



Consolidated Financial Report for the Half-Year ended 31 December 2011

CORPORATE DIRECTORY

DIRECTORS:	Darren Levy (Chairman) Stephen Thomas Paul Garner
COMPANY SECRETARY:	Jack Hugh Toby FCA MACS
ABN:	53 109 213 470
REGISTERED OFFICE:	31 Ord St West Perth, Western Australia 6005 Tel: +61 (8) 9322 6955 Fax: +61 (8) 9322 6722
AUDITORS:	Somes Cooke 1304 Hay St, West Perth WA 6005 PO Box 709, West Perth WA 6872 Tel: +61 (8) 9426 4500 Fax: +61 (8) 9481 5645
SHARE REGISTRY:	Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St Georges Terrace Perth, Western Australia 6000 GPO Box D182 Perth, Western Australia 6840 Tel: +61 1300 557 010 Fax: +61 (8) 9323 2033

DIRECTORS' REPORT

The directors of Titan Energy Limited A.C.N. 109 213 470 ("Parent Entity" or "Company") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity" or "Group") for the half-year ended 31 December 2011. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

DIRECTORS

The names of the directors of the Company who held office during or since the end of the half-year are:-

Darren Levy (appointed 8 July 2011)
Stephen Thomas
Paul Garner (appointed 19 July 2011)
Peter Briggs (resigned 7 July 2011)
Chong Kwee Ch'ng (resigned 19 July 2011)

OPERATING RESULTS

The comprehensive operating loss for the Consolidated Entity, after income tax amounted to \$1,442,855.

SIGNIFICANT CHANGES AND REVIEW OF OPERATIONS

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

On 28 July 2011, the Company issued 52,163,972 fully paid ordinary shares for \$0.01 per share and issued 47,387,991 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each. The issue of these options was approved at the General Meeting of shareholders of the Company held on 17 June 2011. The issue of these shares was ratified at the Annual General Meeting of the Company held on 12 October 2011.

On 4 October 2011, the Company announced that it had acquired approximately 17,000 acres in nine oil and gas leases in the state of Nevada from the Bureau of Land Management (BLM) in the leasing round held in September 2011. The cost of the nine leases was US\$141,563. The leases are located in two distinct areas, the northern end of the Railroad valley (9808 acres) and the central portion of the Lake valley area (7660 acres) approximately 450 kilometres north of Las Vegas. The areas of interest are located in the Cretaceous Sevier thrust belt. This belt holds some of North America's most productive oil and gas fields. Over-thrust structures such as these are estimated to hold a quarter of the world's oil.

On 4 October, the Company announced the completion of a Warradarge Seismic Survey in the Company's DR11 permit. The approximate 25 kilometres of data recorded will be used to map the Cattamarra Coal Measures and possibly the deeper Carynginia Formation.

On 12 October 2011 the Company changed its name from Westralian Gas & Power Limited to Titan Energy Ltd.

DIRECTORS' REPORT

On 22 August 2011, the Company lodged a prospectus with ASIC for an underwritten non-renounceable pro rata offer of fully paid ordinary shares to existing shareholders ("Rights Issue"). The offer was on the basis of two fully paid ordinary shares in the Company ("Shares") for every three Shares held by shareholders on the record date of 2 September 2011 at an issue price of \$0.01 (1 cent) per Share, with one free Attaching Option (exercisable at \$0.015 on or before 31 December 2012) for every two new Shares issued. Accordingly the Company issued 90,039,321 Shares and 45,019,712 Attaching Options on 26 September 2011, a further 167,282,689 Shares and 83,641,346 Attaching Options on 5 October 2011 and a further 9,293,848 Shares and 4,646,924 Attaching Options on 18 October 2011, pursuant to the Rights Issue. Also on 18 October, the Company issued 15,996,951 free options exercisable at \$0.015 on or before 31 December 2012 and 6,000,000 free options exercisable at \$0.01 (1 cent) on or before 31 March 2013 to nominees of the underwriter of the Rights Issue as part of the underwriting fee.

On 1 November 2011, the Company issued 95,335 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012.

On 1 November 2011, the Company issued 2,000,000 options exercisable at \$0.015 on or before 31 December 2012 at an issue price of \$0.002 each.

