



Annual Report 2012

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**CORPORATE DIRECTORY**

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<b>DIRECTORS:</b>	Darren Levy (Chairman) Stephen Thomas Paul Garner
<b>COMPANY SECRETARY:</b>	Jack Hugh Toby FCA MACS
<b>ABN:</b>	53 109 213 470
<b>REGISTERED OFFICE:</b>	31 Ord St West Perth, Western Australia 6005  Tel: +61 (8) 9322 6955 Fax: +61 (8) 9322 6722
<b>AUDITORS:</b>	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
<b>SHARE REGISTRY:</b>	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

This annual report covers both Titan Energy Ltd as an individual entity and the consolidated entity comprising Titan Energy Ltd and its subsidiaries. The Group's presentation currency is Australian Dollars (\$). The functional currency of Titan Energy Ltd is Australian Dollars (\$) and the functional currency of all subsidiaries of Titan Energy Ltd is United States Dollars (US\$), except for North Perth Basin Pty Ltd whose functional currency is Australian Dollars (\$). A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.

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## DIRECTORS' REPORT

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The directors of Titan Energy Ltd 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 year ended 30th June 2012. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

### DIRECTORS

The names of the directors of the Company in office at any time during or since the financial year and up to the date of this financial report are as follows. Directors were in office for the entire period unless otherwise stated.

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

### PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were exploration, development and production for oil and gas (including coal seam methane gas) and investment in the resources industry.

There were no significant changes in the nature of the principal activities during the financial year.

### OPERATING RESULTS

The operating loss for the Consolidated Entity, after income tax amounted to \$2,732,087 (2011: \$1,338,809).

### DIVIDENDS

No dividends have been paid or declared since the start of the financial year by the Company.

The directors have recommended that no dividend be paid by the Company in respect of the year ended 30th June 2012.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND REVIEW OF OPERATIONS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the financial 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.

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## DIRECTORS' REPORT

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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 2011, 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.

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.

On 18 October 2011, 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. The issue of these options was approved at the Annual General Meeting of the Company held on 12 October 2011.

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. The issue of these options was ratified at the General Meeting of the Company held on 29 June 2012.

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.

On 6 March 2012, the Company announced that it had signed a Participation Agreement (PA) for an option to farm-in for an 87.5% working interest (WI) in the historic, oil producing Allen Dome area in Texas for an initial sum of US\$100,000 for an exclusive option to farm-in to leasehold interests covering 344 gross acres (316 net mineral acres) on the southern side of the Allen Dome salt dome in Brazoria County, Texas. The Company can exercise the option by tendering a further sum of US\$140,000 to finalise the full payment of US\$240,000.

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## DIRECTORS' REPORT

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On 9 March 2012, the Company announced that it had signed an agreement to acquire an 81% interest in a prospect in a multi-billion barrel, hydrocarbon producing region of the USA. Pursuant to the agreement, the Company would pay lease fees of US\$96,000 to Pharis Petroleum Corporation for an 81% working interest in the Franklin Prospect area of the Midyett South Development Project in Franklin County, Illinois.

On 19 March 2012, the Company announced that it had signed an agreement to farm-in for a 40% Working Interest (WI) in the 1360 acre Sodbuster Prospect in Logan County, Colorado, for an initial payment of US\$75,000 to cover 50% of lease costs. Titan will also be required to pay 50% of the cost to drill and complete an initial well within the Prospect area.

On 3 April 2012, the Company announced that it had commenced drilling the first well in its recently acquired interest in the Midyett South Development Project area in Franklin County, Illinois.

On 4 April 2012, the Company issued 98,000,000 fully paid ordinary shares for \$0.0125 per share. The issue of these shares was ratified at the General Meeting of the Company held on 29 June 2012.

On 10 April 2012, the Company announced that it had finalised the Midyett #8-1 exploration well in Franklin County, Illinois in the USA. The well had not encountered any hydrocarbon shows and would be plugged and abandoned.

On 20 April 2012, the Company announced that it had exercised its option to farm-in for an 87.5% working interest (WI) in a section of the Allen Dome salt dome project area in Texas and had accordingly paid US\$140,000.

On 26 April 2012, the Company announced that it had reached agreement with the EP455 Joint Venture Operator and the Joint Venture partner AWE Limited ("AWE"), to jointly apply to the Department of Mines and Petroleum ("Department") for approval to vary the work obligations on the EP455 permit, located in the Perth Basin, by combining year 5 (year ended 21 June 2012) and year 6 (year ended 21 June 2013) to the intent that the relevant exploration well and the fracing of it are to be completed by 21 June 2013 ("Variation"). Subject to approval of the the Variation, then in consideration for the Company agreeing to the Variation, the Company's working interest in EP455 will increase from 10% to 18.5%, and will be subject to the carry provisions outlined in the Sale and Purchase Agreement ("SPA") dated 25 February 2010 up to a maximum of A\$7.5 million. Once the carry provisions of the SPA are discharged, the Company's 18.5% interest will become a contributing interest. On 8 June 2012, the Company announced that the necessary approvals for the Variation had been received and consequently the conditions precedent for that increase in equity and the associated changes to the SPA were now been satisfied.

On 1 May 2012, the Company issued 10,000 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012. Also on 1 May 2012, the Company issued 2,500,000 fully paid ordinary shares for \$0.01 (1 cent) each pursuant to the exercise of options expiring on 31 March 2013.

On 2 May 2012, the Company announced that it had acquired an option from Seacoast Oil & Gas Inc ("Seacoast") to acquire 100% interest in 276 acres of productive acreage on the northern flank of the Allen Salt Dome in Brazoria County, Texas. The Company had agreed to pay Seacoast an initial consideration of US\$20,000 and a further US\$350,000 payment on completion of the acquisition.

