	(v)	5,000,000	$1.00	5,000,000
7 December 2011	Employee share issue	(vi)	40,000	$0.90	36,000
14 December 2011	Employee share plan	(vii)	109,233	$0.97	106,000
13 February 2012	Final payment for RCH acquisition	(viii)	250,000	$0.80	200,000
					23,710,135
Less: Transaction costs arising on share issue, net of deferred tax					(1,139,293)
			28,456,745		22,570,842

(i) On 12 September and 31 October 2011, pursuant to share exchange agreements, Titan issued a total of 7,087,025 shares to the existing shareholders of Atlas Drilling Co Pty Ltd (on the basis of one ordinary Titan share for every one Atlas share held) in order to effect a business restructure. Under the share exchange agreement, Titan acquired all of the voting shares on issue in Atlas Drilling in exchange for issuing an equivalent shareholding in Titan and effectively became the legal parent entity of the Group.

(ii) On 4 November 2011, the members approved the split of 7,087,028 fully paid ordinary shares on issue into 12,071,512 fully paid ordinary shares.

(iii) In May 2011, Atlas Drilling Co Pty Ltd issued 1,655,000 Convertible Preference Shares (CPS) at $1.00 each to various professional or sophisticated investors. Pursuant to the terms of the CPS, these converted to ordinary shares in Titan Energy Services Limited at a 20% discount to the issue price agreed under the offer, at the date of the initial public offering.

NOTE 18: ISSUED CAPITAL (CONTINUED)

(iv) In September 2011, the Company issued 7,500,000 Convertible Preference Shares (CPS) at $1.00 each to various professional or sophisticated investors. Pursuant to the terms of the CPS, these converted to ordinary shares in the Company at a 20% discount to the issue price agreed under the offer, at the date of the initial public offering.

(v) On 7 December 2011, $5,000,000 was raised from a fully underwritten initial public offering in Titan, effectively listing the Group on the Australian Securities Exchange.

(vi) Under the Employee Offer, the Company had agreed to issue up to an additional 500,000 shares at the Employee Offer Price to Eligible Employees at a discounted price of $0.90.

(vii) On 14 December 2011, employees with greater than 12 months service at the date of listing were each granted shares with a fair value of $2,000 under the Employee Share and Option Scheme.

(viii) On 13 February 2012, the company issued 250,000 shares at $0.80, representing the balance of the purchase price for various business assets pursuant to the Resources Camp Hire Asset Sale Agreement dated 19 August 2011.

c) Options

For information relating to share options issued to key management personnel during the financial year, refer to Note 24.

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.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year.

Titan Energy Services Limited has complied with the financial covenants of its borrowing facilities during the 2012 reporting period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 19: RESERVES

	2012	2011
	$	$
Share based payments reserve		
Balance at 1 July	-	-
Option expense	142,221	-
Performance rights expense	182,955	-
Balance at 30 June	325,176	-

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 20: DIVIDENDS

	2012	2011
	$	$
a) Ordinary shares		
No dividend has been paid during the year ended 30 June 2012		
b) Dividends not recognised at the end of the reporting period		
Since year end, the directors have recommended the payment of a final dividend of 2.0 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate of the proposed dividend expected to be paid on 19 October 2012 out of retained earnings at 30 June 2012, but not recognised as a liability at year end is	569,135	-

c) Franked dividends

The franked portion of the final dividends recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2013.

	Parent entity	
	2012	2011
	$	$
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2011 – 30%)	1,455,246	-

NOTE 21: EARNINGS PER SHARE

	2012	2011
	Cents	Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	10.81	-
Total basic earnings per share attributable to the ordinary equity holders of the company	10.81	-
(b) Diluted earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	10.78	-
Total diluted earnings per share attributable to the ordinary equity holders of the company	10.78	-
(c) Reconciliation of earnings used in calculating earnings per share		
	$	$
Basic earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	2,270,190	-
Diluted earnings per share		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	2,270,190	-
(d) Weighted average number of shares used as the denominator		
	#	#
*Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share**	20,996,413	-
Adjustments for calculation of diluted earnings per share:		
- Performance rights	62,683	-
Weighted average number of ordinary shares and potential ordinary share used as the denominator in calculating diluted earnings per share	21,059,096	-

* Ordinary shares issued as part of the consideration transferred in the acquisition of Atlas Drilling Co Pty Ltd are included in the weighted average number of shares from the effective acquisition date, being 1 July 2011.