On 1 December 2011, the Company issued 500,000 fully paid ordinary shares for \$0.01 (1 cent) each pursuant to the exercise of options expiring on 31 March 2013.

During the period, the Company farmed out its Kentucky leases to a US based company for an ongoing royalty of 9% of Gross production from its Burkesville leases allowing it to focus on new projects.

EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

AUDITORS INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C the auditors of the Company have provided a signed auditors independence declaration to the directors in relation to the review for the half-year ended 31 December 2011. This declaration has been attached to the independent review report to the members of the Company.

Signed in accordance with a resolution of the directors.



Paul Garner
Director

2 March 2012
Perth, Western Australia

DIRECTORS' DECLARATION

The directors of Titan Energy Limited A.C.N. 055 719 394 ("Company") declare that:

- a) in their opinion the accompanying financial statements and notes of the Consolidated Entity;
 - i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - ii) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and
- b) In their opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Paul Garner
Director

2 March 2012
Perth, Western Australia

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Note	Half-Year to 31 December 2011 \$	Half-Year to 31 December 2010 \$
Oil sales	2	10,721	11,824
Interest received	2	46,128	2,403
Other income	2	110	4,247
Other expenses	2	(1,499,814)	(811,865)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX		(1,442,855)	(793,391)
Income tax		—	—
LOSS FROM CONTINUING OPERATIONS AFTER INCOME TAX		(1,442,855)	(793,391)
NET PROFIT/(LOSS) FOR THE PERIOD		(1,442,855)	(793,391)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD		(1,442,855)	(793,391)
BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)		(0.28)	(0.34)
DILUTED EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)		(0.28)	(0.34)

The accompanying notes form part of this financial report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	31 December 2011 \$	30 June 2011 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	2,839,187	1,173,445
Trade and other receivables		32,216	15,290
Inventories		—	5,623
TOTAL CURRENT ASSETS		2,871,403	1,194,358
NON-CURRENT ASSETS			
Plant and equipment		28,597	84,146
Capitalised oil and gas expenditure	3	139,389	12,000
Receivables		12,000	23,497
TOTAL NON-CURRENT ASSETS		179,986	119,643
TOTAL ASSETS		3,051,389	1,314,001
CURRENT LIABILITIES			
Trade and other payables		203,649	76,809
Provisions		—	2,244
TOTAL CURRENT LIABILITIES		203,649	79,053
TOTAL LIABILITIES		203,649	79,053
NET ASSETS		2,847,740	1,234,948
EQUITY			
Issued capital	4	16,865,060	12,542,332
Reserves	5	220,986	1,488,067
Accumulated losses		(14,238,306)	(12,795,451)
TOTAL EQUITY		2,847,740	1,234,948

The accompanying notes form part of this financial report

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

	Half-Year to 31 December 2011	Half-Year to 31 December 2010
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	10,721	21,131
Payments to suppliers & employees	(1,047,608)	(702,929)
Interest received	46,128	2,403
Other revenue	—	2,949
	(990,759)	(676,446)
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and production expenditure	(377,868)	(208,823)
Purchase of property, plant and equipment	(21,580)	—
Proceeds from disposal of plant and equipment	—	1,722
	(399,448)	(207,101)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from equity issues	3,245,616	1,063,127
Share issue costs	(189,969)	(64,766)
Borrowings	—	200,000
Repayment of borrowings	—	(200,000)
	3,055,647	998,361
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,665,440	114,814
Net foreign exchange differences	302	(885)
Cash and cash equivalents at beginning of period	1,173,445	132,057
CASH AND CASH EQUIVALENTS AT END OF PERIOD	2,839,187	245,986

The accompanying notes form part of this financial report

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2011**

<u>Attributable to Members of Titan Energy Limited</u>	Issued Capital \$	Option Premium Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2010</i>	10,144,721	1,378,942	(11,456,642)	67,021
Total comprehensive loss for the period	—	—	(793,391)	(793,391)
SUBTOTAL	—	—	(793,391)	(793,391)
<i>Transactions with owners in their capacity as owners</i>				
Securities issued	1,023,877	39,250	—	1,063,127
Capital raising costs	(64,766)	—	—	(64,766)
AT 31 DECEMBER 2010	11,103,832	1,418,192	(12,250,033)	271,991