On 17 May 2012, that Company announced that it had decided not to proceed with exploration activities on two prospects in the Wilga Basin in Western Australia's south west. The Exploration Licenses E70/3478 and E70/2738, essentially prospective for coal deposits and the Company views them as no longer consistent with its core activities. Consequently, the Company has agreed to dispose of these two Exploration Licenses for a nominal amount.

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## DIRECTORS' REPORT

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On 27 June 2012, the Company announced that it had renegotiated an agreement to acquire an interest in the Sodbuster Prospect in Logan County, Colorado, and in exchange for the Company paying 100% of the exploration costs on an initial well, it will now earn an 80% WI in the Sodbuster Prospect. The requirement for an upfront lease payment has also been removed, with 100% of the lease fees of US\$150,000 to be paid to the vendor of the project out of 33% of net production revenue from a commercially successful well. In the case of a dry hole, the Company will only earn its interest in an 80 acre area around the well. However, if the Company elects to pay the lease fees within 120 days of plugging and abandoning the well, before 1 May, 2013, it shall earn its full 80% Working Interest.

### **SIGNIFICANT EVENTS SUBSEQUENT TO BALANCE DATE**

On 2 July 2012, the Company issued 35,000,000 Ordinary Shares, 8,280,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012, 35,000,000 Options exercisable at 1 cent each and expiring on 31 March 2013 and 35,000,000 Options exercisable at 2 cents each and expiring on 31 July 2014. These securities were issued for no consideration in satisfaction of facilitation services provided by Cities Energy LLC to the Company in relation to the Allen Dome Acquisition; to provide Allen Dome Exploration LLC with an additional incentive and reward for their future services; and for Allen Dome Exploration LLC facilitating the Salt Dome Option and assisting in the due diligence process, and to incentivise Allen Dome Exploration LLC to assist the Company to secure additional acquisitions in the United States in the future. Also 3,600,000 Options issued in satisfaction of management services provided by Pursuit Capital Pty Ltd and 4,680,000 Options issued in satisfaction of management services provided by Pendulum Capital Pty Limited. The issue of these securities was approved at the General Meeting of shareholders of the Company held on 29 June 2012.

On 23 July 2012, the Company issued 126,800,000 Ordinary Shares for \$0.0125 per share, 20,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 at an issue price of \$0.001 each and 20,000,000 Options exercisable at 1.25 cents each and expiring on 30 September 2012 at an issue price of \$0.0005 each. The issue of 110,000,000 of the ordinary shares was approved at the shareholder meeting held on 29-Jun-12 comprising 20,000,000 shares pursuant to Resolution 7, 20,000,000 shares pursuant to Resolution 8 and 70,000,000 shares pursuant to Resolution 6. The issue of 20,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 was also approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 12.

On 2 August 2012, the Company announced the acquisition of a 50% interest in the approximately 110 acre Greathouse Prospect within the South Lake Charles oil and gas field in Louisiana, USA - with an option over a further 173 acres. The Company had paid US\$48,759 in lease costs for 50% interest in Greathouse and will pay its proportionate share of the cost of the drilling of a well into the prospect on a ground floor basis. The proposed well has an estimated dry hole cost of US\$1,200,000. The Company is in discussions to bring another partner into the permit area with the Company potentially farming out a 20% interest whilst retaining a 35% Working Interest (WI).

On 3 August, the Company announced that it had concluded a Purchase Agreement to acquire 276 acres of producing interests on the northern flank of the Allen Salt Dome in Brazoria County, including the related production equipment.

On 6 August, the Company announced that it had engaged Peterson Energy Operating Inc. to drill the Hettinger #1-15 exploration well at its Sodbuster II Project area in Colorado.

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## DIRECTORS' REPORT

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On 14 August 2012, the Company issued 10,000,000 Ordinary Shares for \$0.0125 per share, 10,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 at an issue price of \$0.001 each and 2,400,000 free Options exercisable at 1.5 cents each and expiring on 31 December 2012. The issue of 10,000,000 Ordinary shares was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 6. The issue of 10,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 12. The issue of 2,400,000 free Options exercisable at 1.5 cents each and expiring on 31 December 2012 was issued in satisfaction of management services provided by Pursuit Capital Pty Ltd and was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 10.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in subsequent financial years.

### LIKELY DEVELOPMENTS

The directors intend to actively pursue the exploration and development of the oil and gas leases and shale gas interests in Australia and the USA in which it has an interest.

### ENVIRONMENTAL ISSUES

The Company's operations have not been subject to any environmental regulation.

### INFORMATION ON DIRECTORS AND COMPANY SECRETARY

**DARREN STEPHEN LEVY**  
CHAIRMAN (EXECUTIVE)  
APPOINTED: 8 JULY 2011

*Qualifications and Experience:*

Mr Levy holds a Bachelor of Commerce degree from Melbourne University, Post Graduate Diploma from the Securities Institute of Australia and has been admitted as a Fellow of the financial services institute of Australia (F.Fin.). He has had 26 years experience in the finance and stockbroking industry.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Special Responsibilities:*

Chairman of Directors.

*Interest in shares and options of the Company as at the date of signing this report:*

35,000,000 Ordinary Shares, 10,000,000 options expiring 31 December 2012 exercisable at 1.5 cents each in Titan Energy Ltd and 1,000,000 options expiring 31 October 2015 exercisable at 3 cents each in Titan Energy Ltd.

*Directors meetings attended during the financial year:*

Attended 18 of the 18 meetings held during the financial year while he was a director.

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**DIRECTORS' REPORT**

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**STEPHEN LESLIE THOMAS**

MANAGING DIRECTOR

*Qualifications and Experience:*

Bachelor of Science (Hons) in Geology and Geophysics from the University of Cardiff in 1978.

