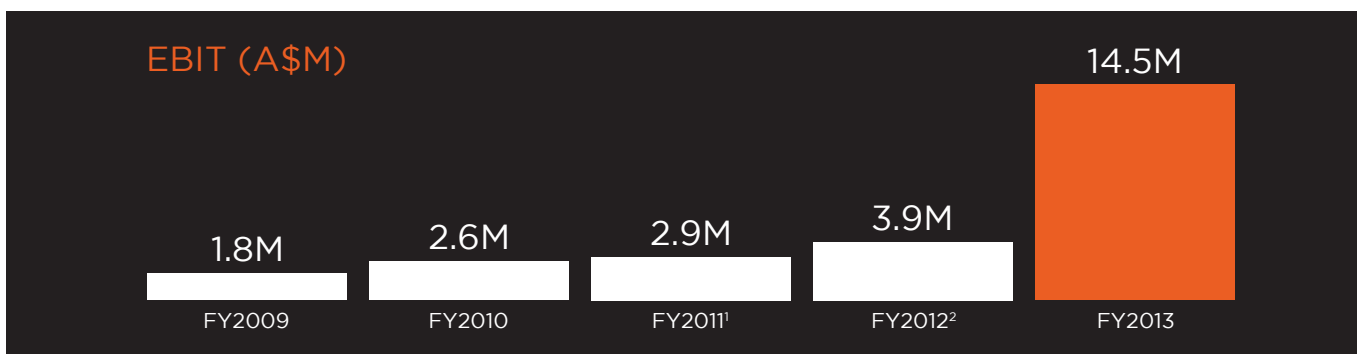




# STRONG PLATFORM FOR GROWTH

ANNUAL REPORT 2013

# FY13 HIGHLIGHTS



**\$14.5M**

Delivery above EBIT guidance

**+272%**

Growth on prior period

## SHAREHOLDER RETURNS

22.2c EPS  
5.5c Dividend

## SAFETY

Improved safety performance  
TRIFR<sup>3</sup> of 16.9

## ATLAS

Increased utilisation to 91%

## RCH

186% capacity increase  
since June 2012

## NEKTAR

63,000 man days catered

## HOFCO

Acquisition of market  
leader in CSG drilling  
rental equipment

<sup>1</sup> Proforma Consolidated Results for Titan Energy Services for the year ended 30 June 2011, assuming Titan Energy Services operated RCH and Atlas Drilling for year then ended. Prior year results based on audited management accounts of Atlas Drilling Co Pty Ltd and RCH that now form part of the Titan group. For the FY11 year, RCH was owned by the Hinman group with whom the Titan group entered into an asset sale agreement to acquire the assets of RCH as of 1 July 2011. These results formed the basis of the historical data provided in the Titan Prospectus in November 2011.

<sup>2</sup> Proforma EBIT is arrived at after adding back transaction costs associated with the RCH acquisition and share based expenses associated with the company's IPO.

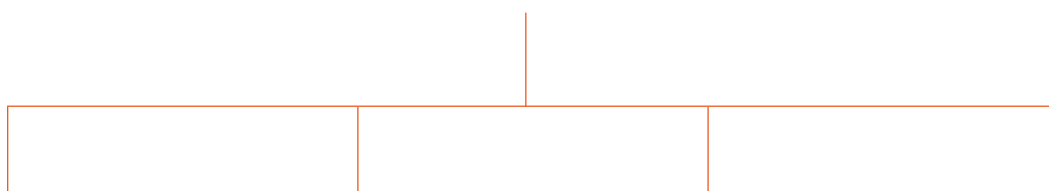
<sup>3</sup> TRIFR - Total Recordable Incidents Frequency Rate.



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# COMPANY OVERVIEW



## CSG DRILLING SERVICES

- 4 rigs under contract
- 3 owned rigs, 1 hired
- High utilisation
- 'Blue chip' customers

Atlas was established in 2007 and has become a well known player in the CSG drilling industry. The business is highly regarded within the sector and is performing solidly, both in terms of quality of contract and profitability.



## PORTABLE CAMP HIRE

- 674 rooms at 30 June 2013
- Servicing CSG construction and production projects
- Experiencing good growth

The RCH portable accommodation business was acquired in September 2011 and has also developed a track record of solid growth. RCH now operates in excess of 670 rooms, up from 110 rooms at acquisition.



## CAMP CATERING AND MANAGEMENT

- Organic start-up business
- Commenced in April 2012
- 8 contracts secured
- Experiencing solid growth

In line with our diversification strategy, Nektar was established in April 2012 to deliver high quality catering and camp management services to remote accommodation service providers. Nektar has already developed a strong reputation and catered more than 60,000 man-days during FY13.



## DOWN-HOLE TOOL RENTAL

- Rental provider of drilling equipment to the oil and gas sector
- BDM appointed
- Growth potential in new tools and geographies

Our latest addition, Hofco, has become a highly respected market leader in CSG drilling rental equipment during its 30 plus years. Titan sees solid future growth opportunities for this business, along with significant synergies following its integration into the Titan group.





## CHAIRMAN'S REPORT

Dear shareholder

FY13 was a successful year for our company, with several memorable highlights in our first full year of trading.

Welcome to Titan Energy Services' (Titan) annual report for FY13.

In our inaugural annual report 12 months ago, we outlined strong financial results for FY12 and unveiled a series of strategies that had been put in place to create future value for shareholders. Pleasingly, these strategies delivered solid returns during the 12 months to 30 June 2013, as Titan recorded strong earnings and business growth.

Market guidance was upgraded three times during the course of the year, with EBIT reaching \$14.5m - more than double the initial forecast for FY13 and an increase of 272% on FY12 results.

We also provided record returns to shareholders, with earnings per share of 22.2 cents (147% improvement on the previous year), and FY13 dividends of 5.5c.

22.2c EPS  
**+147%**  
on FY12 EPS

### OTHER HIGHLIGHTS INCLUDED:

- Ongoing business growth within our core operating units;
- The \$20.9m acquisition of a new business, Hofco Oilfield Services. This acquisition was funded by a combination of equity raising (\$18m) and operating cashflow;
- Payment of our inaugural dividend (2 cents per share fully franked) in September 2012 and the launch of a Dividend Reinvestment Plan; and
- Development of a strong financial base, which means the company is ready to take advantage of future opportunities.

The group's debt was refinanced during the first half, while the equity raising, which included an \$11m placement to institutional and professional investors and a \$7m one-for-four non-renounceable pro-rata entitlement offer, meant Titan was not required to leverage extensively to purchase Hofco.

At year-end, Titan had \$12.4m of net debt (including the Hofco deferred payment of \$5.8m) and gearing of 19% (gearing was 24% at 30 June 2012 and 27% at 31 December 2012).

FY13 Dividend

**5.5c**

up 146% on FY12

Credit for the notable achievements outlined must, of course, go to our people, and on behalf of the Board, I extend our thanks to the hard-working team that makes up the Titan Group.

With the addition of Hofco in March 2013, Titan now has four core businesses – Atlas Drilling, Resources Camp Hire (RCH), Nektar Remote Hospitality and Hofco.

All four businesses performed strongly in FY13, meeting or exceeding forecasts. Importantly, each business also invested in systems and key roles that will drive future growth and deliver on strategies for FY14.

With its existing brand presence and footprint, the company has developed a solid platform for growth and diversification, both organically and via acquisition.

We are well placed to capitalise on the continuing expansion that is expected to take place within the CSG-LNG industry over the next 20 plus years.

With a view to creating additional shareholder value, Titan will broaden its horizons by:

- Investing into new business opportunities;
- Expanding into new geographies within Queensland and elsewhere; and
- Targeting new industry segments.

Diversification is important for Titan's medium and long-term success and strategies are in place to ensure we deliver.

We look forward to reporting on our progress during the year ahead.



**Shaun Scott**  
Chairman



## MANAGING DIRECTOR'S REPORT

FY13 delivered improved performance across all key measures, successfully building on strong foundations established in the previous year.

By all measures, FY13 was a successful one for Titan Energy Services, evidenced by:

- Continued investment taking place in the business – this included our largest acquisition to date, Hofco;
- Significant progress in implementing our strategy;
- Improved shareholder returns; and
- Financial results exceeding expectations.

In terms of results, net profit after tax increased from \$2.3m to \$9.1m in our first full year of trading.

EBIT increased from \$3.9m to \$14.5m – 272% growth. This was in line with upgraded guidance but well in excess of the company's initial target.

In total, guidance was upgraded three times during the year as Titan continued to surpass expectations.

The company initially targeted full year EBIT between \$7m-\$8m, but boosted its guidance range to \$8m-\$9m in November, and then to \$9m-\$10m in January. A third upgrade to \$12.5m-\$13.5m was announced in March.

Importantly, shareholders benefited from the company's success with significantly improved returns. Titan's financial achievements are summarised in the table below.

**+272%**  
on FY12  
results (EBIT)

RESULTS (\$ MILLION UNLESS STATED OTHERWISE)	FY13	FY12	GROWTH
Revenue	72.9	33.5	118%
EBIT	14.5	3.9	272%
Margin	19.9%	11.6%	8.3%
NPAT	9.1	2.3	296%
EPS	22.2c	9.0c	147%
Dividend	5.5c	2.0c	175%





## Operational Review

Titan started the year with strategies in place to drive future growth within each of the company's core businesses. Pleasingly, these businesses delivered strong bottom-line returns to drive Titan's overall growth.



## Atlas Drilling

With the addition of a fourth rig during FY13, Atlas Drilling owns three production rigs and operates the fourth under a Dry Hire Agreement with an external party.

The business recorded strong utilisation and delivered another record profit during the year, in addition to enhancing its offering by upgrading Rig 2 and with the addition of Rig 4.

Atlas has now been operating in the CSG-LNG industry for six years and has developed strong relationships with a stable of blue-chip clients.

### STRATEGIES TO DRIVE FUTURE GROWTH INCLUDE:

- Enhancing relationships with key clients;
- Ensuring all rigs are continuously contracted with top tier clients;
- Exploring efficient funding solutions for future rig growth; and
- Exploring opportunities in work over rigs.

In May 2013, Troy Schefe was appointed Atlas General Manager, after Atlas co-founder and Titan Director, Jim Diakos, took on a Group business development role.

Troy has more than 15 years of oil and gas experience in Australia, the Middle East and Asia. He was consulting to Atlas for six months prior to his appointment, managing the build of Rig 4 which was completed successfully on time and within budget.

### ATLAS FINANCIAL PERFORMANCE SUMMARY

RESULTS (\$ MILLION UNLESS STATED OTHERWISE)	FY13	FY12	GROWTH
Utilisation	91%	82%	9%
Revenue	35.4	24.5	44%
EBIT	4.2	2.8	50%
EBIT Margin	12%	11%	1%
CAPEX	5.9	3.3	79%
PP&E	17.8	14.6	22%



# Resources Camp Hire (RCH)

RCH is a full service portable accommodation specialist currently servicing CSG construction and production projects.

Since acquisition in September 2011, RCH has experienced strong growth.

Room numbers increased from 110 at acquisition to 236 in FY12, and to 674 at the current year-end with additional camps on order to service future accommodation contracts. This represents growth of 186% on FY12 capacity. Contracts currently range from three to eighteen months, with an average term in the order of six months.

The business delivered a record profit, thanks to healthy utilisation and continued high margins. Utilisation remained consistent at 84% (86% the previous year), while room numbers more than doubled.

## STRATEGIES TO DRIVE FUTURE GROWTH INCLUDE:

- Capitalising on growth in the Queensland CSG sector in the short-term;
- Exploring preferred supplier status with major CSG clients and expanding current relationships with key clients. The business now has preferred supplier status with APLNG and QGC; and
- Exploring opportunities in new sectors and geographic markets.

Darren Bishell continues as RCH's General Manager.

## RCH FINANCIAL PERFORMANCE SUMMARY

RESULTS (\$ MILLION UNLESS STATED OTHERWISE)	FY13	FY12	GROWTH
Year End Rooms	674	236	186%
Weighted Rooms	462	148	212%
Utilisation	84%	86%	(2%)
Total Revenue	33.9	9.1	273%
Camp Revenue	17.7	6.1	190%
EBIT	9.0	2.8	221%
Margin	27%	31%	(4%)
CAPEX	3.1	4.3	(28%)
PP&E	15.6	14.2	10%





## Nektar Remote Hospitality

Nektar was a start-up business launched in April 2012 to deliver catering and camp services, specialising in remote locations.

Nektar was a logical organic growth opportunity for the Group and its success to date highlights our ability to diversify into associated areas of business.

The business is currently servicing six major contracts and has catered 62,694 man days through to the end of June 2013. Nektar margins are in line with expectations.

### STRATEGIES TO DRIVE FUTURE GROWTH INCLUDE:

- Expanding into different geographies and industry segments;
- Targeting temporary and permanent catering and camp management opportunities both alongside RCH and as a standalone offering; and
- Employing a dedicated BDM resource for Nektar.

Lee Buckingham joined the group as GM in April 2012 to establish and develop the Nektar business. Lee has more than 25 years of product development, catering and new business development experience.

At the end of June, Nektar employed 80 staff covering chefs, camp attendants and support staff.

### NEKTAR FINANCIAL PERFORMANCE SUMMARY<sup>1</sup>

RESULTS (\$ MILLION UNLESS STATED OTHERWISE)	FY13	FY12
Days catered	62,694	276
Revenue	8.6	0.03
EBIT	1.9	(0.04)
Margin	22%	-
CAPEX	-	-
PP&E	-	-

<sup>1</sup> As a start-up business FY13 is Nektar's first full year of trading.



# Hofco Oilfield Services

Hofco was established in 1980 and acquired by Titan in March 2013. The business is now integrated into the Titan Group and performing in-line with expectations.

Hofco is a market leader in CSG drilling rental equipment, with a strong client base and solid growth potential within Titan.

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

While utilisation rates are lower than those experienced in other parts of Titan, margins are generally higher.

## STRATEGIES TO DRIVE FUTURE GROWTH INCLUDE:

- Expansion of Hofco's down-hole tool rental range;
- A focus on the CSG sector, with the potential to expand into alternate drilling markets;
- Geographic expansion; and
- Leveraging existing Titan Group clients.

## HOFCO FINANCIAL PERFORMANCE SUMMARY<sup>1</sup>

RESULTS (\$ MILLION UNLESS STATED OTHERWISE)	FY13	FY12
Revenue	3.7	N/A
EBIT	2.9	N/A
Margin	78%	N/A
CAPEX	0.5	N/A
PP&E	6.2	N/A

<sup>1</sup> Hofco results in FY13 for 1 Jan to 30 Jun 2013 representing trading since effective date of control.



## EBIT reaching **\$14.5m**

### SAFETY

The group continues to place people's safety first and is focussed on enhancing its performance.

Safety reporting across the group is consistent and transparent and seeks to reinforce the philosophy of continuous improvement in safety outcomes.

The Group achieved an overall Total Recordable Injury Frequency Rate (TRIFR) result of 16.9 during FY13. While this result is a modest improvement over last year (17.9), the Group is committed to providing a safe environment for all staff and contractors and has taken steps to increase safety resources, awareness and outcomes.

### PEOPLE

Titan is a service company and our people are critical in providing high end, consistent and value-adding services across our operations. Titan has continued to build strong teams in FY13, recruiting key leadership, business development, operational and safety roles across all businesses. These roles are essential to creating businesses capable of continuous and replicable growth.