* Ordinary shares issued upon conversion of the convertible preference shares No. 2 issued by the company are included in the weighted average number of shares from the date of issue, being 23 September 2011.

NOTE 22: BUSINESS ACQUISITIONS

a) Acquisition of Atlas Drilling Co Pty Ltd

On 12 September and 31 October 2011, pursuant to share exchange agreements, Titan Energy Services Limited issued a total of 7,087,025 ordinary shares to existing shareholders of Atlas Drilling Co Pty Ltd (on the basis of one Titan Energy Services Limited share for every one Atlas Drilling Co Pty Ltd share held) in order to effect a business restructure to create Titan Energy Services Limited as the holding company for the Group.

Under the share exchange agreements, Titan Energy Services Limited acquired all of the voting shares on issue in Atlas Drilling Co Pty Ltd in exchange for issuing an equivalent holding in Titan Energy Services Limited.

The directors have determined that the restructure does not represent a business combination under AASB 3.

The accounting treatment adopted for recognising this new consolidated group structure is consistent with a group restructure under common control that does not involve any change in economic substance and, therefore, represents a continuation of the existing business controlled by Atlas Drilling Co Pty Ltd.

A group restructure under common control is accounted for by the Group prospectively from the effective date of obtaining ownership interest, being 1 July 2011. Assets and liabilities are recognised on consolidation at their carrying amount. Any difference between the cost of acquisition and the total net assets of Atlas Drilling is recognised in equity in a Common Control Reserve. Goodwill is not recognised.

Details of the purchase consideration, the net assets acquired, and common control reserve are as follows:

	$
Net assets of Atlas Drilling Co Pty Ltd at 30 June 2011	10,797,511
Less: CPS1 liability (net of capital raising costs) (i)	(1,562,027)
Less: Employee Performance Rights (i)	(23,571)
Adjusted net assets at 30 June 2011	9,211,913
Consideration paid (ii)	9,213,373
Common Control Reserve (iii)	1,460

(i) Re-classified from equity of Atlas Drilling Co Pty Ltd at 30 June 2011 for commitment to members to be settled by Titan Energy Services Limited.

(ii) Fair value of securities issued as consideration.

(iii) Given the size of the Common Control Reserve, the Group has elected to expense the amount of the Reserve to the statement of comprehensive income in the current period.

The net assets and liabilities recognised as a result of the acquisition are:

	$
Cash	1,824,193
Trade and other receivables	2,098,494
Deferred capital raising costs	60,787
Income tax asset	265,876
Other current assets	84,486
Receivables – non-current	122,242
Plant and equipment	13,402,531
Deferred tax assets	153,137
Trade and other payables	(2,440,855)
Borrowings	(4,679,828)
Provisions	(41,945)
Deferred tax liabilities	(51,607)
	10,797,511

The acquired business contributed revenues of $24,504,180 and net profit before tax of $2,497,413 to the Group for the period from 1 July 2011 to 30 June 2012.

NOTE 22: BUSINESS ACQUISITIONS (CONTINUED)

b) Acquisition of the business and assets of Resources Camp Hire

On 16 August 2011, the Group, via its subsidiaries Titan Resources Camp Hire Pty Ltd and Titan Plant Logistics Pty Ltd, entered into an Asset Sale Agreement to acquire the business operations and assets of the Resources Camp Hire temporary accommodation hire business, for a purchase consideration of $16,707,077. The acquisition was completed on 24 September 2011, and is effective from 1 July 2011.

The acquisition is part of the Group's overall strategy to expand its service offerings to form a diversified Australian oil and gas field services company.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Fair Value $
Purchase consideration:	
– Cash paid	16,499,381
– Shares issued	200,000
– Liabilities incurred – employee entitlements	7,696
Total purchase consideration	16,707,077
The assets recognised as a result of the acquisition are as follows:	
– Property, plant and equipment	11,430,892
Identifiable tangible assets acquired	11,430,892
Identifiable intangible assets acquired	-
Goodwill (i)	5,276,185
Purchase consideration settled in cash as at 30 June 2012	16,499,381
Cash outflow on acquisition	16,499,381

(i) The goodwill is attributable to Resource Camp Hire's strong position and competitive advantage in the temporary accommodation hire business. No amount of the goodwill is expected to be deductible for tax purposes.