Mr Thomas has held a number of managerial positions both technical and corporate within the field of oil and gas exploration since 1978. Mr Thomas moved into the coal seam methane industry in 1997 when he became managing director of Growth Resources NL.

Appointed Managing Director at incorporation on 24 May 2004.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Special Responsibilities:*

Managing director.

*Interest in shares and options of the Company as at the date of signing this report:*

9,744,843 Ordinary Shares.

*Directors meetings attended: 19.*

**PAUL CHARLES GARNER**

DIRECTOR (EXECUTIVE)

APPOINTED: 19 JULY 2011

*Qualifications and Experience:*

Mr Garner has extensive experience in international business and over 36 years experience in the property and equities market. He has extensive experience with public company capital raising and restructuring. He has served on the Boards of various listed oil and gas companies at various stages of their development.

*Directorships of other listed companies in the 3 years prior to the end of the Financial Year:*

None.

*Interest in shares and options of the Company as at the date of signing this report:*

35,000,000 Ordinary Shares, 10,000,000 options expiring 31 December 2012 exercisable at 1.5 cents each in Titan Energy Ltd and 7,750,000 options expiring 31 October 2015 exercisable at 3 cents each in Titan Energy Ltd.

*Directors meetings attended during the financial year:*

Attended 15 of the 17 meetings held during the financial year while he was a director.

**JACK TOBY**

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

*Qualifications*

Mr Toby is a Fellow of the Institute of Chartered Accountants in Australia, a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate member of the Australian Computer Society.

*Experience*

Mr Toby has extensive experience as Company Secretary and Chief Financial Officer of several listed public companies and major corporations over the last 28 years.



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## DIRECTORS' REPORT

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### DIRECTORS MEETINGS

During the year ended 30th June 2012, 20 meetings of directors were held.

Mr Peter Briggs resigned as a director during the financial year. There were no meetings of directors held during the financial year while he was a director.

Mr Chong Kwee Ch'ng, who resigned as a director during the financial year attended both of the 2 meetings held during the financial year while he was a director.

### REMUNERATION REPORT (AUDITED)

The information provided in this remuneration report has been audited as required by Section 308(3c) of the Corporations Act 2001.

Remuneration is based on fees approved by the Board of directors.

There is no relationship between the performance or the impact on shareholder wealth of the Company for the current financial year or the previous four financial years and either the remuneration of directors and executives or the issue of shares and options to directors. Remuneration is set at levels to reflect market conditions and encourage the continued services of directors and executives. There are no service contracts with directors or executives.

Remuneration for Mr Darren Levy has been set at \$120,000 per year plus a further \$30,000 per year for additional services to be performed.

Remuneration for Mr Paul Garner has been set at \$200,000 per year, plus \$500 per month personal travel allowance. Mr Garner was also awarded additional remuneration during the year for extraordinary efforts on behalf of the Company.

Remuneration for Mr Stephen Thomas has been set at \$217,000 per year, plus \$1,000 per month personal travel allowance.

The names and positions of key management personnel of the Company and of the Consolidated Entity who have held office during the financial year are:

#### DIRECTORS

Darren Stephen Levy	Executive Chairman (appointed 8 July 2011)
Stephen Leslie Thomas	Managing Director
Paul Charles Garner	Executive Director (appointed 19 July 2011)
Peter Briggs	Executive Chairman (resigned 7 July 2011)
Chong Kwee Ch'ng	Director (resigned 19 July 2011)

#### EXECUTIVES

Jack Toby	Company Secretary and Chief Financial Officer
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## DIRECTORS' REPORT

	Primary Remuneration 2012			Total \$
	Salary and Fees \$	Bonus \$	Super- annuation \$	
REMUNERATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.				
Darren Levy	143,000	—	—	143,000
Paul Garner	215,000	—	—	215,000
Stephen Leslie Thomas	167,000	—	50,000	217,000
Peter Briggs	13,500	—	—	13,500
Chong Kwee Ch'ng	2,863	—	—	2,863
<b>TOTAL PRIMARY REMUNERATION FOR DIRECTORS</b>	<b>541,363</b>	<b>—</b>	<b>50,000</b>	<b>591,363</b>

REMUNERATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.				
Jack Toby	129,000	—	—	129,000
<b>TOTAL PRIMARY REMUNERATION FOR EXECUTIVES</b>	<b>129,000</b>	<b>—</b>	<b>—</b>	<b>129,000</b>

	Total Remuneration 2012			Equity Remuneration % of Total
	Primary Remuneration \$	Equity Remuneration \$	Total \$	
REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS.				
Darren Levy	143,000	—	143,000	—
Paul Garner	215,000	—	215,000	—
Stephen Leslie Thomas	217,000	—	217,000	—
Peter Briggs	13,500	—	13,500	—
Chong Kwee Ch'ng	2,863	—	2,863	—
<b>TOTAL REMUNERATION FOR DIRECTORS</b>	<b>591,363</b>	<b>—</b>	<b>591,363</b>	<b>—</b>

REMUNERATION OF EXECUTIVES BASED ON APPROVAL BY THE BOARD OF DIRECTORS.				
Jack Toby	129,000	—	129,000	—
<b>TOTAL REMUNERATION FOR EXECUTIVES</b>	<b>129,000</b>	<b>—</b>	<b>129,000</b>	<b>—</b>

	Primary Remuneration 2011			Total \$
	Salary and Fees \$	Bonus \$	Super- annuation \$	
REMUNERATION OF DIRECTORS BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.				
Peter Briggs	217,459	—	4,541	222,000
Stephen Leslie Thomas	172,000	—	50,000	222,000
Chong Kwee Ch'ng	41,250	—	—	41,250
Kristian John Barnes	7,500	—	—	7,500
<b>TOTAL PRIMARY REMUNERATION FOR DIRECTORS</b>	<b>438,209</b>	<b>—</b>	<b>54,541</b>	<b>492,750</b>