We have also launched several programs geared towards retention, reward and recognition including:

- Short Term Incentives (STIs). This is a program to align our employees to the corporate goals of safety and profit improvement. Payment is based on pre-determined, objective and measurable targets;
- Long Term Incentives (LTIs). This is a performance rights plan to reward retention of our people in a competitive and fast growing environment;

### Titan recorded strong earnings and business growth.

- The Titan Corporate Health Plan, in partnership with BUPA, provides very competitive benefits and discounted premiums; and
- Our Employee Assistance Program (EAP) is available to all staff members where they require external advice or support in times of need.

Titan has developed a performance-based culture that links an individual's performance to remuneration through short term cash incentives and long-term rewards.

STIs provide cash incentives based on performance in relation to KPIs that are pre-determined, objectively measurable, and linked to overall Group performance, expansion and profit. We want our people to own the Company's success and be rewarded for their role in contributing to Business and Group performance.

The purpose of our LTI plan is to drive performance and retention during a time of substantial industry growth by offering a series of performance rights over three years. The LTI plan aligns staff to shareholder returns through share ownership.

Another important initiative launched this year is the Titan Staff Awards program to recognise high achieving staff. Our first awards and recognition event will be held in July 2014 to celebrate amongst their peers, individuals and businesses that have achieved outstanding performance in FY14.

### MARKETING

Titan appointed a Marketing Manager during the year to lead marketing strategy and branding requirements for the group.

One of the key priorities for the role was to develop consistent standards and processes that can be quickly replicated as our business grows, changes and enters new markets.

This involved creating guidelines around brand management as well as developing templates for marketing collateral, ranging from brochures, signage and display materials to electronic applications and websites.

Every business, including Titan, refreshed its brand late in FY13. A rollout plan is underway to update all printed and electronic collateral over the coming months.

A consistent and professional branding strategy is a significant driver of market perception as we focus on positioning ourselves as a top tier energy and infrastructure services provider.

Key achievements in FY13 include:

- Launched new brands for all of our businesses late in the second half. Rollout of the new branding across printed and electronic materials is ongoing, including redevelopment of all websites;
- Development of brand and style guidelines around the presentation of our businesses individually, and together as a Group;
- Introduced procedures and metrics to evaluate marketing activities, ranging from qualitative factors such as brand awareness and goodwill through to quantitative ROI measures;

- Increased presence at relevant industry tradeshows and events, including Investor Forums. Flagship industry events will form part of our ongoing marketing strategy in FY14;
- New advertising material including a large lightbox display at Darwin Airport to support our goals of entering that geographic market;
- Development of branded presentations and proposals to support BD activities and client engagement;
- Production of new signage, display and exhibition materials; and
- Review of branded merchandise and collateral to improve cost-efficiency, quality and brand consistency.

## GROWTH STRATEGIES AND OUTLOOK

Titan has developed strong business platforms - including extensive industry knowledge and contacts - in a segment that is poised to expand rapidly.

Within the Queensland CSG Market, activity continues to grow as the major projects move closer to production. Titan remains well placed to maximise exposure to this growth during the development phase and service the industry once in full production.

While this highlights the scale of the opportunity that is available in Queensland, it does not factor in opportunities that are available to Titan and its businesses in other CSG markets and in other sectors.

Titan is well aware of these opportunities, which include shale gas in the Cooper Basin, CSG in the Northern Territory, Western Australia and ultimately New South Wales.

Titan has a well defined diversification strategy that will underpin its expansion into new geographies and segments in the short to medium term.

Diversification opportunities include:

- New businesses in existing and related sectors - drilling, camps, catering, rental and other
- New geographies within Queensland, the Northern Territory, South Australia and elsewhere; and
- New industry segments, including rail, road and pipeline

While there are always challenges, Titan has solid future growth prospects including:

- Growing RCH room numbers as demand dictates;
- Nektar targeting permanent camps and businesses outside of RCH and the CSG sector;
- Expanding Hofco's rental offering in new states and business segments; and
- Examining new opportunities to grow organically and through acquisition.

Once again, I would like to take this opportunity to thank our shareholders, many of whom have remained with the company prior to and since listing on the ASX.

Management is focused on delivering strong growth within the business and maintaining our commitment to dividends as we grow.

Pleasingly, our businesses are performing at record levels, our balance sheet remains strong and we expect to generate significant cashflow during the year to fund continued growth.

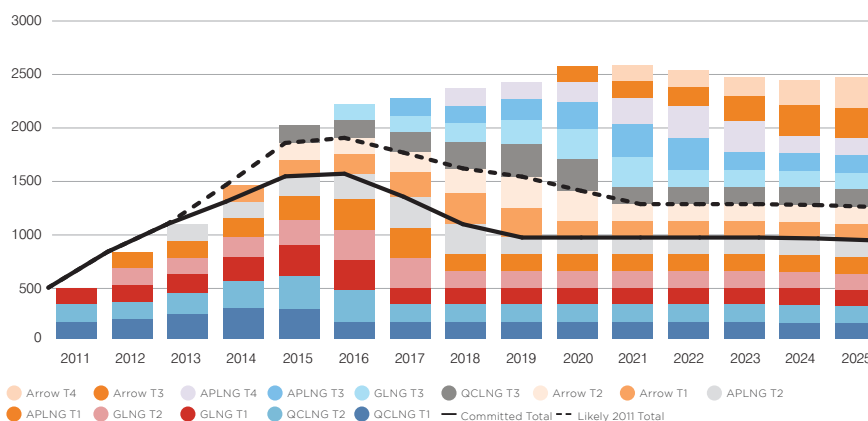
I would like to thank our people for their hard work and ongoing commitment in what has been a very busy and successful year.

Sincerely



**Jim Sturgess**  
Managing Director

## QUEENSLAND CSG LNG DRILLING (# OF WELLS)



Source: ACIL Tasman Industry Report 2013.

# BOARD OF DIRECTORS



**Shaun Scott** B.Bus, BA, ACA

**INDEPENDENT NON-EXECUTIVE CHAIRMAN**

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 a Non-executive Director of ASX listed Dart Energy Ltd, Site Group International Ltd and Chairman of Anaeco Ltd. He was previously a Non-executive Director of ACER Energy 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.



**Jim Sturgess** B.Comm, FCA

**MANAGING DIRECTOR**

Jim was previously CEO of the City of Brisbane Investment Corporation – a start up role to establish Brisbane’s future fund. Prior to this, Jim was CFO and then Executive General Manager at Flight Centre Limited, a global travel company. Jim is a former director of the Australian Federation of Travel Agents. His experience in recent years has been in start-up and growth companies including acquisitions, integration, culture and leadership.

Jim has worked at Starwood Hotels and Resorts in a number of roles including Finance Director and Director of Human Resources. He has also held senior positions at Ernst & Young in Brisbane, Sydney, Melbourne and Vancouver, Canada.

Aside from his leadership skills, Jim brings to the company experience in marketing and branding.



**Jim Diakos** B.Eng, B.Sc

**EXECUTIVE DIRECTOR AND DIRECTOR – BUSINESS DEVELOPMENT**

Jim is a co-founder of Atlas Drilling and has 20 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.



**Stephen Bizzell** B.Comm, MAICD

**NON-EXECUTIVE DIRECTOR**

Stephen is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. He is also a Non-executive Director of Armour Energy Ltd, Dart Energy Ltd, Diversa Ltd, Hot Rock Ltd, Stanmore Coal Ltd and Queensland Treasury Corporation and Chairman of Laneway Resources Ltd and Renaissance Uranium Limited.

Stephen was an Executive Director of Arrow Energy Ltd from 1999 until its acquisition in 2010 by Shell and PetroChina for \$3.5 billion. He was instrumental in Arrow’s corporate and commercial success and its growth from a junior explorer to a large integrated energy company.

Stephen qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst & Young and the Corporate Tax division of Coopers & Lybrand. He has had considerable experience and success in the fields of corporate restructuring, debt and equity financing, and mergers and acquisitions and has over 20 years’ corporate finance and public company management experience in the resources sector in Australia and Canada with various public companies.



**Simon Keyser** B.Bus, ACA

**NON-EXECUTIVE DIRECTOR**

Simon has over 20 years experience in the finance industry including specialising in the resources and energy sectors. He is the co-owner of Ironstone Capital Partners Pty Ltd, a corporate advisory business. Simon is a Director of XLX Pty Ltd, an investment company focussed on the resources and energy sectors. XLX is a major shareholder in Titan Energy Services Limited. Simon is also a Director of Malabar Coal Ltd.

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.



**Mark Snape<sup>1</sup>** B.Ec, MBA, ACA, FAICD

**INDEPENDENT NON-EXECUTIVE DIRECTOR**

Mark has considerable experience in the energy sector, large scale infrastructure development, risk management and project financing. He is currently Chief Executive Officer of Rivercity Motorway Group.

Prior to joining Rivercity Motorway Group, Mark held various senior management positions including Group General Manager – Infrastructure, Finance and Investment for John Holland, Managing Director in Australia for American Electric Power, Director of Deloitte Corporate Finance, Director of Country Natwest Corporate Finance and Director of BZW Corporate Finance. Mark is a Non-executive Director of Access Capital Advisers Pty Limited and has held non-executive director positions for ASX-listed entities Connecteast Group, Brisconnections Group, and Pacific Hydro Limited.

*1. As per the ASX release dated 18 October 2012 Wayne Seabrook resigned from the Titan Board being replaced by Mr Mark Snape.*



# SENIOR MANAGEMENT

## **Jim Sturgess**

### **MANAGING DIRECTOR**

Refer to previous page.

## **Jim Diakos**

### **DIRECTOR AND DIRECTOR - BUSINESS DEVELOPMENT**

Refer to previous page.



## **David Thornton** B.Bus, CPA, MAICD

### **CHIEF FINANCIAL OFFICER (CFO)**

David Thornton joined Titan Energy Services in September 2011 as CFO. David has experience as a senior finance professional across a range of industries including manufacturing, retail and media. Prior to joining Titan Energy Services, David served in senior finance roles in the Bradnam group, a major supplier to the construction industry and APN News and Media as part of the Australian and New Zealand publishing businesses. In addition to leading the various finance functions in these businesses, David was involved in business strategy development and business restructuring to meet long term cyclic change of these industries.



## **Gus van der Heide**

### **CHIEF OPERATING OFFICER**

Gus has more than 30 years experience in the oil and gas industry, much of that on international assignment throughout Asia as well as significant time in Australia. Prior to returning home to Brisbane, Gus was Far East Vice President for NOV Well Site Services based in Singapore, with responsibility for organic and geographical growth in solids control and waste management businesses. Gus brings a broad range of operations and strategic management experience in the oil and gas services sector to Atlas Drilling.



## **Troy Scheffe** B.Tech (Eng), Dip Bus

### **GENERAL MANAGER, ATLAS DRILLING**

Troy was appointed to the General Manager role with Atlas in May 2013. He has over 15 years of oil and gas experience in Australia and overseas, including a diverse range of projects in Kazakhstan, Turkmenistan, South America, Kuwait and PNG. Troy was contracted to Atlas for six months prior to his appointment, managing the build of Rig 4, which was completed on time and on budget.



## **Darren Bishell**

### **GENERAL MANAGER, RESOURCES CAMP HIRE (RCH)**

Darren has held General Manager roles in the oil and gas services sector with the Shorelands Group, ShoreAir and Veolia Environmental Services. Darren has extensive experience in logistics management in Australia and overseas, specialising in project management in remote areas during 20 years with the Australian Department of Defence.



## **Lee Buckingham**

### **GENERAL MANAGER, NEKTAR REMOTE HOSPITALITY**

Lee has been General Manager of Nektar since the company formed in April 2012. Lee has over 20 years local and international hospitality experience including Executive Chef, operations and resort management roles. He has a strong background in product development, catering and new business development.



## **Kerstine Plummer** B.Econ

### **GENERAL MANAGER, HOFCO OILFIELD SERVICES**

Kerstine joined Hofco in 2000, working in the family business with her father and company founder, Ian Hoffmeier. After Hofco was purchased by Titan earlier this year, Kerstine remained as General Manager and has overseen the successful integration of Hofco into the Titan Group. Kerstine has over 30 years of management experience including 13 in the oil and gas industry.

# FINANCIAL REPORT

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# DIRECTORS' REPORT

Your directors present their report, together with the financial statements of the Group, being Titan Energy Services Limited ('Titan', the 'Company') and its controlled entities, for the financial year ended 30 June 2013.

## DIRECTORS

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

Shaun Scott (Chairman)

Stephen Bizzell

Simon Keyser

Mark Snape (appointed 18 October 2012)

James Sturgess

Jim Diakogiannis

Wayne Seabrook (resigned 18 October 2012)

## PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial year were the provision of drilling, accommodation, catering and rental 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 acquired Hofco Oil Field Services Pty Ltd (Hofco) on 15 March 2013. Hofco is a leading provider of specialist downhole rental equipment to the Queensland CSG and wider oil and gas industry throughout Australia. Hofco was acquired for an amount of \$30,486,310 including cash of \$9,561,444 in cash equating to an acquisition cost of \$20,924,866 on a cash and debt free basis.

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 \$'000	Camps \$'000	Catering <sup>1</sup> \$'000	Equipment Hire \$'000	Total \$'000
<b>Year ended 30 June 2013</b>					
<b>Revenue</b>					
Revenue from external customers	35,361	33,642	4	3,432	72,439
Inter-segment revenue	50	298	8,551	191	9,090
<b>Total segment revenue</b>	<b>35,411</b>	<b>33,940</b>	<b>8,555</b>	<b>3,623</b>	<b>81,529</b>
<b>Segment result - EBIT</b>	<b>4,168</b>	<b>9,016</b>	<b>1,927</b>	<b>2,781</b>	<b>17,892</b>
Unallocated:					
Interest revenue					265
Net gain on disposal of property, plant and equipment					200
Interest expense and borrowing costs					(1,448)
Depreciation					(14)
Corporate expenses					(3,569)
<b>Net profit before tax from continuing operations</b>					<b>13,326</b>
Tax expense					(4,223)
<b>Net profit after tax from continuing operations</b>					<b>9,103</b>

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

# DIRECTORS' REPORT *(CONT.)*

## REVIEW OF OPERATIONS

The 2013 fiscal year is Titan's first full year as a public company, following its listing on the Australian Securities Exchange in December 2011.

As outlined in the annual report 12 months ago, the Group reported strong financial results for FY12 and unveiled a series of strategies that had been put in place to create future value for shareholders. These strategies delivered solid returns and the Group has built on its successes of FY12 by again recording strong earnings and business growth in the current year.

Market guidance has been upgraded three times during the course of the year, with EBIT reaching \$14.5 million, a 272% increase on FY12.

Other highlights during FY13 included:

- Ongoing growth within our existing operating units;
- The acquisition of a new business, Hofco Oil Field Services (Hofco). This acquisition was funded by a combination of an equity raising of \$18 million and operating cashflow;
- Payment of our inaugural dividend (2 cents per share fully franked) in October 2012, an interim dividend in March 2013 (2 cents per share fully franked) and the launch of a Dividend Reinvestment Plan; and
- Development of a strong financial base, which means the Company is ready to take advantage of future opportunities.

The Group's debt was refinanced during the first half. Equity raising included an \$11 million placement to institutional and professional investors and a \$7 million one-for-four non-renounceable pro-rata entitlement offer. This meant Titan was not required to leverage extensively to purchase Hofco.

At year-end, Titan had \$12.4 million of net debt (including the Hofco deferred payment of \$5.8 million) and gearing of 19% (gearing was 24% at 30 June 2012 and 27% at 31 December 2012).

Credit for the notable achievements outlined above must, of course, go to our people.

Managing Director Jim Sturgess heads Titan and is part of a highly experienced board and senior management team. This experience in the Oil and Gas and Coal Seam Gas (CSG) sectors continues to prove invaluable as our Company grows, evolves and diversifies.