The acquired business contributed revenues of $9,133,860 and net profit before tax of $2,536,848 to the group for the period from 1 July 2011 to 30 June 2012.

Included within administration expenses in the statement of comprehensive income are acquisition-related costs totalling $211,898. The costs include advisory, legal, accounting and other professional fees.

NOTE 23: RELATED PARTY TRANSACTIONS

a. **Parent Entity**

The parent entity within the Group is Titan Energy Services Limited.

b. **Subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policies described in Note 1 (a).

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2012	2011
Atlas Drilling Co Pty Ltd	Australia	Ordinary	100%	-
Titan Plant Logistics Pty Ltd	Australia	Ordinary	100%	-
Titan Resources Camp Hire Pty Ltd	Australia	Ordinary	100%	-
Nektar Remote Hospitality Pty Ltd	Australia	Ordinary	100%	-
Atlas Drilling Services Pty Ltd	Australia	Ordinary	100%	-

c. **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 following transactions occurred with related parties:

	Note	30 June 2012 $	30 June 2011 $
Loan to related party			
– beginning of the year		40,537	69,766
– loan repayment received		-	(29,229)
– end of the year	8	40,537	40,537

The Group entered into a loan agreement with Bravic Capital Investment Pty Ltd. Brad Swain, a former director of Atlas Drilling Co Pty Ltd is a director of Bravic Capital Investment Pty Ltd. Terms of the loan included interest payable at 9% and monthly principal and interest repayments are due to be fully repaid. The directors agreed with Bravic Capital Investments Pty Ltd to suspend repayments from July 2011 to June 2012. The company expects full repayment of the loan in Q1 2013.

The Company entered into an agreement with Ironstone Capital Pty Ltd (an entity associated with Simon Keyser and Wayne Seabrook, Directors of the Company) for the provision of corporate advisory and capital raising services in relation to the initial public offering. The company paid Ironstone Capital Pty Ltd $416,851 during the period.

The company entered into an agreement with Bizzell Capital Partners Pty Ltd (an entity associated with Stephen Bizzell, a director of the company) for the provision of corporate advisory, underwriting and capital raising services in relation to the initial public offering and the convertible preference share issue. The company paid Bizzell Capital Partners Pty Ltd $454,235 during the period.

NOTE 24: KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the remuneration report contained in the directors' report on page 14 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 2012.

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

	2012 $	2011 $
Short-term employee benefits	1,121,808	35,350
Post-employment benefits	83,456	3,496
Other long-term benefits	-	-
Share-based payments	248,496	-
Total KMP compensation	1,453,760	38,846

KMP Options and Rights Holdings

The number of options and performance rights over ordinary shares held by each KMP of the Group during the financial year is contained in the Director Report on page 15.

There were no performance rights over ordinary shares issued to KMP in the financial year 2011.

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 2012	Balance at Beginning of Year	Granted as Remuneration during the Year	Issued on Vesting of Performance Rights during the Year	Other Changes during the Year	Balance at End of Year
Shaun Scott	-	-	-	696,354	696,354
Stephen Bizzell	-	-	-	2,417,585	2,417,585
Simon Keyser	-	-	-	448,609	448,609
Wayne Seabrook	-	-	-	424,240	424,240
James Sturgess	-	-	-	240,000	240,000
Jim Diakogiannis	-	-	-	1,734,032	1,734,032
David Thornton	-	-	-	17,500	17,500
Gus van der Heide	-	-	-	-	-
Darren Bishell	-	-	-	-	-
Total	-	-	-	5,978,320	5,978,320

There were no ordinary shares in Titan Energy Services Limited held by KMP in the financial year 2011.

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP (including loans), refer to Note 23: Related Party Transactions.