## DIRECTORS' REPORT

	Primary Remuneration 2011			Total \$
	Salary and Fees \$	Bonus \$	Super- annuation \$	
REMUNERATION OF EXECUTIVES BASED ON FEES APPROVED BY THE BOARD OF DIRECTORS.				
Jack Toby	80,000	—	—	80,000
<b>TOTAL PRIMARY REMUNERATION FOR EXECUTIVES</b>	<b>80,000</b>	<b>—</b>	<b>—</b>	<b>80,000</b>

	Total Remuneration 2011			Equity Remuneration % of Total
	Primary Remuneration \$	Equity Remuneration \$	Total \$	
REMUNERATION OF DIRECTORS BASED ON APPROVAL BY THE BOARD OF DIRECTORS.				
Peter Briggs	222,000	—	222,000	—
Stephen Leslie Thomas	222,000	—	222,000	—
Chong Kwee Ch'ng	41,250	—	41,250	—
Kristian John Barnes	7,500	—	7,500	—
<b>TOTAL REMUNERATION FOR DIRECTORS</b>	<b>492,750</b>	<b>—</b>	<b>492,750</b>	<b>—</b>

REMUNERATION OF EXECUTIVES BASED ON APPROVAL BY THE BOARD OF DIRECTORS.				
Jack Toby	80,000	—	80,000	—
<b>TOTAL REMUNERATION FOR EXECUTIVES</b>	<b>80,000</b>	<b>—</b>	<b>80,000</b>	<b>—</b>

End of Audited Section

### SHARE OPTIONS ISSUED

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.

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.

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## DIRECTORS' REPORT

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On 18 October 2011, 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. The issue of these options was approved at the Annual General Meeting of the Company held on 12 October 2011. The 15,996,951 free options exercisable at \$0.015 on or before 31 December 2012 were valued on the date of issue at 0.231 cents each using the Black & Scholes methodology and based on a risk free rate 4.75%, an underlying security spot price \$0.01 and a volatility factor of 80%. The 6,000,000 free options exercisable at \$0.01 (1 cent) on or before 31 March 2013 were valued on the date of issue at 0.392 cents each using the Black & Scholes methodology and based on a risk free rate 4.75%, an underlying security spot price \$0.01 and a volatility factor of 80%.

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. The issue of these options was ratified at the General Meeting of the Company held on 29 June 2012.

Subsequent to the end of the financial year, on 2 July 2012, the Company issued 35,000,000 Ordinary Shares, 8,280,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012, 35,000,000 Options exercisable at 1 cent each and expiring on 31 March 2013 and 35,000,000 Options exercisable at 2 cents each and expiring on 31 July 2014. These securities were issued for no consideration in satisfaction of facilitation services provided by Cities Energy LLC to the Company in relation to the Allen Dome Acquisition; to provide Allen Dome Exploration LLC with an additional incentive and reward for their future services; and for Allen Dome Exploration LLC facilitating the Salt Dome Option and assisting in the due diligence process, and to incentivise Allen Dome Exploration LLC to assist the Company to secure additional acquisitions in the United States in the future. Also 3,600,000 Options issued in satisfaction of management services provided by Pursuit Capital Pty Ltd and 4,680,000 Options issued in satisfaction of management services provided by Pendulum Capital Pty Limited. The issue of these securities was approved at the General Meeting of shareholders of the Company held on 29 June 2012.

Subsequent to the end of the financial year, on 23 July 2012, the Company issued 126,800,000 Ordinary Shares for \$0.0125 per share, 20,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 at an issue price of \$0.001 each and 20,000,000 Options exercisable at 1.25 cents each and expiring on 30 September 2012 at an issue price of \$0.0005 each. The issue of 110,000,000 of the ordinary shares was approved at the shareholder meeting held on 29-Jun-12 comprising 20,000,000 shares pursuant to Resolution 7, 20,000,000 shares pursuant to Resolution 8 and 70,000,000 shares pursuant to Resolution 6. The issue of 20,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 was also approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 12.

Subsequent to the end of the financial year, on 14 August 2012, the Company issued 10,000,000 Ordinary Shares for \$0.0125 per share, 10,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 at an issue price of \$0.001 each and 2,400,000 free Options exercisable at 1.5 cents each and expiring on 31 December 2012. The issue of 10,000,000 Ordinary shares was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 6. The issue of 10,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 12. The issue of 2,400,000 free Options exercisable at 1.5 cents each and expiring on 31 December 2012 was issued in satisfaction of management services provided by Pursuit Capital Pty Ltd and was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 10.

### SHARE OPTIONS EXPIRED

During the year ended 30th June 2012, 190,186,639 options to subscribe for unissued fully paid ordinary shares in the Company for 5 cents per share expired unexercised on 1 October 2011.

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## DIRECTORS' REPORT

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### SHARE OPTIONS EXERCISED

During the year ended 30th June 2012, 3,105,335 ordinary shares were issued by virtue of the exercise of options, comprising the exercise of 105,335 options exercisable at \$0.015 on or before 31 December 2012 and 3,000,000 options exercisable at \$0.01 (1 cent) on or before 31 March 2013.

Subsequent to the year ended 30th June 2012, no ordinary shares were issued by virtue of the exercise of options.

### SHARE OPTIONS OUTSTANDING

There are 20,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 1.25 cents per share expiring 30 September 2012 outstanding at the date of this report.

There are 191,879,598 options to subscribe for unissued fully paid ordinary shares in the Company for 1.5 cents per share expiring 31 December 2012 outstanding at the date of this report.

There are 38,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 1 cent per share expiring 31 March 2013 outstanding at the date of this report.