Titan is a relatively young company but has been able to quickly diversify and become a dynamic energy and infrastructure services business.

With the addition of Hofco in March 2013, the Company now has four businesses – Atlas Drilling (Atlas), Resources Camp Hire (RCH), Nektar Remote Hospitality (Nektar) and Hofco.

Atlas was established in 2007 and has become a highly regarded player in the CSG drilling industry. The business is performing solidly, both in terms of quality of contract and profitability.

The RCH portable accommodation business was acquired prior to our IPO and has also developed a track record of growth. RCH now operates 674 rooms, up from 110 rooms at acquisition.

In line with our diversification strategy, Nektar was established in May 2012 to deliver high quality catering and camp management services to remote accommodation service providers. Nektar has developed a strong reputation and catered well in excess of 60,000 man days during FY13.

The latest acquisition, Hofco, has become a market leader in CSG drilling rental equipment during its 30 plus years of operation. Titan sees solid future growth opportunities for this business, along with significant synergies following its integration into the Group.

# DIRECTORS' REPORT *(CONT.)*

Looking forward, Titan has identified further opportunities to grow and diversify, both organically and through new acquisitions.

With its existing brand presence and footprint, the Company has developed a good platform for future growth and is well placed to capitalise on the rapid expansion that is expected to take place within the CSG-LNG industry over the next 20 plus years.

## **SAFETY**

The Group continues to place people's safety first and is focussed on enhancing its performance in this area.

Safety reporting across the Group is consistent and transparent and seeks to reinforce the philosophy of continuous improvement in safety outcomes.

The Group achieved an overall Total Recordable Injury Frequency Rate (TRIFR) result of 16.9 during FY13. While this result is a modest improvement over last year (17.9), the Group is committed to providing a safe environment for all staff and contractors and has taken steps to increase safety resources and awareness.

### **Atlas Drilling (Atlas)**

With the addition of a fourth rig during FY13, Atlas owns three production rigs and operates a fourth under a Lease Agreement with an external party. Three of the rigs are currently operating on contracts with Australian Pacific LNG (APLNG). Rig 1, currently under contract with QGC, will complete the QGC work program in late August. Market demand for drilling rigs remains buoyant and there are a number of potential opportunities to recontract Rig 1.

The business recorded strong utilisation and delivered a record profit during the year, in addition to enhancing its offering by upgrading Rig 2 and the addition of Rig 4. Full year utilisation increased to 91% from 82% in the prior year.

Two new contracts were entered into with APLNG during the year. Rig 2 completed an extended drilling program with Arrow Energy in February 2013 before moving to APLNG on a 6+6 month contract. Rig 4 was specifically commissioned for APLNG as a surface casing rig which is expected to drill 300 wells over its life. Rig 4 has been contracted for one year with a further option of one year. Total capital spent on Rig 4 was \$4.0 million which was funded by a combination of debt and cashflow.

Atlas has now been operating in the CSG-LNG industry for six years and has developed strong relationships with a stable of blue-chip clients.

Strategies to drive future growth include:

- Enhancing relationships with key clients;
- Appointing a full-time sales resource focusing on Atlas;
- Exploring opportunities to dry hire; and
- Exploring opportunities in work over rigs.

During FY13, Troy Schefe was appointed Atlas General Manager, after Atlas co-founder Jim Diakos took on a key business development role within parent company Titan. Troy has extensive experience in the oil and gas industry in both Australia and overseas.

At the end of June, Atlas employed 135 staff.

# DIRECTORS' REPORT *(CONT.)*

## REVIEW OF OPERATIONS *(CONT.)*

### Resources Camp Hire (RCH)

RCH is a full service portable accommodation specialist mainly servicing CSG projects. The business delivered a record profit, thanks to high utilisation and continued strong margins.

Since acquisition in September 2011, room numbers have increased from 110 at acquisition to 674 at year-end, with additional camps on order to service future accommodation contracts. Contracts currently range from three to eighteen months, with a usual term of six months.

During the year, RCH has been successful in providing a number of larger camps. Leighton Contracting required a 120 room camp for a period of six months and APLNG contracted a 153 room ensuite camp for a nine month term. Both camps were located in the Surat area.

Darren Bishell continues as RCH's General Manager. The business has strengthened its team during the year with additional resources in the operations and sales areas and is now well set up with a structure to drive replicable future growth.

At the end of June, RCH employed 24 staff.

Strategies to drive future growth include:

- Capitalising on growth in the Queensland CSG sector in the short-term;
- Exploring opportunities in other markets and industries, e.g. non-Queensland CSG, non-CSG sectors, new geographic markets;
- Exploring preferred supplier status with major CSG clients and expanding current relationships with key clients. The business now has preferred supplier status with APLNG and QGC; and
- Expanding room supply and BDM capacity.

### Nektar Remote Hospitality (Nektar)

Nektar was a start-up business launched in May 2012 to deliver catering and camp management services to remote sites. Nektar was a logical organic growth opportunity for the Group and its success highlights Titan management's ability to diversify into associated areas of business.

The business is currently servicing six major contracts and has catered 62,694 man days through to the end of June 2013. Nektar margins are in line with expectations.

Strategies to drive future growth include:

- Expanding into new geographies and industry segments;
- Targeting temporary and permanent catering and camp management opportunities both alongside RCH and as a standalone offering; and
- Employing a dedicated BDM resource for Nektar.

Lee Buckingham joined the Group as General Manager in April 2012 to establish and develop the Nektar business. Lee has more than 25 years of product development, catering and new business development experience. At the end of June, Nektar employed 80 staff covering chefs, camp attendants and support staff.

### Hofco Oil Field Services (Hofco)

Hofco was established in 1980 and has grown into a leading supplier of specialist downhole equipment. Titan completed the acquisition of Hofco on 15 March 2013. Integration with the Titan Group is progressing smoothly and Hofco is performing in-line with expectations.

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

# DIRECTORS' REPORT *(CONT.)*

While utilisation rates are lower than those experienced in other parts of the Titan Group, margins are generally higher.

Hofco is managed by Kerstine Plummer who has been in the business for 10 years. To ensure continuity of operations following the acquisition, Kerstine and other personnel have transitioned across to the Titan Group. Key management are incentivised to stay with the business for a minimum of two years.

At the end of June, Hofco employed 4 staff.

Strategies to drive future growth include:

- Expansion of Hofco's down-hole tool rental range;
- Investment in additional staff including a dedicated Business Development Manager to generate and support growth;
- Geographic expansion; and
- Leveraging existing Titan Group clients.

## FINANCIAL POSITION

In addition to generating a strong profit for the financial year, the Group is well placed to fund future expansion.

In November 2012, the Group refinanced its debt facilities with GE Commercial Corporation (GE), doubling funding capacity with an extended tenure. A combination of asset and working capital credit lines totalling \$24.75 million provided the Group with adequate funding headroom for the medium future. At 30 June 2013, the Group has \$2.5 million available for capital expenditure and \$8.0 million in working capital headroom.

The Group is generating strong cashflows from operations and this is expected to continue through FY14. At 30 June 2013, the Group had \$6.6 million in cash resulting in net debt of \$12.4 million including the deferred payment for Hofco of \$5.8 million.

Total capex for the year totalled \$9.7 million with expenditure heavily weighted towards business expansion including \$4.0 million for Rig 4 in Atlas. Additional capital was also invested into Hofco to expand the rental fleet and take advantage of growth opportunities.

The Hofco acquisition undertaken during February and March was funded by a successful \$18.0 million equity raising and cashflows. The acquisition price was \$20.9 million on a cash and debt free basis and the Group has generated sufficient surplus cash at 30 June 2013 to cover the deferred payment of \$5.8 million for Hofco.

The Group financial position at 30 June 2013 is strong. The operating businesses are well placed to take advantage of the continuing strong demand in the CSG industry. Current contracts will support high utilisation rates and strong operating cashflow.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

1. On 1 November 2012, Titan Energy Services Limited refinanced its debt facilities with GE Commercial Corporation (Australia) Pty Ltd. The facility is a combination of asset (\$16.75 million) and working capital (\$8.0 million) funding totalling \$24.75 million extending to October 2015.
2. On 6 November 2012, the Group, via its subsidiary Atlas Drilling Services Pty Ltd entered into an agreement to supply APLNG with a surface casing rig on a one + one year contract. The new rig (Rig 4) was budgeted to cost \$4.0 million to purchase and mobilise and was deployed into the field during June 2013.
3. On 4 February 2013, Titan Energy Services Limited announced the acquisition of Hofco Oil Field Services Pty Ltd and an \$18.0 million capital raising. The acquisition of Hofco was for \$20.9 million on a cash and debt free basis and would be funded by the equity raising and operating cashflow. The equity raising was split between an \$11.0 million placement to institutional and professional investors and a fully underwritten one-for-four non-renounceable pro-rata entitlement offer to raise \$7.0 million. The Hofco acquisition was completed on 15 March 2013.

# DIRECTORS' REPORT *(CONT.)*

## EVENTS AFTER THE REPORTING PERIOD

The directors have declared a final fully franked ordinary dividend of \$1,695,833 (3.5 cents per fully paid share) be paid on 6 September 2013 out of retained profits and a positive net asset balance at 30 June 2013. The dividend is 25% of net profit after tax (NPAT) for the second half, in line with the stated objective contained in the Company's IPO 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.

## DIVIDENDS

Titan paid the following dividends during the financial period:

	2013 \$'000
Final dividend in respect of FY12 of 2 cents per share fully franked on 19 October 2012	572
Interim dividend in respect of FY13 of 2 cents per share fully franked on 4 March 2013	589

In addition to the above dividends, since the end of the financial year, the Company has declared a final dividend for FY13 of 3.5 cents per share fully franked. The final dividend is expected to be paid on 6 September 2013.

## ENVIRONMENTAL REGULATION

The Company's operations are regulated by State and Federal laws regarding environmental hazards.

## FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

### Future Prospects

The Titan Group is focused on growing shareholder value. To date, this has been achieved by maximising existing business operations, expanding capacity and targeting acquisitions that fit within our core strategy of creating a diversified group that is the leading supplier of equipment and services to the CSG and wider oil and gas industry.

Titan will continue to supply its target markets with:

- Safe, efficient work environments for our staff, contractors and customers;
- Innovative, fit-for-purpose products and services that deliver reliable results; and
- Highly competent teams and processes to deliver solutions to our customers' challenges.

Titan will continue to grow market prominence and share by focusing on:

- Providing our customers with premium rental tools, rigs and camp solutions;
- Building and upgrading the rental fleet in our separate businesses in line with market requirements;
- Providing trained crews for our rigs and expert advice across all our businesses;
- Providing other services that complement the existing offering; and
- Safety outcomes and safe work environments.



# DIRECTORS' REPORT *(CONT.)*

The existing businesses will continue to expand in response to demand from existing and new markets. Organic expansion opportunities include:

- New geographic regions including the Northern Territory and the Cooper Basin in South Australia;
- Catering services to permanent camps;
- Expanded rental fleet in Hofco; and
- Additional drilling rigs underwritten by new contracts.

As evidenced by the Hofco acquisition, Titan will continue to make strategic acquisitions that will complement the existing businesses and management experience. Potential targets will be operating in Titan's core market of conventional and non-conventional oil and gas industries.

In addition to acquisitions, Titan will continue to evaluate new business opportunities that will organically expand the Group's capabilities into new but related service and product offerings. The Nektar business is a recent example of expanding the service offering previously outsourced by RCH and Atlas. The business envisages other similar opportunities will become applicable in the future.

As the Group continues to grow, Titan will be able to significantly enhance our operating and financial performance potential by how well we plan, execute and manage. The management team is closely aligned by way of short term and long term incentives focusing on achievable outcomes. In addition, the board and management team has a broad range of experience covering the operational and corporate requirements of the Titan Group. Strong financial controls and disciplines are in place to ensure we adhere to important fiscal principles and provide attentive stewardship of capital. These principles are intended to lead to consistency in operational performance, stronger than peer financial performance and value to our shareholders.

## **Material Business Risks**

The material business risks faced by the Group that could potentially affect the financial prospects of the Group noted above and how the Group manages these risks include:

### 1. Industry Risks

- Customer demand and outlook for oil and gas industry in Australia

Titan's business depends on the level of activity in the CSG and oil and gas drilling industries. The levels of activity depend on a number of factors outside the control of the Group including global economic growth, continuing international demand and infrastructure constraints impacting on Titan's customers. Any long term decline in the demand for energy may result in a corresponding decline in the use of Titan's services which will have an impact on the financial performance and/or the financial position of Titan.

Titan is able to mitigate the impact of this risk through diversification into different industries such as minerals, infrastructure projects and new geographic regions.

- CSG specific regulatory and environmental risks

The level of public debate surrounding the environmental impacts of CSG continues to increase the risk of regulatory monitoring and approval. Changes to regulations and approval processes in the CSG industry may lead to decreased demand for the services of the Group, and as a result may have an adverse effect on the financial performance of the Group.

# DIRECTORS' REPORT *(CONT.)*

## FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES *(CONT.)*

### 2. Operational Risks

- Adverse weather conditions

Titan's services are generally vulnerable to adverse weather conditions due to safety, access and machinery issues. The result may lead to increased operating costs, loss of revenue or equipment. The Group will mitigate these risks through a number of strategies including a diversity of businesses in a range of geographic locations, the company insurance program and inclusion of limiting the financial impact in customer contracts.

- Accidents

In the performance of operations, accidents may occur, resulting in injury to the Group's employees and contractors as well as Company-owned or third party property. Further, environmental contamination could also result from an accident. Safety performance is very important to clients and as such, accidents may impact the ability of the Group to complete contracts and obtain new contracts in the future. This may have an adverse impact on the financial performance of the Group.

In order to mitigate the risks of accidents, the Group has implemented detailed training and occupational workplace and safety regimes and continuously monitors and enhances processes to improve outcomes in this area.

- Asset Utilisation and Productivity

Titan's financial performance is reliant on the utilisation and productivity of its key assets. Central to the Group achieving objectives is ensuring that its rigs, accommodation and equipment rental assets achieve forecast utilisation. Any unscheduled downtime or periods where assets are uncontracted may have a material adverse impact on financial performance.

The Group is investing in systems and resources to minimise the impact of extended periods of asset downtime. These include extra business development roles, asset tracking systems and improved maintenance programs.

# DIRECTORS' REPORT *(CONT.)*

- Contractual Risk

The Group financial performance is reliant on the revenue produced from the utilisation and productivity of key assets. To ensure this is maximised, where possible the Group engages in fixed term contracts with its customers. To the extent third parties become insolvent or default in their obligations, it may be necessary to enforce the Company's rights under the contract. Most of the contracts entered into by the Group are able to be terminated by the customer with a short period of notice. Termination or failure to enforce contracted terms may impact the financial performance of the Group.

- Financing

Titan's growth is reliant on having sufficient finance and cashflow to fund asset and working capital requirements. The Group's core financing is currently with GE. The facilities contain a variety of covenants with which Titan and its subsidiaries must comply. Whilst every effort will be made to comply with the covenants, in the event of a breach, GE may be entitled to call for repayment of the facilities. This will have a material adverse effect on the ability of Titan to continue operations.

### 3. Other Material Risks

- Environment Risk

The Group operates in areas that are subject to State and Federal laws and regulations regarding environment hazards. These laws and regulations set various standards and provide for penalties for violation of such standards.

Titan seeks to minimise these risks by providing appropriate training for staff and the correct equipment to minimise the impact of potential issues. In addition, the Group seeks to carry appropriate insurance coverage.