NOTE 25: AUDITORS' REMUNERATION

	Consolidated Group	
	2012	**2011**
	$	**$**
Remuneration of the auditor for:		
– auditing or reviewing the financial statements	90,000	7,500
– due diligence services	86,697	-
– taxation services provided by related practice of auditor	28,379	-

NOTE 26: CAPITAL AND LEASING COMMITMENTS

	Note	Consolidated Group	
		2012	**2011**
		$	**$**
a. **Finance Lease Commitments**			
Payable – minimum lease payments:			
– Within one year		2,703,075	-
– Later than one year but not later than five years		8,394,566	-
– Later than five years		-	-
Minimum lease payments		11,097,641	-
Less future finance charges		1,655,762	-
Present value of minimum lease payments	27	9,441,879	-
b. **Operating Lease Commitments**			
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:			
– Within one year		2,567,441	-
– Later than one year but not later than five years		2,376,921	-
– Later than five years		-	-
		4,944,362	-

c. **Capital Expenditure Commitments**

There were no capital expenditure commitments outstanding at 30 June 2012.

NOTE 27: CASH FLOW INFORMATION

		Consolidated Group	
		2012	**2011**
		$	**$**
a.	**Reconciliation of Cash Flow from Operations with Profit after Income Tax**		
	Profit after income tax	2,270,190	(113,630)
	Non-cash flows in profit:		
	– Amortisation		
	– Depreciation	3,513,413	83
	– net gain on disposal of property, plant and equipment	(9,055)	-
	– Share based payments	737,795	-
	Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
	– (increase)/decrease in trade and term receivables	(4,357,754)	-
	– (increase)/decrease in prepayments	(28,855)	-
	- (increase)/decrease in stock	(76,354)	-
	– increase/(decrease) in trade payables and accruals	3,467,311	34,000
	– (increase)/decrease in income tax asset	265,876	-
	– increase/(decrease) in income taxes payable	826,058	-
	– increase/(decrease) in deferred taxes payable	(22,830)	-
	– (increase)/decrease in deferred taxes receivable	(195,424)	-
	– increase/(decrease) in provisions	72,107	3,846
	Cash flow from operations	6,462,478	(75,701)

b. **Acquisition of Entities**

Refer to Notes 22 a) and b) for further details on cash and non-cash transactions in relation to the acquisition of subsidiaries during the year.

NOTE 27: CASH FLOW INFORMATION (CONTINUED)

		Consolidated Group	
		2012	2011
		$	$
c.	**Credit Standby Arrangements with Banks**		
	Credit facility	1,000,000	-
	Amount utilised	-	-
		1,000,000	-

The major facilities are summarised as follows:

Bank overdrafts:

Bank overdraft facilities are arranged with National Australia Bank with the general terms and conditions being set and agreed to annually.

Interest rates are variable and subject to adjustment.

		2012	2011
d.	**Loan Facilities**		
	Loan facilities	10,617,364	-
	Amount utilised	9,441,879	-
		1,175,485	-

The major facilities are summarised as follows:

Revolving loan facility:

The facility expires in 2015. Termination of the agreement can be effected by notice in writing from either party. Interest rates are fixed at time of drawdown and remain fixed throughout the term of the loan. The rate is the based on BBSW and a margin set by the finance provider which is subject to change without notice.

Asset Finance (Amortising) facility:

The facility expires in 2015. Termination of the agreement can be effected by notice in writing from the Titan Group. The interest rate was fixed at the time of drawdown. The current interest rate is 8.01%. There were no borrowings in Titan Energy Services Limited of this nature in 2011.

Finance will be provided under all facilities on the condition that the company and the consolidated group have not breached any borrowing requirements and the required financial ratios are met.

NOTE 28: 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
Simon Keyser
Wayne Seabrook

Options

During the year, the Non-executive directors were issued with options with the following key conditions attached:

1. The options were issued for nil consideration
2. The commencement date for the exercise of the options is 7 December 2012
3. Unexercised options will expire on the earlier of :
    a. Three years after the commencement date
    b. The business day after the expiration of three months after the option holder ceases to be a Director of Titan Energy Services Limited
    c. The date on which the option holder ceases to be a director of Titan Energy Services Limited due to fraud or dishonesty
4. The exercise price is $1.20
5. 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 2011	-	-
Granted	1,192,447	1.20
Forfeited	-	-
Exercised	-	-
Expired	-	-
Options outstanding at June 2012	1,192,447	1.20

Further details of these options are provided in the directors' report. The options hold no voting or dividend rights and have not been listed.