There are 30,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 2.75 cents per share expiring 31 October 2013 outstanding at the date of this report.

There are 35,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 2 cents per share expiring 31 July 2014 outstanding at the date of this report.

There are 5,000,000 options to subscribe for unissued fully paid ordinary shares in the Company for 5 cents per share expiring 31 July 2015 outstanding at the date of this report.

There are 162,512,991 options to subscribe for unissued fully paid ordinary shares in the Company for 3 cents per share expiring 31 October 2015 outstanding at the date of this report.

No person entitled to exercise any of these options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

### INDEMNIFYING AND INSURING DIRECTORS, OFFICERS OR AUDITORS

During the financial year, the Company paid premiums for Directors and Officers liability insurance of \$38,412. Except as disclosed above, the Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- a) indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- b) paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defend legal proceedings.

### PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

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**DIRECTORS' REPORT**

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**AUDITOR'S INDEPENDENCE DECLARATION**

In accordance with the Corporations Act 2001 section 307C a signed Auditor's Independence Declaration to the directors in relation to the year ended 30 June 2012 has been provided to the Company. This declaration has been included in this document.

Other fees charged by the auditors to the Company or related entities were tax return preparation costs of \$7,650. The directors are satisfied that the services disclosed did not compromise the auditor's independence.

Signed in accordance with a resolution of the directors.



Stephen Thomas  
Director

12 September 2012  
Perth, Western Australia

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## DIRECTORS' DECLARATION

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In accordance with a resolution of the directors of Titan Energy Ltd A.C.N. 109 213 470 ("Company"), I state that:

In the opinion of the directors:

- 1) the financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001 including:
  - a) complying with International Financial Reporting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - b) giving a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the Consolidated Entity; and
  - c) the remuneration report disclosures set out on pages 7 to 9 of the directors' report (as part of the Remuneration Report), for the year ended 30 June 2012, comply with section 300A of the Corporations Act 2001.
- 2) As required by section 295A of the Corporations Act 2001, the Chief Executive Officer (or equivalent), Mr Stephen Thomas, and Chief Finance Officer, Mr Jack Toby, have each declared in writing that:
  - a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b) the financial statements and notes for the financial year comply with the International Financial Reporting Standards; and
  - c) the financial statements and notes for the financial year give a true and fair view.
- 3) in the director's 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.

On behalf of the Board of Directors.



Stephen Thomas  
Director

12 September 2012  
Perth, Western Australia

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**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2012**


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		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
Oil and gas sales	2	12,770	27,354
Revenue from non-operating activities	2	78,812	239,853
Other expenses	2	(2,823,669)	(1,606,016)
<b>PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE</b>		<u>(2,732,087)</u>	<u>(1,338,809)</u>
Income tax expense	3	—	—
<b>PROFIT/(LOSS) AFTER RELATED INCOME TAX EXPENSE</b>		<u>(2,732,087)</u>	<u>(1,338,809)</u>
<b>OTHER COMPREHENSIVE INCOME AFTER INCOME TAX</b>		<u>—</u>	<u>—</u>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>		<u>(2,732,087)</u>	<u>(1,338,809)</u>
<b>BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)</b>	4	(0.44)	(0.49)
<b>DILUTED EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)</b>	4	(0.44)	(0.49)

The accompanying notes form part of these financial statements



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**STATEMENT OF FINANCIAL POSITION AS AT 30TH JUNE 2012**

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		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	15	2,338,818	1,173,445
Trade and other receivables	5	29,971	15,290
Inventories	6	—	5,623
<b>TOTAL CURRENT ASSETS</b>		<b>2,368,789</b>	<b>1,194,358</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	7	24,533	84,146
Receivables	8	12,000	12,000
Capitalised oil and gas expenditure	9	573,846	23,497
<b>TOTAL NON-CURRENT ASSETS</b>		<b>610,379</b>	<b>119,643</b>
<b>TOTAL ASSETS</b>		<b>2,979,168</b>	<b>1,314,001</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	244,010	76,809
Provisions	11	—	2,244
<b>TOTAL CURRENT LIABILITIES</b>		<b>244,010</b>	<b>79,053</b>
<b>TOTAL LIABILITIES</b>		<b>244,010</b>	<b>79,053</b>
<b>NET ASSETS</b>		<b>2,735,158</b>	<b>1,234,948</b>
<b>EQUITY</b>			
Issued capital	12	18,041,710	12,542,332
Reserves	13	220,986	1,488,067
Accumulated losses		(15,527,538)	(12,795,451)
<b>TOTAL EQUITY</b>		<b>2,735,158</b>	<b>1,234,948</b>

The accompanying notes form part of these financial statements

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**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30TH JUNE 2012**


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		<b>Consolidated Entity</b>	
	<b>Note</b>	<b>2012</b>	<b>2011</b>
		<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		12,770	36,661
Payments to suppliers and employees		(2,133,447)	(1,439,445)
Interest received		78,702	22,778
Other income		—	216,493
<b>NET CASH OUTFLOW USED IN OPERATING ACTIVITIES</b>	<b>15</b>	<b>(2,041,975)</b>	<b>(1,163,513)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of oil and gas interests		(573,846)	—
Exploration expenditure		(543,604)	(213,249)
Production expenditure		(29,976)	(82,322)
Purchase of plant and equipment		(21,556)	(6,762)
Proceeds from disposal of plant and equipment		—	1,630
<b>NET CASH OUTFLOW USED IN INVESTING ACTIVITIES</b>		<b>(1,168,982)</b>	<b>(300,703)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from equity issues		4,495,766	2,614,002
Capital raising expenses		(263,469)	(107,266)
Borrowings		143,750	200,000
Repayment of borrowings		—	(200,000)
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>4,376,047</b>	<b>2,506,736</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>1,165,090</b>	<b>1,042,520</b>
Net foreign exchange differences		283	(1,132)
Cash and cash equivalents at beginning of year		1,173,445	132,057
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>15</b>	<b>2,338,818</b>	<b>1,173,445</b>