- Legislative Change

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

- Share Market Risk

The market price of shares can be expected to rise and fall in accordance with general market conditions and factors specifically affecting the Australian resource services sector in particular. There are a number of factors that may affect the share market price that the Company cannot control.

# DIRECTORS' REPORT *(CONT.)*

## INFORMATION ON THE DIRECTORS

<b>Shaun Scott</b>	Age 48. B.Bus, BA, ACA
Role	Independent Non-executive Chairman Appointed 27 October 2011
Experience	<p>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.</p> <p>Shaun is currently a Non-executive Director of ASX listed Dart Energy Ltd, Site Group International Ltd and Chairman of Anaeco Ltd. He was previously a Non-executive Director of ACER Energy Ltd.</p> <p>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.</p>
Special Responsibilities	Audit Committee, Risk and Safety Committee, Remuneration Committee (Chairman)
Interest in Shares and Options (direct and indirect)	Shares - 705,673 Options - 350,719
<b>Stephen Bizzell</b>	Age 45. B.Comm, MAICD
Role	Non-executive Director Appointed 28 March 2011
Experience	<p>Stephen is the Chairman of boutique corporate advisory and funds management group Bizzell Capital Partners Pty Ltd. He is also a Non-executive Director of Armour Energy Ltd, Dart Energy Ltd, Diversa Ltd, Hot Rock Ltd, Stanmore Coal Ltd and Queensland Treasury Corporation and Chairman of Laneway Resources Ltd and Renaissance Uranium Limited.</p> <p>Stephen was an Executive Director of Arrow Energy Ltd from 1999 until its acquisition in 2010 by Shell and PetroChina for \$3.5 billion. He was instrumental in Arrow's corporate and commercial success and its growth from a junior explorer to a large integrated energy company.</p> <p>Stephen qualified as a Chartered Accountant and early in his career was employed in the Corporate Finance division of Ernst &amp; Young and the Corporate Tax division of Coopers &amp; 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.</p>
Special Responsibilities	Audit Committee, Remuneration Committee
Interest in Shares and Options (direct and indirect)	Shares - 2,139,503 Options - 280,576

# DIRECTORS' REPORT (CONT.)

<b>Simon Keyser</b>	Age 45. B.Bus, ACA
Role	Non-executive Director Appointed 28 March 2011
Experience	<p>Simon has over 20 years experience in the finance industry including specialising in the resources and energy sectors. He is the co-owner of Ironstone Capital Partners Pty Ltd, a corporate advisory business. Simon is a Director of XLX Pty Ltd, an investment company focussed on the resources and energy sectors. XLX is a major shareholder in Titan Energy Services Limited. Simon is also a Director of Malabar Coal Ltd.</p> <p>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.</p> <p>Simon holds a B.Bus from the Queensland University of Technology, Grad Dip from FINSIA and is a Chartered Accountant.</p>
Special Responsibilities	Audit Committee (Chairman)
Interest in Shares and Options (direct and indirect)	<p>Shares - 580,855</p> <p>Options - 280,576</p> <p>Simon Keyser owns 20% of XLX Pty Ltd and therefore will have the relevant interest in shares that XLX Pty Ltd has. XLX Pty Ltd will hold a relevant interest (as defined in the Corporations Act) in 7,782,002 shares, including shares under management and those shares in which Simon Keyser also has an interest.</p>
<b>Mark Snape</b>	Age 62. B.Ec, MBA, ACA, FAICD
Role	Independent Non-executive Director Appointed 18 October 2012
Experience	<p>Mark has considerable experience in the energy sector, large scale infrastructure development, risk management and project financing. He is currently Chief Executive Officer of Rivercity Motorway Group.</p> <p>Prior to joining Rivercity Motorway Group, Mark held various senior management positions including Group General Manager - Infrastructure, Finance and Investment for John Holland, Managing Director in Australia for American Electric Power, Director of Deloitte Corporate Finance, Director of Country Natwest Corporate Finance and Director of BZW Corporate Finance. Mark is a Non-executive Director of Access Capital Advisers Pty Limited and has held non-executive director positions for ASX-listed entities Connecteast Group, Brisconnections Group, and Pacific Hydro Limited.</p>
Special Responsibilities	Risk and Safety Committee (Chairman), Remuneration Committee
Interest in Shares and Options (direct and indirect)	<p>Shares - Nil</p> <p>Options - Nil</p>

# DIRECTORS' REPORT *(CONT.)*

## INFORMATION ON THE DIRECTORS *(CONT.)*

<b>Jim Diakogiannis</b>	Age 44. B.Eng, B.Sc
Role	Executive Director Appointed 27 October 2011
Experience	<p>Jim is a co-founder of Atlas Drilling and has 20 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.</p> <p>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.</p>
Special Responsibilities	Risk and Safety Committee
Interest in Shares and Options (direct and indirect)	Shares - 769,548 Performance Rights - 158,250
<b>James Sturgess</b>	Age 50. B.Comm, FCA
Role	Managing Director Appointed 28 June 2011
Experience	<p>Jim was previously CEO of the City of Brisbane Investment Corporation - a start up role to establish Brisbane's future fund. Prior to this, Jim was CFO and then Executive General Manager at Flight Centre Limited, a global travel company. Jim is a former director of the Australian Federation of Travel Agents. His interest in recent years has been on start-up and growth companies including acquisitions, integration, culture and leadership.</p> <p>Jim has worked at Starwood Hotels and Resorts in a number of roles including Finance Director and Director of Human Resources. He has also held senior positions at Ernst &amp; Young in Brisbane, Sydney, Melbourne and Vancouver, Canada.</p> <p>Aside from his leadership skills, Jim brings to the company extensive experience in marketing and branding.</p>
Special Responsibilities	Nil
Interest in Shares and Options (direct and indirect)	Shares - 544,485 Performance Rights - 209,000

## 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.

# DIRECTORS' REPORT (CONT.)

## MEETINGS OF DIRECTORS

During the financial year, 24 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	17	17	2	2	3	3	2	2
Stephen Bizzell	17	17	2	2			2	2
Simon Keyser	17	17	2	2				
Mark Snape	13	13			3	3	1	1
James Sturgess	17	17						
Jim Diakogiannis	17	15			3	2		
Former Directors								
Wayne Seabrook	4	4						

## INDEMNIFYING OFFICERS

During or since the end of the financial year, the Group paid insurance premiums of \$17,270 to insure directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

## OPTIONS

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

	Grant Date	Options/ Performance Rights	Number under Option	Exercise Price of Options	No. of Shares Issued 2013	Expiry Date
Directors of Titan Energy Services Limited	4 Nov 2011	Options	911,871	\$1.11	-	7 December 2015
	7 Nov 2011	Performance Rights	297,500	-	-	30 June 2014
	19 Dec 2012	Performance Rights	69,750	-	-	30 June 2015
Key Management Personnel	7 Nov 2011	Performance Rights	80,000	-	-	30 June 2014
	29 April 2013	Performance Rights	20,500	-	-	30 June 2015

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 35 of the Directors' Report.

During FY13, there were no options exercised.

# DIRECTORS' REPORT (CONT.)

## PROCEEDINGS ON BEHALF OF THE 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 2013:

	\$
Taxation services	11,550
	<b>11,550</b>

## 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 37 for the year ended 30 June 2013.

## ASIC CLASS ORDER 98/100 ROUNDING OF AMOUNTS

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

## REMUNERATION REPORT (AUDITED)

### REMUNERATION POLICY

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



# DIRECTORS' REPORT *(CONT.)*

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

KMP are also entitled and encouraged to participate in the employee share and option arrangements to align KMPs' interests with shareholders' interests. Options and performance rights granted under the arrangement do not carry dividend or voting rights. Each option and performance right is entitled to be converted into one ordinary share once the 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:

	<b>Fees including superannuation</b>
Chairman	\$65,000
Non Executive Director	\$40,000
In addition to the base fees, from 1 July 2013, Committee members are entitled to the following fees:	
Committee Chairman	\$7,500
Committee Non Executive Director Member	\$5,000

## PERFORMANCE-BASED REMUNERATION

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

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number of the KPIs achieved. Following the assessment, the KPIs are reviewed by the 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.

# DIRECTORS' REPORT *(CONT.)*

## 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 Company believes this policy has been effective in increasing shareholder wealth over the past year.

The following table shows the gross revenue, profits and dividends for the last 2 years for the listed entity, as well as the share prices at the end of the respective financial years. Analysis of the actual figures shows an increase in profits as well as an increase of dividends paid to shareholders. The improvement in the Company's performance over the last 12 months has been reflected in the Company's share price with an increase year on year. The Board is of the opinion that these results can be attributed, in part, to the previously described remuneration policy and is satisfied with the overall upwards trend in shareholder wealth over the past 12 months.

		2013	2012
Revenue	\$'000	72,904	33,500
Net profit after tax	\$'000	9,103	2,270
Share price at year-end	\$ per share	1.39	0.68
Dividends declared	Cents per share	5.5	2.0

## PERFORMANCE CONDITIONS LINKED TO REMUNERATION

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

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

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

# DIRECTORS' REPORT (CONT.)

## 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 2013 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 <sup>2</sup> %	Shares/ Units %	Options/ Rights %	Fixed Salary/ Fees %	Total %
<b>James Sturgess</b>	Managing Director	29%	0%	12%	59%	100%
<b>Jim Diakogiannis</b>	Executive Director	27%	0%	4%	69%	100%
<b>David Thornton</b>	CFO	26%	0%	8%	66%	100%
<b>Gus van der Heide<sup>1</sup></b>	COO	25%	0%	11%	64%	100%

Note 1: Gus van der Heide held the position of General Manager – Atlas until September 2012.

Note 2: Based on meeting performance targets agreed by the Board. Should targets be exceeded, KMP will be entitled to an additional incentive of up to 50% of base salary. Total KMP incentive is subject to Board review. This additional bonus has not been incorporated into the table above.

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
<b>James Sturgess</b>	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan to James Sturgess six months James Sturgess to Titan four months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
<b>Jim Diakogiannis</b>	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or Jim Diakogiannis to give three months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
<b>David Thornton</b>	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or David Thornton to give three months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan
<b>Gus van der Heide</b>	Employment will continue until terminated by notice in accordance with the provisions of the agreement	Titan or Gus van der Heide to give three months	Titan may make a payment in lieu Issue of shares connected to performance rights in accordance with the Performance Rights Plan

# DIRECTORS' REPORT (CONT.)

## REMUNERATION DETAILS FOR THE YEAR ENDED 30 JUNE 2013

The following table of benefits and payments details, in respect to the 2013 and 2012 financial years, 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 2013**

Name	Year	Salary and Fees <sup>1</sup> \$	Cash Bonus <sup>2</sup> \$	Post Employment Benefits Super <sup>3</sup> \$	Share Based Payments Options/PR's <sup>4</sup> \$	Total \$
<b>Directors</b>						
Shaun Scott Chairman	2012	34,786	-	3,131	41,830	79,747
	<b>2013</b>	<b>59,633</b>	<b>-</b>	<b>5,367</b>	<b>30,728</b>	<b>95,728</b>
Stephen Bizzell Director	2012	23,333	-	-	33,464	56,797
	<b>2013</b>	<b>40,000</b>	<b>-</b>	<b>-</b>	<b>24,583</b>	<b>64,583</b>
Simon Keyser Director	2012	23,333	-	-	33,464	56,797
	<b>2013</b>	<b>40,000</b>	<b>-</b>	<b>-</b>	<b>24,583</b>	<b>64,583</b>
Mark Snape (appointed 18 October 2012) Director	2012	-	-	-	-	-
	<b>2013</b>	<b>25,876</b>	<b>-</b>	<b>2,329</b>	<b>-</b>	<b>28,205</b>
Wayne Seabrook (resigned 18 October 2012) Director	2012	23,333	-	-	33,464	56,797
	<b>2013</b>	<b>13,333</b>	<b>-</b>	<b>-</b>	<b>24,583</b>	<b>37,916</b>
James Sturgess Managing Director	2012	300,000	70,000	27,000	38,450	435,450
	<b>2013</b>	<b>310,838</b>	<b>237,690</b>	<b>24,994</b>	<b>67,148</b>	<b>640,670</b>
Jim Diakogiannis Executive Director	2012	292,936	72,853	17,065	44,825	427,679
	<b>2013</b>	<b>284,405</b>	<b>101,165</b>	<b>39,378</b>	<b>20,161</b>	<b>445,109</b>
<b>Other KMP</b>						
Gus van der Heide COO <sup>5</sup>	2012	137,615	43,107	12,385	20,811	213,918
	<b>2013</b>	<b>290,000</b>	<b>141,387</b>	<b>43,059</b>	<b>38,735</b>	<b>513,181</b>
David Thornton CFO <sup>5</sup>	2012	159,443	23,428	12,442	1,094	196,407
	<b>2013</b>	<b>203,000</b>	<b>115,275</b>	<b>17,109</b>	<b>38,735</b>	<b>374,119</b>
<b>Total</b>	2012	994,779	209,388	72,023	247,402	1,523,592
	<b>2013</b>	<b>1,267,085</b>	<b>595,517</b>	<b>132,236</b>	<b>269,256</b>	<b>2,264,094</b>

Note 1: Salary and Director's Fees may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. Directors and Executives are offered a competitive base 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: A portion of the KMP pay is by way of an at risk bonus. This is subject to satisfactory completion of set predominantly profit-related KPIs and payable at the discretion of the Board. Amounts included in the table relate to performance for that year.

Note 3: Post employment benefits is statutory superannuation and is calculated as 9% of the base pay. Stephen Bizzell and Simon Keyser superannuation components are included in the Director's Fees and are paid on receipt of invoice by Titan Energy Services Limited. There are no other retirement benefits paid by Titan Energy Services Limited.

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

Note 5: Gus van der Heide and David Thornton were employed for only part of the 2012 financial year.

# DIRECTORS' REPORT *(CONT.)*

## 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 29 of the Directors' Report. Movements during the year are as follows:

	Balance at Beginning of Year	Issued During the Year	Exercised During the Year	Lapsed During the Year	Other Changes During the Year	Balance at End of Year
Shaun Scott Chairman	350,719	-	-	-	-	350,719
Stephen Bizzell Director	280,576	-	-	-	-	280,576
Simon Keyser Director	280,576	-	-	-	-	280,576
Mark Snape (appointed 18 October 2012) Director	-	-	-	-	-	-
Wayne Seabrook (resigned 18 October 2012) Director	280,576	-	-	-	(280,576)	-
<b>Total</b>	<b>1,192,447</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(280,576)</b>	<b>911,871</b>

## 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 <sup>3</sup>	Lapsed During the Year	Other Changes During the Year	Balance at End of Year
James Sturgess CEO - Titan <sup>1</sup>	212,500	39,000	(98,000)	-	-	153,500
Jim Diakogiannis Executive Director <sup>1</sup>	212,500	30,750	(52,750)	(42,500)	-	148,000
Gus van der Heide COO <sup>2</sup>	100,000	10,250	(70,250)	-	-	40,000
David Thornton CFO <sup>2</sup>	100,000	10,250	(70,250)	-	-	40,000
<b>Total</b>	<b>625,000</b>	<b>90,250</b>	<b>(291,250)</b>	<b>(42,500)</b>	<b>-</b>	<b>381,500</b>

# DIRECTORS' REPORT *(CONT.)*

## PERFORMANCE RIGHTS *(CONT.)*

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. During the year, Performance Rights have vested as a result of Titan Energy Services Limited share price meeting the VWAP requirements at \$1.76, \$1.50 and \$1.75 of the above.

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 to any director of Titan Energy Services Limited during the year. Ordinary shares were issued as a result of the conversion of Performance Rights.