Included under employee benefits expense in the statement of comprehensive income is $142,221 which relates to equity-settled share-based payment transactions (2011: Nil). These values 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%

NOTE 28: SHARE-BASED PAYMENTS (CONTINUED)

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	Titan Energy Services Limited
Jim Diakogiannis	Executive Director	Titan Energy Services Limited
David Thornton	CFO and Company Secretary	Titan Energy Services Limited
Gus van her Heide	General Manager	Atlas Drilling Co Pty Ltd
Darren Bishell	General Manager	Titan Plant Logistics Pty Ltd (RCH)

Performance Rights

During the year, KMP were issued with a series of performance rights as part of their employment terms and conditions. The performance rights will vest based on the following:

- 50% based on the attainment of business key performance indicators; and
- 50% based on share price performance

The performance rights attached to the business KPI's are divided into three equal tranches for the first 3 years of employment. The business KPI's are a combination of Titan Group and business unit profit targets.

The performance rights attached to the share price performance for James Sturgess and Jim Diakogiannis will vest over three equal tranches based on the following:

- Ten day volume weighted average price (VWAP) of Titan Energy Services Limited shares is greater than $1.76;
- Ten day VWAP of Titan Energy Services Limited shares is greater than $2.06;
- Ten day VWAP of Titan Energy Services Limited shares is greater than $2.35.

The performance rights attached to the share price performance for David Thornton, Gus van der Heide and Darren Bishell will vest over three equal tranches based on the following:

- Ten day volume weighted average price (VWAP) of Titan Energy Services shares is greater than $1.50;
- Ten day VWAP of Titan Energy Services Limited shares is greater than $1.75;
- Ten day VWAP of Titan Energy Services Limited shares is greater than $2.00.

Performance Rights granted to key management personnel are as follows:

Grant Month	Number
November 2011	870,000

Further details of these performance rights are provided in the directors' report. 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.

NOTE 28: SHARE-BASED PAYMENTS (CONTINUED)

Included under employee benefits expense in the statement of comprehensive income is $182,955 which relates to equity-settled share-based payment transactions (2011: Nil). The values of performance rights attached to share price performance were calculated using the Monte Carlo option pricing model applying the following inputs:

Expected share price volatility:	44.9%
Risk-free interest rate:	3.97%
Dividend Yield	6.0%

NOTE 29: FINANCIAL RISK MANAGEMENT

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

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:

	Note	Consolidated Group	
		2012 $	2011 $
Financial assets			
Cash and cash equivalents	7	1,419,374	15,802
Trade and other receivables	8	6,536,348	-
Total financial assets		7,955,722	15,802
Financial liabilities			
Trade and other payables	13	7,419,465	34,000
Borrowings	14	9,441,879	122,242
Total financial liabilities		16,861,344	156,242

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 issues, 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 on a quarterly basis 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.

NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and interest rate risk.

a. **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 31 (ii) for details).

The Group has no significant concentrations of credit risk with any single counterparty or group of counterparties. However, 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 8.

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 8.

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.

	Note	Consolidated Group	
		2012	**2011**
		$	**$**
Cash and cash equivalents:			
– AA- rated		772,204	15,802
– BBB+ rated		647,170	-
	7	1,419,374	15,802

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

b. 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. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. 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		Over 5 Years		Total	
		2012	2011	2012	2011	2012	2011	2012	2011
Consolidated Group	**Note**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Financial liabilities due for payment									
Bank overdrafts and loans		-	-	-	-	-	-	-	-
Trade and other payables	13	7,419,465	34,000	-	-	-	-	7,419,465	34,000
Amounts payable to related parties		-	122,242	-	-	-	-	-	122,242
Finance lease liabilities	14	2,054,568	-	7,387,311	-	-	-	9,441,879	-
Total contractual outflows		9,474,033	156,242	7,387,311	-	-	-	16,861,344	156,242
Less bank overdrafts									
Total expected outflows		9,474,033	156,242	7,387,311	-	-	-	16,861,344	156,242

NOTE 29: FINANCIAL RISK MANAGEMENT (CONTINUED)

c. **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 borrowings, and cash and cash equivalents.

Interest rate risk is managed using fixed rate debt. At 30 June 2012, 100% of group debt is fixed rate.