The accompanying notes form part of these financial statements

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

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<b>ATTRIBUTABLE TO MEMBERS OF THE COMPANY</b>	<b>CONSOLIDATED ENTITY</b>			
	<b>Issued Capital \$</b>	<b>Option Premium Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<b>At 1 JULY 2010</b>	10,144,721	1,378,942	(11,456,642)	67,021
Loss for year	—	—	(1,338,809)	(1,338,809)
<b>TOTAL LOSS FOR THE YEAR</b>	—	—	(1,338,809)	(1,338,809)
Securities issued	2,504,877	109,125	—	2,614,002
Equity raising costs	(107,266)	—	—	(107,266)
<b>At 30 JUNE 2011</b>	12,542,332	1,488,067	(12,795,451)	1,234,948
Loss for year	—	—	(2,732,087)	(2,732,087)
<b>TOTAL LOSS FOR THE YEAR</b>	—	—	(2,732,087)	(2,732,087)
Option premium for expired options transferred to Issued Capital	1,378,942	(1,378,942)	—	—
Securities issued	4,444,378	111,861	—	4,556,239
Equity raising costs	(323,942)	—	—	(323,942)
<b>At 30 JUNE 2012</b>	18,041,710	220,986	(15,527,538)	2,735,158

The accompanying notes form part of these financial statements

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

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**NOTE 1. SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the significant accounting policies adopted by Titan Energy Ltd A.C.N. 109 213 470 ("Parent Entity" or "Company") and by the Parent Entity and its controlled entities ("Consolidated Entity" or "Group") in the preparation of these financial statements.

**Basis of Preparation of Accounts**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) and the Corporations Act 2001. The consolidated financial report of the Group also complies with the International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial report has been prepared on an accruals basis and is based on a historical cost basis, except for any available-for-sale financial assets that have been measured at fair value. The presentation currency used in this financial report is Australian Dollars.

This financial report is issued in accordance with a resolution of the directors of the Company on the same date as the Directors' Declaration above.

**Adoption of new and revised Accounting Standards**

In the current year, the Group has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in any material changes to the Group's accounting policies.

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

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Group's accounting for financial assets as it does not have any available for sale assets. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Group has decided not to early adopt AASB 9.

Other Standards that have been issued but not yet effective are considered to have no significant effect on the financial statements.

**Summary of Significant Accounting Policies**

The following is a summary of the significant accounting policies adopted by Titan Energy Ltd A.C.N. 109 213 470 ("Company") in the preparation of these financial statements. The Company is a listed public company limited by shares, incorporated and domiciled in Australia.

**a) Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at and for the period ended 30 June each year (the Group). Interests in associates are equity accounted and are not part of the consolidated Group. Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

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

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The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction. Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If the Group loses control over a subsidiary, it derecognises the assets (including goodwill) and liabilities of the subsidiary; derecognises the carrying amount of any non-controlling interest; derecognises the cumulative translation differences, recorded in equity; recognises the fair value of the consideration received; recognises the fair value of any investment retained; recognises any surplus or deficit in profit or loss and reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

b) Foreign currency translation

The presentation currency of the Company and its Australian subsidiaries is Australian dollars. The functional currency of the Company is Australian dollars. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The functional currency of overseas subsidiaries is United States dollars. As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of the Company at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement as part of the gain or loss on sale as applicable.

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

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## c) Taxes

## Income Tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences:

except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

## d) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Employee benefits, expenses and revenues arising in respect of wages and salaries; non monetary benefits; annual leave; long service leave and other leave and other employee entitlements are charged against profits on a net basis.

Contributions are made by the Group to employee superannuation funds and are charged as expenses when incurred. The Group has no legal obligation to cover any shortfall in any superannuation fund's obligation to provide benefits to employees on retirement.

## e) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts and investments in money market instruments with less than 14 days to maturity.

## f) Revenue recognition

Revenue from services rendered is recognised upon the delivery of goods or services to customers. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Oil sales are recognised when an invoice for the sale is issued. Management fees are recognised on a proportional basis.

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

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## g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except: where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

## h) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease). An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## i) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

## j) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

## k) Property, Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Plant and equipment – over 1 to 15 years

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

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### Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any indication of impairment exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

#### l) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivable) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default and delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the assets carrying amount and the present value of estimated future cashflows, discounted at the original effective interest rate. Cashflows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the impairment loss is recognised in the income statements within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

#### m) Trade and other payables

Trade payables and other payables are carried at amortised cost which represents future liabilities for goods and services received, whether or not billed to the Company.

#### n) Investments

##### Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.



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

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**Available-for-sale investments**

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

**Impairment of financial assets****Impairment of available-for-sale investments**

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when: the rights to receive cash flows from the asset have expired; the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay. When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

**o) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of mineral stocks includes direct materials, direct labour, transportation costs and variable and fixed overhead costs relating to mining activities.

**p) Significant accounting judgements, estimates and assumptions****Significant accounting judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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

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#### Exploration and evaluation assets

The Group's accounting policy for exploration and evaluation expenditure is set out below. The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances, in particular, the assessment of whether economic quantities of reserves are found. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under our policy, we conclude that we are unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

#### Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### Key Estimates - Taxation

Balances disclosed in the financial statements and the notes thereto, related to taxation, are based on the best estimates of directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

##### Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences when management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

##### Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes or a binomial model, using the assumptions detailed. The Group measures the cost of cash-settled share-based payments at fair value at the grant date using a binomial formula taking into account the terms and conditions upon which the instruments were granted.