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



**James Sturgess**

Director

Dated: 5 August 2013

# AUDITOR'S INDEPENDENCE DECLARATION



**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 2013, 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**

A handwritten signature in black ink, appearing to be 'LM', written over a white background.

**Liam Murphy  
Partner**

**Brisbane, 5 August 2013**

Lawler Hacketts Audit  
ABN 33 873 151 348

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under Professional Standards Legislation

# CORPORATE GOVERNANCE STATEMENT

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance. This statement outlines the principal corporate governance procedures of the company. The Board supports a system of corporate governance to ensure that the management of the company is conducted to maximise shareholder wealth in a proper and ethical manner.

## ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS

The Board has adopted corporate governance policies and practices consistent with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ("ASX Principles and Recommendations 2nd Edition") where considered appropriate for a company of the company's size and nature. Such policies include, but are not limited to the Board Charter, Board Committee Charters, Code of Conduct, Security Trading, Continuous Disclosure, Shareholder Communication and Risk Management Policies.

The company's main corporate governance policies and practices are outlined below:

### (a) Board of directors

The company's Board of directors is responsible for corporate governance of the company. The Board develops strategies and financial objectives for the company, reviews strategic objectives and monitors performance against those objectives.

The Board acknowledges its accountability to shareholders for creating shareholder value within a framework which protects the rights and interests of shareholders and ensures the company is properly managed.

The objective of the Board is to provide an acceptable rate of return to the company's shareholders and take into account the interests of its employees, customers, suppliers, lenders and the wider community.

Each of the directors, when representing the company, must act in the best interest of shareholders of the company and in the best interests of the company as a whole.

In carrying out the responsibilities and powers set out in the Board Charter, the Board:

- (i) recognises its overriding responsibilities to act honestly, fairly, diligently and in accordance with the law in serving the interests of its shareholders; and
- (ii) recognises its duties and responsibilities to its employees, customers and the community.

### (b) Composition of the Board

Election of Board members is substantially the province of the shareholders in general meeting.

The composition of the Board is to be reviewed regularly to ensure the appropriate mix of skills and expertise is present to facilitate successful strategic direction.

The majority of the Board is comprised of Non-executive Directors. Where practical, at least half of the Board will be independent. An Independent Director is one who is independent of management and free from any business or other relationship, which could, or could reasonably be perceived to, materially interfere with, the exercise of independent judgement.

The Board is currently comprised of a majority of Non-executive Directors. The Board considers that its current structure is appropriate given the size, nature and scope of the company's activities.

### (c) Independent Professional Advice

The Board or individual directors may seek independent external professional advice as considered necessary at the expense of the company, subject to prior consultation with the Chairperson. A copy of any such advice received is to be made available to all members of the Board.

### (d) Remuneration Arrangements

The total maximum remuneration of Non-executive Directors is the subject of a shareholder resolution in accordance with the company's Constitution, the Corporations Act and the ASX Listing Rules, as applicable. The determination of Non-executive Directors' remuneration within that maximum will be made by the Board having regard to the inputs and value to the company of the respective contributions by each Non-executive Director. The current limit, which may only be varied by shareholders in general meeting, is an aggregate amount of \$500,000 per annum.

The Board may award additional remuneration to Non-executive Directors called upon to perform extra services or make special exertions on behalf of the company.



# CORPORATE GOVERNANCE STATEMENT *(CONT.)*

## **(e) External Audit**

The company in general meetings is responsible for the appointment of the external auditors of the company, and the Board from time to time will review the scope, performance and fees of those external auditors.

## **(f) Code of Conduct**

A formal Code of Conduct for the company applies to all directors and employees. The code aims to encourage the appropriate standards of conduct and behaviour of the directors, employees and contractors of the company. All personnel are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the company.

The directors, managers and employees are expected to act with the utmost integrity and objectivity, observe the highest standards of behaviour and business ethics and strive at all times to enhance the good reputation and performance of the company by acting in the best interests of the company, being responsible and accountable for their actions and observing the ethical principles of fairness, honesty and truthfulness, including disclosure of potential conflicts.

## **(g) Audit Committee**

The company does have a separate constituted audit committee which acts in accordance with the Audit Committee Charter.

Pursuant to the charter, the audit and risk management responsibilities include:

- overseeing, co-ordinating and appraising the quality of the audits conducted by both the company's external and internal auditors (if and when appointed);
- determining the independence and effectiveness of the external and internal auditors;
- maintaining open lines of communications among the Board and external auditors to exchange views and information, as well as confirm of their respective authority and responsibilities;
- serving as an independent and objective party to review the financial information submitted by management to the Board for issue to shareholders, regulatory authorities and the general public; and
- reviewing the adequacy of the reporting and accounting controls of the company.

## **(h) Nomination and Remuneration Committee**

The company does have a separately constituted nominations and remuneration committee which acts in accordance with the Nomination and Remuneration Committee Charter.

Pursuant to the charter, the nomination and remuneration responsibilities include:

- reviewing and recommending the overall strategies in relation to executive remuneration policies;
- reviewing and make recommendations in respect of the compensation arrangements for all Non-executive Directors, the Managing Director and all other senior executives;
- reviewing the effectiveness of performance incentive plans;
- reviewing and making recommendations in respect of all equity based remuneration plans;
- reviewing and making recommendations in respect of the company's recruitment, retention and termination policies and superannuation arrangements;
- reviewing the composition of the Board and ensuring that the Board has an appropriate mix of skills and experience to properly fulfil its responsibilities;
- ensuring the Board is comprised of directors who contribute to the successful management of the company and discharge their duties having regard to the law and the highest standards of corporate governance;
- reviewing and making recommendations to the Board in respect of the succession plans of senior executives (other than executive directors) and ensuring the performance of senior executives is reviewed at least annually; and
- consider nominations for potential candidates to act as directors.

# CORPORATE GOVERNANCE STATEMENT *(CONT.)*

## ASX CORPORATE GOVERNANCE COUNCIL RECOMMENDATIONS *(CONT.)*

### **(i) Environmental Risk and Occupational Health and safety committee (ROHS)**

The company has a separately constituted environmental, risk and occupational health and safety committee which acts in accordance with the Environmental, Risk and Occupational Health and Safety Committee Charter.

Pursuant to the charter, the environmental, risk and occupational health and safety responsibilities include:

- ensuring the development of an appropriate risk management policy framework that will provide guidance to management in implementing appropriate risk management practices throughout the company's operations, practices and systems;
- defining and periodically reviewing risk management as it applies to the company and clearly identify all stakeholders;
- ensuring the committee clearly communicates the company's risk management philosophy, policies and strategies to directors, management, employees, contractors and appropriate stakeholders;
- ensuring that directors and management establish a risk aware culture which reflects the company's risk policies and philosophies;
- ensuring that directors and management deal with environmental, risk and occupational health and safety problems expeditiously or to bring such problems to the attention of appropriate management personnel;
- reviewing methods of identifying broad areas of risk and setting parameters or guidelines for business risk reviews;
- considering risks in at least the following categories:
  - operations;
  - environment;
  - health and safety;
  - regulation and compliance; and
  - community relations.
- requiring directors and management to keep it apprised of current and emerging issues and proposed legislation in environmental, risk and occupational health and safety matters as they may affect the company's operations and shall bring to the attention of the Board such issues as it shall think appropriate;
- bringing to the attention of the Board any serious problems or deviations that directors and management cannot deal with expeditiously or within reasonable economic bounds;
- ensuring that it is informed as soon as possible of any major incidents, including any involving a breach or violation of the company's policies and any safety and environmental crises. The committee will ensure that the proper action is taken by management to rectify the situation and to proactively minimise any risks of such incident occurring at other locations or facilities; and
- making informed decisions regarding business risk management, internal control systems, business policies and practices and disclosures.

### **(j) Identification and Management of Risk**

The Board's collective experience will enable accurate identification of the principal risks that may affect the company's business. Key operational risks and their management will be recurring items for deliberation at Board meetings.

The Board takes a proactive approach to risk management and have a formal risk management policy to provide further guidance. The identification and proper management of risk within the company is a priority for the Board.

# CORPORATE GOVERNANCE STATEMENT *(CONT.)*

## **(k) Policy for Trading in Company Securities**

Trading in the company's securities by directors and employees is not permitted when they are in possession of unpublished price sensitive information. Any transactions undertaken must be notified to the Chairman or the Board in advance.

Directors, officers and employees must not buy, sell or subscribe for securities if they are in possession of 'inside information' (information that is not generally available and, if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of securities). The *Corporations Act 2001* provides that a reasonable person would be taken to expect information to have a material effect on the price or value of securities if the information would, or would be likely to, influence persons who commonly invest in securities in deciding whether or not to subscribe for, buy or sell the securities.

Subject to the insider trading restrictions above, it is the company's policy that directors, officers and employees will not deal in the company's securities as a matter of course:

- any blackout period which is defined as anytime outside 30 days following:
  - the announcement to the ASX of the half year results;
  - the announcement to the ASX of the full year results; and
  - the annual general meeting.
- any other period when the company is in possession of unpublished price-sensitive information; and
- any time it may be reasonably probable that notification of price-sensitive information is required pursuant to the ASX Listing Rules.

The company's policy also reinforces the directors' and company's statutory obligations to notify the ASX of any dealing in the securities which results in a change in the relevant interests of a director in the securities. As contemplated in the ASX listing rules, each director provides notice of such dealings to the company Secretary within five business days of any such dealing to enable the company to comply with its corresponding obligation to notify the ASX.

Subject to the insider trading restrictions above, directors may trade outside the specified periods with approval from the Chairman or in the case of the Chairman intending to trade with approval from the audit committee directors.

## **(l) Continuous Disclosure and Shareholder Communication**

The company has a formal written policy for the continuous disclosure of any price sensitive information concerning the company. The Board has also adopted a formal written policy covering arrangements to promote communications with shareholders and to encourage effective participation at general meetings.

The Chairman and the company Secretary have been nominated as the company's primary disclosure officers. All information released to the ASX is posted on the company's website as soon as practicable after it is disclosed to the ASX. When analysts are briefed on aspects on the company's operations, the material used in the presentation is released to the ASX and posted on the company's website.

The company is committed to providing shareholders and stakeholders with extensive, transparent, accessible and timely communications on the company's activities, strategy and performance. In addition, the company makes all market announcements, media briefings, details of shareholders meetings, press releases and financial reports available on the company's website [www.titanenergyservices.com.au](http://www.titanenergyservices.com.au)

## **(m) Ethical Standards**

The Board is committed to the establishment and maintenance of appropriate ethical standards.

# CORPORATE GOVERNANCE STATEMENT *(CONT.)*

## ASX BEST PRACTICE RECOMMENDATIONS

The table below identifies the ASX Corporate Governance Principles and Recommendations (Principles) and whether or not the company has complied with the recommendations during the reporting period:

Corporate Governance Principle and Recommendations		Comply	Notes
<b>Principle 1 – Lay solid foundations for management and oversight</b>			
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	
1.3	Companies should provide the information indicated in the Guide to Reporting on Principle 1.	Yes	
<b>Principle 2 – Structure the Board to add value</b>			
2.1	Independent directors to make up the majority of Board members	No	Note 1
2.2	The Chair should be an Independent Director.	Yes	
2.3	Segregation of the Chair and Chief Executive Officer roles.	Yes	
2.4	A nomination committee should be established.	Yes	
2.5	Companies should disclose the process for evaluating the performance of the Board, its committees and individual directors.	Yes	
2.6	Information required under the Guide to Reporting on Principle 2 above.	Yes	
<b>Principle 3 – Promote ethical and responsible decision-making</b>			
3.1	Companies should establish a Code of Conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity; the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	Yes	
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	No	Note 2
3.3	The measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them should be disclosed in each annual report.	No	Note 2
3.4	The proportion of women employees in the whole organisation, women in senior executive positions and women on the Board should be disclosed in each annual report.	No	Note 2
3.5	Information indicated in the Guide to Reporting on Principle 3 above.	Yes	

# CORPORATE GOVERNANCE STATEMENT *(CONT.)*

<b>Principle 4 – Safeguard integrity in financial reporting</b>			
4.1	Establish an audit committee.	Yes	
4.2	The audit committee is to consist of: <ul style="list-style-type: none"> <li>• Non-executive Directors only</li> <li>• majority of Independent Directors</li> <li>• Independent Chair, who does not hold position of Chair of the Board</li> <li>• at least three members.</li> </ul>	No	Note 1
4.3	A formal charter should be established for the audit committee.	Yes	
4.4	Information required under the Guide to Reporting on Principle 4 above.	Yes	
<b>Principle 5 – Make timely and balanced disclosure</b>			
5.1	Written policies and procedures should be established to ensure an entity complies with ASX Listing Rule disclosure requirements and that senior executives are accountable for compliance.	Yes	
5.2	Information required under the Guide to reporting on Principle 5.	Yes	
<b>Principle 6 – Respect the rights of shareholders</b>			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Yes	
<b>Principle 7 – Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Yes	
7.3	The Board should disclose whether it has received assurance from the Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	
7.4	Information required under the Guide to reporting on Principle 7 above.	Yes	
<b>Principle 8 – Remunerate fairly and responsibly</b>			
8.1	Establish a remuneration committee.	Yes	
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members.</li> </ul>	Yes	
8.3	Companies should clearly distinguish the structure of Non-executive Directors' remuneration from that of Executive Directors and senior executives.	Yes	
8.4	Information required under the Guide to reporting on Principle 8 above.	Yes	

# CORPORATE GOVERNANCE STATEMENT *(CONT.)*

## ASX BEST PRACTICE RECOMMENDATIONS *(CONT.)*

Note 1: During the reporting period, the majority of directors did not satisfy the test of independence set out in boxes 2.1, 4.2 and 8.2 of the ASX Principles of Good Corporate Governance and Best Practice Recommendations (Independence Test).

Messrs Bizzell and Keyser are associated directly with substantial shareholders of the company as defined in section 9 of the *Corporations Act 2001*.

During the year, Mr Mark Snape was appointed as an independent director following the resignation of Mr Wayne Seabrook.

The Board considers that its structure is, and will continue to be, appropriate in the context of the company's recent history and directors experience and knowledge of the company's assets. The company considers that the Non-independent directors possess the skills and experience suitable for building the company. The Board intends to reconsider its composition as the company's operations evolve and may appoint additional independent directors as it deems appropriate.

Note 2: Recommendations 3.2, 3.3 and 3.4 states that companies should establish a policy concerning diversity, disclose the policy or a summary of the policy, disclose measurable objectives to achieve gender diversity and report outcomes in the annual report, and report the proportion of women in the total organisation, senior management and on the Board of Directors in the annual report.

The company recognises that a talented and diverse workforce is a key competitive advantage and that an important contributor to the company's success is the quality, diversity and skills of its people.

Despite recent growth, the company's operations and number of employees is relatively small and as a result, the company has not yet established a diversity policy. However as the company develops the Board will consider adopting such a policy. As such, the Board has not set measurable objectives for achieving gender diversity nor has it disclosed the proportion of women in the total workforce, in senior executive positions or as members of the Board. The Board will review progress against measurable objectives identified on an annual basis as the company develops.

# STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated Group	
		2013 \$'000	2012 \$'000
<b>Revenue</b>	2	72,904	33,500
<b>Expenses</b>			
Drilling and consumables		(10,330)	(6,674)
Camp expenses		(10,648)	(3,175)
Catering expenses		(1,883)	-
Hire expenses		(244)	-
Depreciation and amortisation expense		(4,378)	(3,513)
Employee benefits expense		(26,075)	(12,771)
Travel and accommodation		(288)	(224)
Motor vehicle lease and maintenance		(290)	(336)
Finance costs		(1,448)	(654)
Administration and other expenses		(3,994)	(2,890)
<b>Profit (loss) before income tax</b>	3	13,326	3,263
Income tax expense	4	(4,223)	(993)
<b>Profit (loss) for the period</b>		<b>9,103</b>	<b>2,270</b>
<b>Other comprehensive income</b>		-	-
Other comprehensive income for the period, net of tax		-	-
<b>Total comprehensive income for the period</b>		<b>9,103</b>	<b>2,270</b>
Profit (loss) attributable to members of the parent entity		<b>9,103</b>	<b>2,270</b>
Total comprehensive income attributable to members of the parent entity		<b>9,103</b>	<b>2,270</b>
<b>Earnings per share</b>			
From continuing operations:			
- basic earnings per share (cents)	20	22.24	9.05
- diluted earnings per share (cents)	20	21.97	9.02

The accompanying notes form part of these financial statements.

# STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

	Note	Consolidated Group	
		2013 \$'000	2012 \$'000
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	6	6,641	1,419
Trade and other receivables	7	14,568	6,536
Inventories	8	1,936	431
Other assets	9	311	114
<b>TOTAL CURRENT ASSETS</b>		<b>23,456</b>	<b>8,500</b>
NON-CURRENT ASSETS			
Property, plant and equipment	10	39,625	28,514
Deferred tax assets	14	1,492	677
Intangible assets	11	20,412	5,276
<b>TOTAL NON-CURRENT ASSETS</b>		<b>61,529</b>	<b>34,467</b>
<b>TOTAL ASSETS</b>		<b>84,985</b>	<b>42,967</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	12	15,322	7,419
Borrowings	13	3,635	2,055
Current tax liabilities	14	3,263	826
Provisions	15	502	118
Other current liabilities	16	684	80
<b>TOTAL CURRENT LIABILITIES</b>		<b>23,406</b>	<b>10,498</b>
NON-CURRENT LIABILITIES			
Borrowings	13	9,579	7,387
Provisions	15	199	-
Deferred tax liabilities	14	20	29
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>9,798</b>	<b>7,416</b>
<b>TOTAL LIABILITIES</b>		<b>33,204</b>	<b>17,914</b>
<b>NET ASSETS</b>		<b>51,781</b>	<b>25,053</b>
<b>EQUITY</b>			
Issued capital	17	40,758	22,571
Reserves	18	849	325
Retained earnings		10,174	2,157
<b>TOTAL EQUITY</b>		<b>51,781</b>	<b>25,053</b>

The accompanying notes form part of these financial statements.



# STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2013

Consolidated Group	Note	Ordinary Share Capital \$'000	Retained Earnings \$'000	Share Based Payments Reserve \$'000	Total \$'000
<b>Balance at 1 July 2011</b>		-	(113)	-	(113)
<b>Comprehensive income</b>					
Profit (loss) for the period		-	2,270	-	2,270
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the full year</b>		-	2,270	-	2,270
<b>Transactions with owners, in their capacity as owners, and other transfers</b>					
Contributions of equity, net of transaction costs and tax		22,571	-	-	22,571
Performance rights and options		-	-	325	325
<b>Total transactions with owners and other transfers</b>		22,571	-	325	22,896
<b>Balance at 30 June 2012</b>		<b>22,571</b>	<b>2,157</b>	<b>325</b>	<b>25,053</b>
<b>Balance at 1 July 2012</b>		22,571	2,157	325	25,053
<b>Comprehensive income</b>					
Profit (loss) for the period		-	9,103	-	9,103
Other comprehensive income for the period		-	-	-	-
<b>Total comprehensive income for the full year</b>		-	9,103	-	9,103
<b>Transactions with owners, in their capacity as owners, and other transfers</b>					
Contributions of equity, net of transaction costs and tax	17	18,187	-	-	18,187
Dividends paid	19	-	(1,161)	-	(1,161)
Performance rights and options lapsed	18	-	75	(75)	-
Performance rights and options	18	-	-	599	599
<b>Total transactions with owners and other transfers</b>		18,187	(1,086)	524	17,625
<b>Balance at 30 June 2013</b>		<b>40,758</b>	<b>10,174</b>	<b>849</b>	<b>51,781</b>

The accompanying notes form part of these financial statements.

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	Consolidated Group	
		2013 \$'000	2012 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		74,819	33,797
Payments to suppliers and employees (inclusive of GST)		(60,799)	(26,659)
Interest received		265	74
Finance costs		(1,448)	(654)
Income tax refund (payment)		(3,512)	(96)
<b>Net cash (used in)/provided by operating activities</b>	26	9,325	6,462
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from acquisition of subsidiary		-	1,824
Payments for plant, property and equipment		(9,698)	(6,339)
Proceeds from disposal of plant, property and equipment		389	73
Payment for acquisition of subsidiary		(15,113)	(16,499)
<b>Net cash (used in)/provided by investing activities</b>		(24,422)	(20,941)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from borrowings		3,772	4,762
Proceeds from issue of shares		18,824	12,500
Capital raising costs paid		(1,116)	(1,380)
Dividends paid		(1,161)	-
<b>Net cash (used in)/provided by financing activities</b>		20,319	15,882
<b>Net increase/(decrease) in cash held</b>		5,222	1,403
Cash and cash equivalents at beginning of period	6	1,419	16
<b>Cash and cash equivalents at end of period</b>	6	<b>6,641</b>	<b>1,419</b>

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

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

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

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

The financial statements were authorised for issue on 5 August 2013 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.

### (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 22 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.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

### 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 21 for information on the goodwill policy adopted by the Group for acquisitions.

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

Goodwill on acquisitions of subsidiaries is included in intangible assets.

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

### ***(b) Income Tax***

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

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

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

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

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

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

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

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

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.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

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

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

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

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

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

### **Property**

The Group held no property during the year.

### **Plant and equipment**

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Drill Rigs	10%
Camps	10%
Motor Vehicles	15-30%
Plant and Equipment	10-33.33%

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

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

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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

### (d) Leases

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

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

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

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

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

### (e) Financial Instruments

#### Recognition and initial measurement

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

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

#### Classification and subsequent measurement

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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## *(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.

## ***(f) Impairment of Assets***

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

### ***(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.

#### 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.



# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

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.

## ***(m) Inventories***

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

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

## ***(n) Trade and Other Payables***

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

## ***(o) 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.

## ***(p) 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.

## ***(q) Comparative Figures***

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

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

## ***(r) Rounding of Amounts***

The parent entity has applied the relief available to it under ASIC Class Order 98/100. Accordingly, amounts in the financial statements and directors' report have been rounded to the nearest \$1,000.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

### **(s) 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.

#### *(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.

### **(t) 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) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).
- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011) and AASB 128: Investments in Associates and Joint Ventures (August 2011) (as amended by AASB 2012-10: Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments), and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 2011-4: Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (applicable for annual reporting periods beginning on or after 1 July 2013).
- AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 2012-2: Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2013).
- AASB 2012-3: Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).
- AASB 2012-5: Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 (applicable for annual reporting periods commencing on or after 1 January 2013).

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.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Group	
	2013 \$'000	2012 \$'000
<b>From continuing operations:</b>		
<i>Sales revenue by segment:</i>		
Drill rigs	35,361	24,314
Camps	33,642	9,103
Catering <sup>1</sup>	4	-
Equipment hire	3,432	-
	72,439	33,417
<i>Sundry revenue:</i>		
Interest revenue	265	74
	265	74
<i>Other income:</i>		
Net gain on disposal of property, plant and equipment	200	9
	200	9
<b>Total revenue and other income from continuing operations</b>	<b>72,904</b>	<b>33,500</b>

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

## NOTE 3: PROFIT FOR THE YEAR

	Consolidated Group	
	2013 \$'000	2012 \$'000
Profit before income tax from continuing operations includes the following specific expenses:		
Depreciation	4,378	3,513
Rental expense on operating leases	4,922	730
Finance costs	1,448	654

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 4: INCOME TAX EXPENSE

	Consolidated Group	
	2013 \$'000	2012 \$'000
a. The components of tax expense comprise:		
Current tax	4,689	1,211
Deferred tax	(452)	(218)
Under-provision in respect of prior years	(14)	-
	4,223	993
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	13,326	3,263
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2012: 30%)	3,998	979
Add:		
Tax effect of:		
- other non-allowable items	5	31
- employee share issues expensed during year	24	45
- performance rights expensed during year	210	70
- bonus options expensed during year	-	7
	4,237	1,132
Less:		
Tax effect of:		
- other allowable items	-	(106)
- over provision for income tax in prior year	(14)	
Recoupment of prior year tax losses not previously brought to account	-	(33)
Income tax attributable to entity	4,223	993
The applicable weighted average effective tax rates are as follows:	<b>31.69%</b>	<b>30.00%</b>

### 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.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## 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 owns three production rigs and operates a fourth rig under a rental agreement with an external party. Contracts are currently in place with QGC and APLNG for the provision of drilling services. The rigs are currently working in the Queensland CSG market and located in and around the Surat Basin area.

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

Atlas currently has 135 staff.

#### ***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 236 rooms to 674 rooms at the end of June. Over the same period, camp utilisation averaged 84%. Contracts currently range from three to eighteen months, with a usual term of six months.

#### ***Catering***

Nektar was a start-up business launched in May 2012 to deliver catering and camp management services to remote sites. The business is currently servicing six major contracts and has catered 62,694 man days through to the end of June 2013. At 30 June 2013, Nektar had 80 staff including chefs, camp attendants and support staff.

#### ***Equipment Hire***

On 15 March 2013, Titan Energy Services Limited acquired Hofco Oil Field Services Pty Ltd. Hofco is a provider of specialist downhole rental equipment to the Queensland CSG and wider oil and gas industry throughout Australia and currently has customers in Queensland, Northern Territory and South Australia.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 5: OPERATING SEGMENTS *(CONT.)*

(b) Segment information provided to the Board of Directors

(i) Segment performance

	Drill Rigs \$'000	Camps \$'000	Catering <sup>1</sup> \$'000	Equipment Hire \$'000	Total \$'000
<b>Year ended 30 June 2013</b>					
<b>Revenue</b>					
Revenue from external customers	35,361	33,642	4	3,432	72,439
Inter-segment revenue	50	298	8,551	191	9,090
<b>Total segment revenue</b>	<b>35,411</b>	<b>33,940</b>	<b>8,555</b>	<b>3,623</b>	<b>81,529</b>
<b>Segment result - EBIT</b>	<b>4,168</b>	<b>9,016</b>	<b>1,927</b>	<b>2,781</b>	<b>17,892</b>
Unallocated:					
Interest revenue					265
Net gain on disposal of property, plant and equipment					200
Interest expense and borrowing costs					(1,448)
Depreciation					(14)
Corporate expenses					(3,569)
<b>Net profit before tax from continuing operations</b>					<b>13,326</b>

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

	Drill Rigs \$'000	Camps \$'000	Catering \$'000	Equipment Hire \$'000	Total \$'000
<b>Year ended 30 June 2012</b>					
<b>Revenue</b>					
Revenue from external customers	24,314	9,103	-	-	33,417
Inter-segment revenue	141	25	31	-	197
<b>Total segment revenue</b>	<b>24,455</b>	<b>9,128</b>	<b>31</b>	<b>-</b>	<b>33,614</b>
<b>Segment result - EBIT</b>	<b>2,813</b>	<b>2,827</b>	<b>(39)</b>	<b>-</b>	<b>5,601</b>
Unallocated:					
Interest revenue					74
Interest expense and borrowing costs					(654)
Depreciation					(3)
Corporate expenses					(1,755)
<b>Net profit before tax from continuing operations</b>					<b>3,263</b>

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## *(ii) Segment assets and liabilities*

	Drill Rigs \$'000	Camps \$'000	Catering \$'000	Equipment Hire \$'000	Total \$'000
Segment assets	26,875	27,043	2,102	9,789	65,809
Unallocated assets					19,176
Closing balance 30 June 2013					<b>84,985</b>
Segment liabilities	14,331	20,283	786	1,005	36,405
Unallocated liabilities					(3,201)
Closing balance 30 June 2013					<b>33,204</b>

## *(iii) Other segment information*

	Drill Rigs \$'000	Camps \$'000	Catering \$'000	Equipment Hire \$'000	Total \$'000
Acquisitions of property, plant and equipment, intangibles, and other non-current segment assets	5,883	3,112	17	483	9,495
Unallocated assets					203
					<b>9,698</b>
Depreciation and amortisation expense	2,326	1,869	3	166	4,364
Unallocated depreciation					14
					<b>4,378</b>

## *(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 account for 65% of external revenue.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 6: CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2013 \$'000	2012 \$'000
Cash at bank	6,641	1,418
Cash on hand	-	1
	6,641	1,419
<b>Reconciliation of cash</b>		
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	6,641	1,419
	6,641	1,419

### Risk exposure

The Group's exposure to interest rate risk is discussed in Note 28. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

## NOTE 7: TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2013 \$'000	2012 \$'000
Trade receivables	12,284	3,288
Provision for doubtful debts	(49)	-
Other receivables	244	1,226
Accrued revenue	2,019	1,921
Deposits paid	70	61
Loan receivable	-	40
	14,568	6,536

### Credit risk

The Group currently has significant contracts with APLNG, a joint venture between Origin Energy, Conoco Phillips and Sinopec. The exposure to APLNG JV has been assessed with the residual risk not considered unreasonable as the counter party is considered to be of high credit quality and the terms of business are covered by appropriate contracts.

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

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



# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

	Gross Amount \$'000	Past Due and Impaired \$'000	Within Initial Trade Terms < 30 \$'000	Terms < 45 \$'000	Past Due but Not Impaired (Days Overdue)	
					31-60 \$'000	> 61 \$'000
<b>2013</b>						
Trade and term receivables	12,284	-	10,294	1,406	325	259
Total	12,284	-	10,294	1,406	325	259
<b>2012</b>						
Trade and term receivables	3,288	-	3,016	-	272	-
Total	3,288	-	3,016	-	272	-

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.

## NOTE 8: INVENTORIES

	Consolidated Group	
	2013 \$'000	2012 \$'000
Raw materials and stores (i)	1,936	431
	1,936	431

Note (i): Comparative information has been amended as a result of the reclassification of spares from Property, Plant and Equipment. Refer to Note 10 for further details.