<u>Attributable to Members of Titan Energy Limited</u>	Issued Capital \$	Option Premium Reserve \$	Accumulated Losses \$	Total Equity \$
<i>At 1 July 2011</i>	12,542,332	1,488,067	(12,795,451)	1,234,948
Total comprehensive loss for the period	—	—	(1,442,855)	(1,442,855)
SUBTOTAL	—	—	(1,442,855)	(1,442,855)
<i>Transactions with owners in their capacity as owners</i>				
Option premium for expired options transferred to Issued Capital	1,378,942	(1,378,942)	—	—
Securities issued	3,194,228	111,861	—	3,306,089
Capital raising costs	(250,442)	—	—	(250,442)
AT 31 DECEMBER 2011	16,865,060	220,986	(14,238,306)	2,847,740

The accompanying notes form part of this financial report

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

These general purpose financial statements for the interim half-year reporting period ended 31 December 2011 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Titan Energy Limited (“Company”) and its controlled entities (“Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2011, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Any new, revised or amending Accounting Standards of Interpretations that are not yet mandatory have not been adopted early.

Intra-Group Receivables

The Company has an inter-company receivable with its wholly owned subsidiary Sunset Energy LLC which has been written off in the parent company’s financial accounts. The directors are of the opinion that the loan will not be repaid in full and consequently any differences in foreign exchange are recognised in the consolidated income or loss from continuing operations of the Group.

	Half-Year to 31 December 2011 \$	Half-Year to 31 December 2010 \$
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NOTE 2. REVENUE, INCOME AND EXPENSES

The loss before income tax expense includes the following revenues and expenses where disclosure is relevant in explaining the performance of the Group:

REVENUE		
Oil sales	10,721	11,824
Interest received	46,128	2,403
	56,849	14,227
OTHER INCOME		
Profit on sale of plant and equipment	—	610
Other	110	3,637
	110	4,247

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	Half-Year to 31 December 2011 \$	Half-Year to 31 December 2010 \$
CHARGING AS EXPENSES		
Production lease costs	30,005	29,642
Employee benefits and consultants expenses	688,398	381,252
Depreciation and amortisation expense	16,750	25,344
Exploration expenditure written off	221,810	23,319
Administrative expenses	467,692	331,168
Unrealised exchange loss	6,572	21,140
Loss on sale of plant and equipment	68,587	—
	1,499,814	811,865
	1,499,814	811,865

NOTE 3. SUNSET ENERGY LLC CAPITALISED OIL AND GAS EXPENDITURE

The ultimate recoupment of Sunset Energy LLC assets carried forward in relation to the Capitalised oil and gas expenditure is dependent on its successful development and commercial exploitation or alternative the sale of the respective tenements.

31 December 2011 \$	30 June 2011 \$
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NOTE 4. ISSUED CAPITAL
ORDINARY SHARES

667,134,979 (30 June 2011: 347,759,814) fully paid ordinary shares	16,865,060	12,542,332
	16,865,060	12,542,332
	16,865,060	12,542,332

MOVEMENTS IN ORDINARY SHARES

At the beginning of the period	12,542,332
52,163,972 shares issued on 28 July 2011	521,640
90,039,321 shares issued on 26 September 2011	900,393
Option premium for expired options transferred to Issued Capital	1,378,942
167,282,689 shares issued on 5 October 2011	1,672,827
9,293,848 shares issued on 18 October 2011	92,938
95,335 shares issued on 1 November 2011	1,430
500,000 shares issued on 1 December 2011	5,000
Share issue expenses	(250,442)
	16,865,060
	16,865,060

AT THE END OF THE FINANCIAL PERIOD

16,865,060

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	31 December 2011 \$	30 June 2011 \$
NOTE 5. RESERVES		
Option premium reserve	220,986	1,488,067
	220,986	1,488,067
	220,986	1,488,067

MOVEMENTS IN OPTION PREMIUM RESERVE

At the beginning of the period	1,488,067
47,387,991 options issued on 28 July 2011	47,388
Option premium for expired options transferred to Issued Capital	(1,378,942)
15,996,951 options issued on 18 October 2011	60,473
2,000,000 options issued on 1 November 2011	4,000

AT THE END OF THE FINANCIAL PERIOD

220,986

NOTE 6. RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the Cash Flow Statement and the Statement of Financial Position, cash and cash equivalents comprise US\$753,600 held in a legal trust account on behalf of the Company and cash at bank.