#### q) Exploration and Development Expenditure

Acquisition costs of rights to explore are accumulated in respect of each identifiable area of interest. These costs are only carried forward while the area remains an active area of interest and only to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Other exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

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

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Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

r) Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes or a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

s) Earnings/(loss) per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for: costs of servicing equity (other than dividends) and preference share dividends; the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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

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**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

**NOTE 2. REVENUE AND EXPENSES**

The profit/(loss) before income tax has been determined after:

REVENUE FROM CONTINUING OPERATIONS

*Operating activities*

Oil and gas sales	12,770	27,354
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**TOTAL REVENUE FROM OPERATING ACTIVITIES**

	12,770	27,354
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*Non-Operating activities*

Interest received from other persons	78,702	22,778
Research and development tax concession rebate	—	211,138
Profit on sale of plant and equipment	—	582
Other revenue	110	5,355

**TOTAL REVENUE FROM NON-OPERATING ACTIVITIES**

	78,812	239,853
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**TOTAL REVENUE FROM CONTINUING OPERATIONS**

	91,582	267,207
--	--------	---------

CHARGING AS EXPENSES

Production lease costs	29,976	64,471
Employee benefits and consultants expenses	1,132,514	773,026
Depreciation and amortisation expense	20,801	48,215
Exploration expenditure written off	564,126	63,249
Administrative expenses	886,262	543,536
Unrealised exchange loss	44,762	28,521
Rental expense on operating lease	76,597	69,998
Loss on sale of plant and equipment	68,521	—
Other expenses	110	15,000

	2,823,669	1,606,016
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**NOTE 3. INCOME TAX**

**INCOME TAX BENEFIT**

	—	—
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Numerical reconciliation between tax expense and pre-tax net loss:

**LOSS BEFORE INCOME TAX BENEFIT**

	(2,732,087)	(1,338,809)
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Income tax using the Company's domestic tax rate of 30%

	(819,626)	(401,643)
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Capital raising costs	1,114	(2,803)
Research and development tax offset received	—	(63,341)
Movement in provisions	—	302
Other non-deductible expenses/(deductible tax adjustments)	1,664	3,330
Unrealised exchange losses/(gains)	13,402	8,556
Assessable premium on expired options	123,260	—
Current year losses for which no deferred tax asset was recognised	680,186	455,599

**INCOME TAX BENEFIT (EXPENSE) ATTRIBUTABLE TO ENTITY**

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

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**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

Estimated unused tax losses of \$12,880,146 (2011: \$10,521,929) have not been recognised as a deferred tax asset as the future recovery of these losses is subject to the Company satisfying the requirements imposed by the relevant regulatory authorities in each of the jurisdictions in which the Company operates. The benefit of deferred tax assets not brought to account will only be brought to account if future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised and the conditions for deductibility imposed by the relevant tax legislation continue to be complied with and no changes in tax legislation adversely affect the Company in realising the benefit.

**INCOME TAX RECOGNISED DIRECTLY IN EQUITY**

Capital raising costs	(27,312)	(21,217)
Current year losses for which no deferred tax asset was recognised	27,312	21,217
	—	—

**UNRECOGNISED TEMPORARY DIFFERENCES**

Net deferred tax assets (calculated at 30%) have not been recognised in respect of the following items:

*Deferred tax assets (at 30%)*

Capital raising costs recognised directly in equity	87,066	35,337
Accrued expenses	3,540	5,250
Provisions	—	673
Plant and equipment	15,408	18,094

**UNRECOGNISED NET DEFERRED TAX ASSETS RELATING TO THE ABOVE TEMPORARY DIFFERENCES**

	106,014	59,354
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**NOTE 4. EARNINGS PER SHARE**

Basic loss per share (cents per share)	(0.44)	(0.49)
Diluted loss per share (cents per share)	(0.44)	(0.49)
Profit/(loss) used in the calculation of basic EPS	(2,732,087)	(1,338,809)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	618,978,881	275,737,408
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share	618,978,881	275,737,408

During the year ended 30 June 2012, 204,692,924 options to subscribe for ordinary shares were issued, 3,105,335 options were exercised and 190,186,639 options expired unexercised, leaving 351,712,589 options outstanding at 30 June 2012 (note 12). These options are not considered dilutive for the purposes of the calculation of diluted earnings per share as their conversion to ordinary shares would not decrease the net profit from continuing operations per share nor increase the net loss from continuing ordinary operations per share. Consequently, diluted earnings per share is the same as basic earnings per share.

During the year ended 30 June 2011, 173,458,333 options to subscribe for ordinary shares were issued, no options were exercised and 2,250,000 options expired unexercised, leaving 340,311,639 options outstanding at 30 June 2011 (note 12). These options are not considered dilutive for the purposes of the calculation of diluted earnings per share as their conversion to ordinary shares would not decrease the net profit from continuing operations per share nor increase the net loss from continuing ordinary operations per share. Consequently, diluted earnings per share is the same as basic earnings per share.

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

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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
 <b>NOTE 5. RECEIVABLES (CURRENT)</b>		
Trade debtors	—	—
Other debtors and prepayments	29,971	15,290
	29,971	15,290
 Other debtors are non-interest bearing and generally on 30 day terms.		
 <b>NOTE 6. INVENTORIES</b>		
Oil stock at cost	—	5,623
	—	5,623
 <b>NOTE 7. PLANT AND EQUIPMENT</b>		
PLANT AND EQUIPMENT		
At cost	138,125	259,128
Accumulated depreciation	(113,592)	(174,982)
<b>TOTAL PLANT AND EQUIPMENT</b>	<b>24,533</b>	<b>84,146</b>
 MOVEMENTS IN THE CARRYING AMOUNT OF PLANT AND EQUIPMENT		
PLANT AND EQUIPMENT		
At the beginning of the financial year	84,146	127,710
Additions	21,556	6,762
Depreciation expense	(14,952)	(27,935)
Disposals	(68,521)	(1,048)
Currency exchange adjustment	2,304	(21,343)
<b>TOTAL PLANT AND EQUIPMENT</b>	<b>24,533</b>	<b>84,146</b>
 <b>NOTE 8. RECEIVABLES (NON-CURRENT)</b>		
Deposits	12,000	12,000
	12,000	12,000