## NOTE 9: OTHER ASSETS

	Consolidated Group	
	2013 \$'000	2012 \$'000
Prepayments	311	88
Other	-	26
	311	114

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 10: PLANT AND EQUIPMENT

	Consolidated Group	
	2013 \$'000	2012 \$'000
<b>DRILL RIGS</b>		
At Cost	21,004	15,426
Accumulated depreciation	(5,817)	(4,039)
	15,187	11,387
<b>CAMPS</b>		
At Cost	20,530	17,558
Accumulated depreciation	(3,794)	(1,856)
	16,736	15,702
<b>MOTOR VEHICLES</b>		
At Cost	2,500	2,180
Accumulated depreciation	(1,459)	(1,075)
	1,041	1,105
<b>PLANT AND EQUIPMENT</b>		
At Cost	7,346	728
Accumulated depreciation	(685)	(408)
	6,661	320
<b>Total plant and equipment</b>	<b>39,625</b>	<b>28,514</b>

### (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 \$'000	Camps \$'000	Motor Vehicles \$'000	Plant and Equipment \$'000	Total \$'000
Balance at 1 July 2011	-	-	-	4	4
Additions	13,187	17,317	1,527	466	32,497
Disposals - written-down value	-	(56)	(64)	-	(120)
Depreciation expense	(1,446)	(1,559)	(359)	(149)	(3,513)
<b>Carrying amount at 30 June 2012</b>	<b>11,741</b>	<b>15,702</b>	<b>1,104</b>	<b>321</b>	<b>28,868</b>
Reclassification of spares (i)	(354)	-	-	-	(354)
<b>Revised carrying amount at 30 June 2012</b>	<b>11,387</b>	<b>15,702</b>	<b>1,104</b>	<b>321</b>	<b>28,514</b>
Acquisition of subsidiary	-	-	96	5,883	5,979
Additions	5,640	2,967	253	838	9,698
Disposals - written-down value	(43)	-	(45)	(100)	(188)
Depreciation expense	(1,797)	(1,933)	(368)	(280)	(4,378)
<b>Carrying amount at 30 June 2013</b>	<b>15,187</b>	<b>16,736</b>	<b>1,040</b>	<b>6,662</b>	<b>39,625</b>

Note (i): During the year, the Group re-assessed the classification of various items of spare equipment and determined that these items were best classified as inventory. Comparative information has been adjusted above to reflect this reclassification.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 11: INTANGIBLE ASSETS

	Note	Consolidated Group	
		2013 \$'000	2012 \$'000
Goodwill:			
Cost		20,412	5,276
Accumulated impairment losses		-	-
Net carrying amount		20,412	5,276
Balance at the beginning of the year		5,276	-
Additions		-	-
Acquisitions through business combinations	21	15,136	5,276
Amortisation charge		-	-
Impairment losses		-	-
Closing value at 30 June 2013		20,412	5,276

### Impairment disclosures

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

Drill Rigs	-	-
Camps	5,276	5,276
Catering	-	-
Hire	15,136	-
Total	20,412	5,276

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	2.0-10.0%	18.6%
Catering	N/A	N/A
Hire	3.0-7.0%	18.6%

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.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 12: TRADE AND OTHER PAYABLES

	Consolidated Group	
	2013 \$'000	2012 \$'000
Trade payables	6,061	5,121
Other creditors	3,112	2,009
Deferred consideration	5,812	-
GST payable	337	289
	15,322	7,419

## NOTE 13: BORROWINGS

	Consolidated Group	
	2013 \$'000	2012 \$'000
<b>CURRENT</b>		
Loan - secured	3,684	-
Asset finance facility secured	-	2,055
Borrowing costs	(49)	-
	3,635	2,055
<b>NON-CURRENT</b>		
Loan - secured	9,742	-
Asset finance facility secured	-	7,387
Borrowing costs	(163)	-
	9,579	7,387
<b>TOTAL</b>	<b>13,214</b>	<b>9,442</b>

In November 2012 the Group changed finance facilities from NAB to GE Commercial Corporation (Australia) Pty Ltd (GE).

A Facility Agreement has been entered into between Titan and GE with the following facilities available:

- \$11,745,000 Term Loan, fully drawn, extending until October 2017. Balance outstanding \$10,278,815.
- \$5,000,000 Capex Facility, partially drawn, extending until October 2017. Balance outstanding \$2,603,357.
- \$8,000,000 Revolving Facility, partially drawn, extending until October 2017. Balance outstanding \$543,909.

Loans provided under this facility are secured by a fully perfected first priority fixed and floating charge over all existing and after-acquired assets of the Group and all proceeds thereof (including any insurance or other proceeds).

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 14: TAX

		Consolidated Group					
		2013 \$'000	2012 \$'000				
<b>CURRENT</b>							
Income tax payable		3,263	826				
<b>NON-CURRENT</b>							
	Opening Balance \$'000	Additions through Business Combina- tions \$'000	Charged to Income \$'000	Charged Directly to Equity \$'000	Changes in Tax Rate \$'000	Exchange Differences \$'000	Closing Balance \$'000
<b>Consolidated Group</b>							
<b>Deferred tax liability</b>							
Property plant and equipment:							
- tax allowance	-	-	29	-	-	-	29
<b>Balance at 30 June 2012</b>	<b>-</b>	<b>-</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29</b>
Property plant and equipment:							
- tax allowance	29	-	(9)	-	-	-	20
<b>Balance at 30 June 2013</b>	<b>29</b>	<b>-</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Deferred tax assets</b>							
Provisions	-	-	265	-	-	-	265
Transaction costs on equity issue	-	-	-	368	-	-	368
Other	-	-	44	-	-	-	44
<b>Balance at 30 June 2012</b>	<b>-</b>	<b>-</b>	<b>309</b>	<b>368</b>	<b>-</b>	<b>-</b>	<b>677</b>
Provisions	265	69	607	-	-	-	941
Transaction costs on equity issue	368	-	(151)	303	-	-	520
Other	44	-	(13)	-	-	-	31
<b>Balance at 30 June 2013</b>	<b>677</b>	<b>69</b>	<b>443</b>	<b>303</b>	<b>-</b>	<b>-</b>	<b>1,492</b>

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 15: PROVISIONS

	Consolidated Group	
	2013 \$'000	2012 \$'000
Provision for employee entitlements - Current	502	118
Provision for employee entitlements - Non-current	199	-
	701	118

## NOTE 16: OTHER CURRENT LIABILITIES

	Consolidated Group	
	2013 \$'000	2012 \$'000
Unearned revenue	684	80
	684	80

## NOTE 17: ISSUED CAPITAL

	2013 Shares	2012 Shares	2013 \$'000	2012 \$'000
<b>(a) Issued capital</b>				
Ordinary shares - fully paid	47,512,077	28,456,745	40,758	22,571
	47,512,077	28,456,745	40,758	22,571

### *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 *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## (b) Movements in ordinary share capital during the year:

Date	Details	Note	#	Issue Price	\$'000
1 July 2012	Opening Balance		28,456,745		22,571
23 August 2012	Employee Share Issue	(i)	47,056	\$0.68	32
4 September 2012	Performance Rights	(ii)	98,625	\$1.00	99
18 October 2012	Dividend Reinvestment Plan	(iii)	393,829	\$0.67	264
18 October 2012	Dividend Reinvestment Plan Shortfall	(iv)	459,913	\$0.67	308
12 February 2013	Unconditional Placement - Tranche 1	(v)	3,889,525	\$1.05	4,084
4 March 2013	Dividend Reinvestment Plan	(vi)	162,691	\$1.55	252
6 March 2013	Employee Share Issue	(vii)	48,944	\$0.94	46
12 March 2013	Entitlement Offer	(viii)	7,364,274	\$0.95	6,996
13 March 2013	Conditional Placement - Tranche 2	(ix)	6,590,475	\$1.05	6,920
					41,572
	Less: Transaction costs arising on share issue, net of deferred tax				(814)
			47,512,077		40,758

- (i) On 23 August 2012 employees with greater than 12 month's service at the date of listing were each granted shares with a fair value of \$2,000 under the Employee Share and Option Scheme.
- (ii) On 4 September 2012, 98,625 Ordinary Shares were issued in accordance with the company's Performance Rights Plan.
- (iii) On 18 October 2012, 393,829 Ordinary Shares were issued under the company's Dividend Reinvestment Plan at a price of \$0.67.
- (iv) On 18 October 2012, 459,913 Ordinary Shares were issued in partial reduction of the company's Dividend Reinvestment Plan shortfall at a price of \$0.67.
- (v) On 12 February 2013 3,889,525 Ordinary Shares were issued to fund the acquisition of Hofco Oil Field Services Pty Ltd at \$1.05 per share to sophisticated, professional and other investors to whom no disclosure is required under the Corporations Act (Tranche 1).
- (vi) On 4 March 2013, 162,691 Ordinary Shares were issued under the company's Dividend Reinvestment Plan at a price of \$1.55.
- (vii) On 6 March 2013, employees with greater than 12 month's 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) A fully underwritten pro-rata non-renounceable entitlement offer of one new share for every four shares held at an issue price of \$0.95 per new share to raise funds for the acquisition of Hofco Oil Field Services Pty Ltd.
- (ix) On 13 March 2012 6,590,475 Ordinary Shares were issued to fund the acquisition of Hofco Oil Field Services Pty Ltd at \$1.05 per share to sophisticated, professional and other investors to whom no disclosure is required under the Corporations Act (Tranche 2).

## (c) Options

For information relating to share options issued to key management personnel, refer to Note 27.

## (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 2013 reporting period.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 18: RESERVES

	2013 \$'000	2012 \$'000
<i>Share based payments reserve</i>		
Balance at 1 July	325	-
Option expense	104	142
Options lapsed	(69)	-
Performance rights expense	594	183
Performance rights granted	(99)	-
Performance rights lapsed	(6)	-
Balance at 30 June	849	325

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 19: DIVIDENDS

	2013 \$'000	2012 \$'000
<b>(a) Ordinary shares</b>		
Fully franked final dividend for the year ended 30 June 2012 – 2.0 cents per share	572	-
Fully franked interim dividend for the year ended 30 June 2013 – 2.0 cents per share	589	-
	1,161	-
Paid in cash	645	-
Satisfied under the Dividend Reinvestment Plan	516	-
	1,161	-
<b>(b) Dividends not recognised at the end of the reporting period</b>		
Since year end, the directors have declared the payment of a final dividend of 3.5 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate of the declared dividend expected to be paid on 6 September 2013 out of retained earnings at 30 June 2013, but not recognised as a liability at year end is	1,696	569

## (c) Franked dividends

The franked portion of the final dividend declared after 30 June 2013 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	
	2013 \$'000	2012 \$'000
Franking credits available for subsequent reporting periods based on a tax rate of 30% (2012 – 30%)	10,811	1,455

The above amount represents the balance of the franking account as at the end of the reporting period adjusted for franking credits that will arise from the payment of the amount of the provision for income tax.

The financial effect of the dividend referred to at b) above has not been brought to account in the financial statements for the year ended 30 June 2013 and will be recognised in subsequent financial reports.



# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 20: EARNINGS PER SHARE

	2013 Cents	2012 Cents
<b>(a) Basic earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the company	22.24	9.05
Total basic earnings per share attributable to the ordinary equity holders of the company	22.24	9.05
<b>(b) Diluted earnings per share</b>		
From continuing operations attributable to the ordinary equity holders of the company	21.97	9.02
Total diluted earnings per share attributable to the ordinary equity holders of the company	21.97	9.02
<b>(c) Reconciliation of earnings used in calculating earnings per share</b>		
	\$'000	\$'000
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	9,103	2,270
<i>Diluted earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	9,103	2,270
<b>(d) Weighted average number of shares used as the denominator</b>		
	#	#
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	40,923,433	25,093,934
Adjustments for calculation of diluted earnings per share:		
• Options	146,107	-
• Performance rights	366,018	74,916
<i>Weighted average number of ordinary shares and potential ordinary share used as the denominator in calculating diluted earnings per share</i>	41,435,558	25,168,850

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 21: BUSINESS ACQUISITIONS

### Acquisition of Hofco Oil Field Services Pty Ltd (Hofco)

On 30 January 2013, Titan Energy Services Limited entered into a Share Sale and Purchase Agreement to acquire 100% of the issued capital of Hofco Oil Field Services Pty Ltd. The acquisition was completed on 15 March 2013 and, under the terms of the contract, is effective from 1 January 2013.

Hofco was established in 1980 and has grown into a leading supplier of specialist downhole equipment. Integration with the Titan Group is progressing smoothly and Hofco is performing in-line with expectations.

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

#### *(a) Summary of Acquisition*

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

	\$'000
Cash paid	24,674
Deferred consideration	5,812
Total purchase consideration	30,486
Less cash acquired	(9,561)
Cost of acquisition, net of cash acquired	20,925

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

	Fair Value \$'000
Cash	9,561
Trade and other receivables	1,261
Inventory	905
Plant and equipment	5,979
Deferred tax assets	69
Trade and other payables	(975)
Provisions for employee entitlements	(168)
Tax liabilities	(1,282)
Net identifiable assets acquired	15,350
Goodwill (d)	15,136
Net assets acquired	30,486

The acquired business contributed revenues of \$3,960,535 and net profit after tax of \$2,183,030 to the Group for the period from 1 January 2013 to 30 June 2013. Disclosure of the revenue and profit and loss of the combined entity for the period as though the acquisition date for the business combination had been at the beginning of the period is impracticable to disclose given the entity acquired was previously a privately held entity that was not subject to audit requirements.

#### *(b) Purchase Consideration - Cash Outflow*

Purchase consideration settled in cash as at 30 June 2013	24,674
Less balance of cash acquired	(9,561)
Outflow of cash - investing activities	15,113

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## **(c) Acquisition Related Costs**

Acquisition related costs of \$172,727 are included in other expenses in the statement of comprehensive income and in operating cash flows in the statement of cash flows.

## **(d) Goodwill on Acquisition**

The goodwill is attributable mainly to the skills of the Hofco workforce and the synergies expected to be achieved from integrating Hofco into the Group. It will not be deductible for tax purposes.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

## **NOTE 22: 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	
			2013	2012
Atlas Drilling Co Pty Ltd	Australia	Ordinary	100%	100%
Titan Plant Logistics Pty Ltd	Australia	Ordinary	100%	100%
Titan Resources Camp Hire Pty Ltd	Australia	Ordinary	100%	100%
Nektar Remote Hospitality Pty Ltd	Australia	Ordinary	100%	100%
Atlas Drilling Services Pty Ltd	Australia	Ordinary	100%	100%
Hofco Oil Field 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 company entered into an agreement with Ironstone Capital Pty Ltd (an entity associated with Simon Keyser, a Director of the company) for the provision of corporate advisory and capital raising services in relation to the acquisition of Hofco Oil Field Services Pty Ltd. The company paid Ironstone Capital Pty Ltd \$330,232 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 acquisition of Hofco Oil Field Services Pty Ltd. The company paid Bizzell Capital Partners Pty Ltd \$304,978 during the period.

## **NOTE 23: KEY MANAGEMENT PERSONNEL COMPENSATION**

Refer to the remuneration report contained in the Directors' Report on page 34 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 2013.

# NOTES TO THE FINANCIAL STATEMENTS (CONT.)

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 23: KEY MANAGEMENT PERSONNEL COMPENSATION (CONT.)

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

	2013 \$'000	2012 \$'000
Short-term employee benefits	1,863	1,204
Post-employment benefits	132	72
Other long-term benefits	-	-
Share-based payments	269	247
Total KMP compensation	2,264	1,523

### 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 Directors' Report on page 35.

### 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 2013	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	-	-	209,319	905,673
Stephen Bizzell	2,417,585	-	-	(51,975)	2,365,610
Simon Keyser	448,609	-	-	132,246	580,855
Wayne Seabrook <sup>1</sup>	424,240	-	-	(424,240)	-
Mark Snape	-	-	-	-	-
James Sturgess	240,000	-	36,125	225,860	501,985
Jim Diakogiannis	1,734,032	-	42,500	(449,484)	1,327,048
David Thornton	17,500	2,128	-	52,878	72,506
Gus van der Heide	-	-	20,000	22,619	42,619
Total	5,978,320	2,128	98,625	(282,777)	5,796,296

Note 1: For Wayne Seabrook, balance at date of resignation, 18 October 2012.