Sensitivity analysis

The Group's interest rates are 100% fixed, and therefore not subject to changes in market interest rates. Therefore, a sensitivity analysis has not been performed.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012**

NOTE 30: PARENT INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2012 $	2011 $
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current assets	12,894,987	42,918
Non-current assets	9,647,129	3,543
TOTAL ASSETS	22,542,116	46,461
LIABILITIES		
Current liabilities	991,272	160,088
Non-current liabilities	-	-
TOTAL LIABILITIES	991,272	160,088
EQUITY		
Issued capital	22,570,843	3
Retained earnings	(1,345,175)	(113,630)
Option reserve	325,176	-
TOTAL EQUITY	21,550,844	(113,627)
STATEMENT OF COMPREHENSIVE INCOME		
Total profit (loss)	(1,231,547)	(113,630)
Total comprehensive income	(1,231,547)	(113,630)

Guarantees

Titan Energy Services Limited has entered into guarantees in the current financial year, in relation to the debts of its subsidiaries. Refer note 31 for further details.

Contingent liabilities

At 30 June 2012, Titan Energy Services Limited did not have any contingent liabilities. Refer above for information on guarantees given by the parent entity.

Contractual commitments

At 30 June 2012, Titan Energy Services Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2011: nil).

NOTE 31: CONTINGENT LIABILITIES

The Group had contingent liabilities at 30 June 2012 in respect of:

(i) Proceedings against Atlas Drilling Employees May 2012

In May 2012, proceedings were commenced by the commissioner under the Petroleum and Gas (Production and Safety) Act (Qld) (P&G Act) against two former employees of the company's wholly owned subsidiary, Atlas Drilling Co Pty Ltd in relation to an injury. Neither Atlas Drilling nor Titan Energy Services Limited is a party to the proceedings. Accordingly they do not have any financial exposure to the proceedings. It is expected the Group's insurance policy will cover the costs of defending the proceedings and any pecuniary penalties that may be imposed.

During the year, another action by the Commissioner under the P&G Act in May 2011 against two former employees of Atlas Drilling for an injury to an employee in May 2009 was settled with the Commissioner. The company's insurers covered the costs associated with the defence and pecuniary penalties.

(ii) Guarantees

National Australia Bank - An Inter Locking Guarantee and Indemnity between Titan Energy Services Limited and all wholly owned subsidiaries, supported by 1st Registered Fixed and Floating Charges.

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. The Guarantors jointly and severally indemnify RWT against any loss in relation to the non payment or recovery of debt owing.

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 32: EVENTS AFTER THE END OF THE REPORTING PERIOD

The directors have recommended a final fully franked ordinary dividend of $569,135 (2.0 cents per fully paid share) be paid on 19 October 2012 out of retained profits and a positive net asset balance at 30 June 2012.

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 33: COMPANY DETAILS

The registered office of the company is:

Titan Energy Services Limited

1/170 Montague Road

South Brisbane, QLD, 4101

The principal places of business are:

– Atlas Drilling Co Pty Ltd

  1/170 Montague Road
  South Brisbane QLD, 4101

– Resources Camp Hire Pty Ltd

  1/170 Montague Road
  South Brisbane QLD, 4101

– Titan Plant Logistics Pty Ltd

  1/170 Montague Road
  South Brisbane QLD, 4101

– Nektar Remote Hospitality Pty Ltd

  1/170 Montague Road
  South Brisbane, QLD, 4101

– Atlas Drilling Services Pty Ltd

  1/170 Montague Road
  South Brisbane, QLD, 4101

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 19 to 68 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. giving a true and fair view of the financial position as at 30 June 2012 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 s 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer.

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

James Sturgess
Director

Brisbane, 21 August 2012

lawler hacketts chartered accountants

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 2012, 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, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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.

Lawler Hacketts Audit
ABN 33 873 151 348

Brisbane
Level 3, 549 Queen Street
Brisbane QLD 4000 Australia
telephone 07 3839 9733
facsimile 07 3832 1407

www.lawlerhacketts.com.au
advice@lawlerhacketts.com.au

Independence

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

Opinion

In our opinion:

a) the financial report of 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 2012 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.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 11 to 16 of the Directors' Report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001.*

Lawler Hacketts

LAWLER HACKETTS AUDIT

Liam Murphy
Partner
Brisbane, 21 August 2012