NOTE 7. SEGMENT INFORMATION

IDENTIFICATION OF REPORTABLE SEGMENTS

The Group has identified its operating segments based on internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group's principal activities are exploration, development and production for oil and gas (including coal seam methane gas) and investment in the resources industry. These activities are managed on a project by project basis. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

BASIS OF ACCOUNTING FOR PURPOSES OF REPORTING BY OPERATING SEGMENTS

Unless stated otherwise, all amounts reported to the board of directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

Segment assets are clearly identifiable on the basis of their nature and physical location.

Liabilities are allocated to segments where there is a direct nexus between the incurrance of the liability and the operations of the segment. Segment liabilities include trade and other payable and certain direct borrowings.

Items of revenue, expense, assets and liabilities are not allocated to operating segments if they are not considered part of the core operations of any segment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

	HALF-YEAR TO 31 DECEMBER 2011			HALF-YEAR TO 31 DECEMBER 2010		
	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$
SEGMENT PERFORMANCE						
External revenue	—	10,721	10,721	—	11,824	11,824
TOTAL SEGMENT REVENUE	—	10,721	10,721	—	11,824	11,824
Segment net profit/(loss) before tax	<u>(208,857)</u>	<u>(214,198)</u>	<u>(423,055)</u>	<u>(23,320)</u>	<u>(89,348)</u>	<u>(112,668)</u>
RECONCILIATION OF SEGMENT RESULT TO NET PROFIT/(LOSS) BEFORE TAX						
<i>Amounts not included in segment results but reviewed by the Board:</i>						
Interest received			46,128			2,403
Other income			110			688
Other expenses			(1,066,038)			(683,814)
NET PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS			<u>(1,442,855)</u>			<u>(793,391)</u>
	31 DECEMBER 2011			30 JUNE 2011		
	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$
SEGMENT ASSETS						
Segment assets	<u>—</u>	<u>144,802</u>	<u>144,802</u>	<u>—</u>	<u>101,449</u>	<u>101,449</u>
RECONCILIATION OF SEGMENT ASSETS TO TOTAL ASSETS						
<i>Unallocated assets:</i>						
Cash and cash equivalents			2,833,774			1,168,189
Receivables			44,216			26,673
Plant and equipment			28,597			17,690
TOTAL ASSETS FROM CONTINUING OPERATIONS			<u>3,051,389</u>			<u>1,314,001</u>

NOTE 8. CONTINGENT LIABILITIES

There has been no significant change in contingent liabilities since the last annual reporting date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2011

NOTE 9. RELATED PARTY TRANSACTIONS

Sunset Energy LLC, a wholly owned subsidiary of the Company, was charged US\$17,637 by Red Mountain Energy Inc (a company related to Mr Stephen Thomas, a director of the Company) for house, vehicle, equipment hire and reimbursement of other expenses and the outstanding balance due from Sunset Energy LLC to Red Mountain Energy Inc was US\$34,427 as at 31 December 2011.

NOTE 10. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in subsequent financial periods.

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Titan Energy Limited

Report on the Half-Year Financial Report

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

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

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

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Titan Energy Limited, would be in the same terms if provided to the directors as at the time of this auditor's review report.

Conclusion

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

- (a) giving a true and fair view of Titan Energy Limited's financial position as at 31 December 2011 and of its performance for the half year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



Somes Cooke



Kevin Somes

2 March 2012

Perth
Western Australia

The Directors
Titan Energy Limited
31 Ord Street
WEST PERTH WA 6005

Dear Sirs

Auditors Independence Declaration

As lead auditor for the review of Titan Energy Limited for the half year ended 31 December 2011, I declare under Section 307C of the Corporations Act 2001 that to the best of my knowledge and belief, there have been:

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



Somes Cooke



Kevin Somes

Perth, 2 March 2012