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	-	-	-	-	-
Total	-	-	-	5,978,320	5,978,320

### 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, refer to Note 22: Related Party Transactions.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 24: AUDITOR'S REMUNERATION

	Consolidated Group	
	2013 \$	2012 \$
Remuneration of the auditor for:		
- auditing or reviewing the financial statements	96,750	90,000
- due diligence services	-	86,697
- taxation services provided by related practice of auditor	11,550	28,379

## NOTE 25: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group	
	2013 \$'000	2012 \$'000
<b>(a) Finance Lease Commitments</b>		
Payable - minimum lease payments:		
- Within one year	-	2,703
- Later than one year but not later than five years	-	8,395
- Later than five years	-	-
Minimum lease payments	-	11,098
Less future finance charges	-	1,656
Present value of minimum lease payments	-	9,442
<b>(b) Operating Lease Commitments</b>		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
- Within one year	8,720	2,567
- Later than one year but not later than five years	14,724	2,377
- Later than five years	-	-
	23,444	4,944

### (c) Capital Expenditure Commitments

There were no capital expenditure commitments outstanding at 30 June 2013.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 26: CASH FLOW INFORMATION

	Consolidated Group	
	2013 \$'000	2012 \$'000
<b>(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax</b>		
Profit after income tax	9,103	2,270
Non-cash flows in profit:		
- Depreciation	4,378	3,513
- Net gain on disposal of property, plant and equipment	(200)	(9)
- Share based payments	777	738
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and term receivables	(6,167)	(4,358)
- (increase)/decrease in prepayments	(198)	(29)
- (increase)/decrease in stock	(602)	(76)
- increase/(decrease) in trade payables and accruals	1,116	3,467
- (increase)/decrease in income tax asset	-	266
- increase/(decrease) in income taxes payable	1,155	826
- increase/(decrease) in deferred taxes payable	(8)	(23)
- (increase)/decrease in deferred taxes receivable	(444)	(195)
- increase/(decrease) in provisions	415	72
Cash flow from operations	9,325	6,462

### (b) Acquisition of Entities

Refer to Note 21 for further details on cash and non-cash transactions in relation to the acquisition of subsidiaries during the year.

	Consolidated Group	
	2013 \$'000	2012 \$'000
<b>(c) Credit Standby Arrangements with Banks</b>		
Credit facility	-	1,000
Amount utilised	-	-
	-	1,000
<b>(d) Loan Facilities</b>		
Loan facilities	24,745	10,617
Amount utilised	13,426	9,442
	11,319	1,175

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

In November 2012 the Group changed finance facilities from NAB to GE Commercial Corporation (Australia) Pty Ltd (GE). A Facility Agreement has been entered into between Titan and GE with the following facilities available:

- \$11,745,000 Term Loan, fully drawn, extending until October 2017. Balance outstanding \$10,278,815.
- \$5,000,000 Capex Facility, partially drawn, extending until October 2017. Balance outstanding \$2,603,357.
- \$8,000,000 Revolving Facility, partially drawn, extending until October 2017. Balance outstanding \$543,909.

Loans provided under this facility are secured by a fully perfected first priority fixed and floating charge over all existing and after-acquired assets of the Group and all proceeds thereof (including any insurance or other proceeds).

## NOTE 27: 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

Mark Snape (Appointed 18 October 2012)

Wayne Seabrook (Resigned 18 October 2012)

### Options

During the prior 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 or such other period as determined by the Board of Directors;
  - (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 \$1.11. The exercise price for the options was reduced following the rights issue as per the Employee Shares and Option Plan rules.
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 2012	1,192,447	1.11
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
Other <sup>1</sup>	(280,576)	-
Options outstanding at June 2013	911,871	1.11

Note 1: Wayne Seabrook resigned as a director of Titan Energy Services Ltd on 18 October 2012.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 27: SHARE-BASED PAYMENTS *(CONT.)*

### (a) Non-executive Directors *(cont.)*

#### *Options (cont.)*

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 \$104,475 which relates to equity-settled share-based payment transactions (2012: \$142,221). 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%

### (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 der Heide	COO	Titan Energy Services Limited

#### *Performance Rights*

KMP have been 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 KPIs are divided into three equal tranches for the first 3 years of employment. The business KPIs 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; and
- 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 and Gus van der Heide 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; and
- Ten day VWAP of Titan Energy Services Limited shares is greater than \$2.00.

During the year KMP were issued with a series of performance rights as part of the Group Long Term Incentive Plan (LTI). The performance rights will vest based on the following:

- The Group achieving a minimum EBIT growth; and
- KMP remaining employed up to the release of FY13 audited results.



# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

LTI are allocated as follows:

Tranche	Financial Years
December 2012	FY13, 14, 15
April 2013	FY13, 14, 15

Performance rights granted to key management personnel are as follows:

Grant Month	Number
November 2011	870,000
December 2012	69,750
April 2013	20,500

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.

Included under employee benefits expense in the statement of comprehensive income is \$120,429 which relates to equity-settled share-based payment transactions (2012:\$182,955). 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 28: 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	
		2013 \$'000	2012 \$'000
<b>Financial assets</b>			
Cash and cash equivalents	6	6,641	1,419
Trade and other receivables	7	14,568	6,536
<b>Total financial assets</b>		<b>21,209</b>	<b>7,955</b>
<b>Financial liabilities</b>			
Trade and other payables	12	15,322	7,419
Borrowings	13	13,214	9,442
<b>Total financial liabilities</b>		<b>28,536</b>	<b>16,861</b>

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 28: FINANCIAL RISK MANAGEMENT *(CONT.)*

### 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 regularly and minutes of the Audit Committee are reviewed by the Board.

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

### Specific Financial Risk Exposures and Management

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

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

#### *(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 45 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 30 for details).

The Group currently has significant contracts with APLNG, a joint venture between Origin Energy, Conoco Phillips and Sinopec. On a geographical basis, the Group has significant credit risk exposures to Australia given the substantial operations in this region. Details with respect to credit risk of trade and other receivables are provided in Note 7.

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed in Note 7.

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 and Poor's counterparty credit ratings.

	Note	Consolidated Group	
		2013 \$'000	2012 \$'000
Cash and cash equivalents:			
- AA- rated		6,641	772
- BBB+ rated		-	647
	6	6,641	1,419

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## *(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

Consolidated Group	Note	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
		2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
<b>Financial liabilities due for payment</b>									
Bank overdrafts and loans	13	3,635	-	9,579	-	-	-	13,214	-
Trade and other payables	12	15,322	7,419	-	-	-	-	15,322	7,419
Finance lease liabilities		-	2,055	-	7,387	-	-	-	9,442
Total contractual outflows		18,957	9,474	9,579	7,387	-	-	28,536	16,861
Less bank overdrafts									
Total expected outflows		18,957	9,474	9,579	7,387	-	-	28,536	16,861

## *(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 2013, 100% of Group debt is fixed rate.

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 28: FINANCIAL RISK MANAGEMENT *(CONT.)*

### Specific Financial Risk Exposures and Management (cont.)

#### *(d) 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.

## NOTE 29: 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.

	2013 \$'000	2012 \$'000
<b>STATEMENT OF FINANCIAL POSITION</b>		
ASSETS		
Current assets	6,093	12,895
Non-current assets	54,796	9,647
<b>TOTAL ASSETS</b>	<b>60,889</b>	<b>22,542</b>
LIABILITIES		
Current liabilities	13,113	991
Non-current liabilities	9,584	-
<b>TOTAL LIABILITIES</b>	<b>22,697</b>	<b>991</b>
EQUITY		
Issued capital	40,758	22,571
Accumulated losses	(3,415)	(1,345)
Option reserve	849	325
<b>TOTAL EQUITY</b>	<b>38,192</b>	<b>21,551</b>
<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
Total profit (loss)	(984)	(1,232)
Total comprehensive income	(984)	(1,232)

### Guarantees

Titan Energy Services Limited has entered into guarantees in the current financial year in relation to the debts of its subsidiaries. Refer Note 30 for further details.

### Contingent liabilities

At 30 June 2013, 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 2013, Titan Energy Services Limited had not entered into any contractual commitments for the acquisition of property, plant and equipment (2012: nil).

# NOTES TO THE FINANCIAL STATEMENTS *(CONT.)*

FOR THE YEAR ENDED 30 JUNE 2013

## NOTE 30: CONTINGENT LIABILITIES

The Group had contingent liabilities at 30 June 2013 in respect of:

### Guarantees

GE Commercial Corporation (Australia) Pty Ltd – Loans provided under this facility are secured by a fully perfected first priority fixed and floating charge over all existing and after-acquired assets of the Group and all proceeds thereof (including any insurance or other proceeds).

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

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

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

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 31: EVENTS AFTER THE END OF THE REPORTING PERIOD

The directors have declared a final fully franked ordinary dividend of \$1,695,833 (3.5 cents per fully paid share) be paid on 6 September 2013 out of retained profits and a positive net asset balance at 30 June 2013.

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 32: 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
- Hofco Oil Field 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 45 to 83 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position as at 30 June 2013 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, 5 August 2013

# INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TITAN ENERGY SERVICES LIMITED



## 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 2013, 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

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Level 3, 549 Queen Street  
Brisbane QLD 4000 Australia  
telephone 07 3835 9733  
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# INDEPENDENT AUDITOR'S REPORT *(CONT.)*

TO THE MEMBERS OF TITAN ENERGY SERVICES LIMITED



## *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 2013 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 30 to 36 of the Directors' Report for the year ended 30 June 2013. 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 2013 complies with section 300A of the *Corporations Act 2001*.

## **LAWLER HACKETTS AUDIT**

A handwritten signature in black ink, appearing to be 'Liam Murphy'.

**Liam Murphy**  
**Partner**  
**Brisbane, 5 August 2013**



# SHAREHOLDER INFORMATION

**Company:** Titan Energy Services Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

**ABN:** 79 150 110 017

**Stock Exchange:** Titan is listed on the Australian Securities Exchange (ASX).

**ASX Code:** Ordinary Shares: TTN

**Officer:** Company Secretary: David Thornton

## ADDITIONAL SHAREHOLDER INFORMATION:

Additional shareholder information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Report is set out below.

## CONTINUOUS DISCLOSURE

All documents lodged with the ASX since listing in 2011 are provided on the Titan website [www.titanenergyservices.com.au](http://www.titanenergyservices.com.au) under 'Investor'. The website also details the company's businesses and industries within which it operates.

## DIVIDEND POLICY

Subject to the Titan's growth plans and profitability, the company intends on maintaining a dividend payout ratio of approximately 25% of NPAT.

## DIVIDEND REINVESTMENT PLAN

Titan's dividend reinvestment plan (DRP) was established and announced on 21 August 2012. The DRP provides Titan shareholders with the opportunity to use their dividends to acquire additional shares in Titan without incurring brokerage or transaction fees. Participation in the DRP is voluntary. Shareholders who choose to participate have the choice of full or partial participation. Shareholders are able to vary their level of participation or cancel at any time.

Shareholders with registered addresses in Australia and New Zealand may participate. Participation by other shareholders, however, is conditional on the laws enacted where the shareholders reside. The DRP rules are available on the website [www.titanenergyservices.com.au](http://www.titanenergyservices.com.au). The directors resolved for the DRP to apply to the maiden Titan dividend announced with the full year results on 6 August 2013.

## SHAREHOLDER STATISTICS

As at 2 September 2013, Titan had 1,117 shareholders and a total of 48,359,577 ordinary fully paid shares on issue.

## VOTING RIGHTS

Titan fully paid ordinary shares carry voting rights of one vote per share.

# SHAREHOLDER INFORMATION (CONT.)

## DISTRIBUTION OF SHAREHOLDERS AND THEIR HOLDINGS AS AT 2 SEPTEMBER 2013

Shareholders	Number of Shareholders	Number of Shares
1 to 1,000	151	80,012
1,001 to 5,000	495	1,393,587
5,001 to 10,000	195	1,492,835
10,001 to 50,000	200	4,380,074
50,001 to 100,000	23	1,792,401
100,001 and over	53	39,220,668
Total	1,117	48,359,577

The number of shareholders holding less than the marketable parcel of ordinary shares is 28.

## TOP 20 SHAREHOLDERS AS AT 2 SEPTEMBER 2013

	Name	Number of Shares	Percentage
1	AUST EXECUTOR TRUSTEES SA LTD	6,175,549	12.77%
2	NATIONAL NOMINEES LIMITED	4,381,117	9.06%
3	GAFFWICK PTY LTD	3,809,523	7.88%
4	XLX PTY LTD	2,432,533	5.03%
5	BNP PARIBAS NOMS PTY LTD	2,223,994	4.60%
6	UBS WEALTH MANAGEMENT AUSTRALIA NOMINEES PTY LTD	2,096,660	4.34%
7	RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITED	1,559,323	3.22%
8	AUST EXECUTOR TRUSTEES LTD	1,084,853	2.24%
9	INVIA CUSTODIAN PTY LIMITED	997,303	2.06%
10	RANAMOK PTY LTD	994,361	2.06%
11	DUBOTU PTY LTD	887,500	1.84%
12	ZAGLA PTY LTD	862,221	1.78%
13	PINE MOUNTAIN PTY LTD	837,148	1.73%
14	LUJETA PTY LTD	831,106	1.72%
15	BCP ALPHA INVESTMENTS LIMITED	757,499	1.57%
16	J P MORGAN NOMINEES AUSTRALIA LIMITED	637,923	1.32%
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	595,469	1.23%
18	SARAH FRANCES SCOTT	545,558	1.13%
19	MAST CAPITAL PTY LTD	441,799	0.91%
20	RANAMOK PTY LTD	404,761	0.84%

## SUBSTANTIAL HOLDERS AS AT 2 SEPTEMBER 2013

	Name	Number of Shares	Percentage
1	AUST EXECUTOR TRUSTEES SA LTD	6,175,549	12.77%
2	NATIONAL NOMINEES LIMITED	4,381,117	9.06%
3	GAFFWICK PTY LTD	3,809,523	7.88%
4	XLX PTY LTD	2,432,533	5.03%

# CORPORATE DIRECTORY

## BOARD OF DIRECTORS

Mr Shaun Scott, Chairman  
Mr James Sturgess  
Mr Jim Diakogiannis  
Mr Stephen Bizzell  
Mr Simon Keyser  
Mr Mark Shape

## SENIOR MANAGEMENT

Mr James Sturgess, MD  
Mr Gus Van Der Heide, COO  
Mr David Thornton, CFO and Company Secretary  
Mr Jim Diakogiannis, Group Business Development  
Mr Darren Bishell, GM RCH  
Mr Lee Buckingham, GM Nektar  
Mr Troy Scheffe - GM Atlas Drilling  
Mrs Kerstine Plummer - GM Hofco

## REGISTERED OFFICE

Titan Energy Services Limited  
1/170 Montague Road  
SOUTH BRISBANE QLD 4001  
Telephone: (07) 3013 0200  
Facsimile: (07) 3844 3776  
Email: [info@titanenergyservices.com](mailto:info@titanenergyservices.com)  
Website: [www.titanenergyservices.com](http://www.titanenergyservices.com)

## SHARE REGISTRY

Link Market Services Limited  
Level 15, 324 Queen Street  
BRISBANE QLD 4000  
Telephone: 1300 554 474 (within Australia) and  
+61 2 8280 7454 (outside Australia)  
Website: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## AUDITORS

Lawler Hacketts  
549 Queen Street  
BRISBANE QLD 4000  
Telephone: (07) 3839 9733  
Facsimile: (07) 3832 1407  
Website: [www.lawlerhacketts.com.au](http://www.lawlerhacketts.com.au)

## SOLICITORS TO THE COMPANY

Thomsons Lawyers  
Level 16, Waterfront Place  
1 Eagle Street  
BRISBANE QLD 4000  
Telephone: (07) 3338 7500  
Facsimile: (07) 3338 7599  
Website: [www.thomsonslawyers.com.au](http://www.thomsonslawyers.com.au)

**From October 2013  
Titan Energy Services  
is moving to:**

Level 5, 189 Grey Street,  
SOUTH BRISBANE QLD 4101

Our postal address, phone and fax  
numbers will remain the same.