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

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**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

**NOTE 9. CAPITALISED OIL AND GAS EXPENDITURE**

MOVEMENTS IN THE CARRYING AMOUNT OF EXPLORATION EXPENDITURE

At the beginning of the financial year	17,853	—
Expenditure incurred during the year	1,111,884	48,776
Amortised during the year	(558,560)	(30,923)
Exchange rate adjustment	2,669	—

**AT THE END OF THE FINANCIAL YEAR**

	573,846	17,853
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MOVEMENTS IN THE CARRYING AMOUNT OF PRODUCTION EXPENDITURE

At the beginning of the financial year	5,644	30,882
Expenditure incurred during the year	—	—
Exchange rate adjustment	205	(4,958)
Written off during the year	(5,849)	(20,280)
Loss on disposal	—	—

**AT THE END OF THE FINANCIAL YEAR**

	—	5,644
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**TOTAL CAPITALISED OIL AND GAS EXPENDITURE**

	573,846	23,497
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Recoverability of the carrying amount of the capitalised oil and gas expenditure is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

**NOTE 10. PAYABLES (CURRENT)**

Sundry creditors and accrued expenses	244,010	76,809
	244,010	76,809
	244,010	76,809

**NOTE 11. PROVISIONS (CURRENT)**

Employee benefits	—	2,244
	—	2,244
	—	2,244

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

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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>NOTE 12. ISSUED CAPITAL</b>		
767,644,979 (2011: 347,759,814) fully paid ordinary shares	18,041,710	12,542,332
	18,041,710	12,542,332
<b>MOVEMENTS IN ORDINARY SHARES</b>		
At the beginning of the financial year	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	
98,000,000 shares issued on 4 April 2012	1,225,000	
2,500,000 shares issued on 1 May 2012	25,000	
10,000 shares issued on 1 May 2012	150	
Share issue expenses	(323,942)	
	18,041,710	
<b>AT THE END OF THE FINANCIAL YEAR</b>	18,041,710	

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 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.

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 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.

On 4 April 2012, the Company issued 98,000,000 fully paid ordinary shares for \$0.0125 per share. The issue of these shares was ratified at the General Meeting of the Company held on 29 June 2012.

On 1 May 2012, the Company issued 10,000 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012. Also on 1 May 2012, the Company issued 2,500,000 fully paid ordinary shares for \$0.01 (1 cent) each pursuant to the exercise of options expiring on 31 March 2013.



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

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At 30 June 2012 there were 351,712,589 unissued ordinary shares for which options were outstanding. These comprise 151,199,598 options which entitle the holder to subscribe for one ordinary share in the Company for 1.5 cents per share and expire on 31 December 2012, 3,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 1 cent per share and expire on 31 March 2013, 30,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 2.75 cents per share and expire on 31 October 2013, 5,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 5 cents per share and expire on 31 July 2015 and 162,512,991 options which entitle the holder to subscribe for one ordinary share in the Company for 3 cents per share and expire on 31 October 2015.

At 30 June 2011 there were 340,311,639 unissued ordinary shares for which options were outstanding. These comprise 190,186,639 options which entitle the holder to subscribe for one ordinary share in the Company for 5 cents per share and expire on 1 October 2011, 30,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 2.75 cents per share and expire on 31 October 2013, 5,000,000 options which entitle the holder to subscribe for one ordinary share in the Company for 5 cents per share and expire on 31 July 2015 and 115,125,000 options which entitle the holder to subscribe for one ordinary share in the Company for 3 cents per share and expire on 31 October 2015.

### CAPITAL MANAGEMENT

Management controls the capital of the Group comprising the liquid assets held by the Group in order to maintain an appropriate debt to equity ratio, provide the shareholders with adequate returns 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 financial assets. There are no externally imposed capital requirements. 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.

### TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from sale of all surplus assets in proportion to the number of, and amounts paid up, of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at any meeting of the Company.

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	\$	\$
<b>NOTE 13. RESERVES</b>		
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 financial year	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	36,953
6,000,000 options issued on 18 October 2011	23,520
2,000,000 options issued on 1 November 2011	4,000
	220,986
<b>AT THE END OF THE FINANCIAL YEAR</b>	<b>220,986</b>

The option premium reserve is used to accumulate the fair value of options issued and premiums received on the issue of options.

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.

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

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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.

On 18 October 2011, 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. The issue of these options was approved at the Annual General Meeting of the Company held on 12 October 2011. The 15,996,951 free options exercisable at \$0.015 on or before 31 December 2012 were valued on the date of issue at 0.231 cents each using the Black & Scholes methodology and based on a risk free rate 4.75%, an underlying security spot price \$0.01 and a volatility factor of 80%. The 6,000,000 free options exercisable at \$0.01 (1 cent) on or before 31 March 2013 were valued on the date of issue at 0.392 cents each using the Black & Scholes methodology and based on a risk free rate 4.75%, an underlying security spot price \$0.01 and a volatility factor of 80%.

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. The issue of these options was ratified at the General Meeting of the Company held on 29 June 2012.

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

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	Company	
	2012	2011
	\$	\$
<b>NOTE 14. PARENT ENTITY</b>		
FINANCIAL INFORMATION ON THE PARENT ENTITY AS AT THE END OF THE FINANCIAL YEAR:		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	853,571	1,168,189
Trade and other receivables	29,971	14,673
<b>TOTAL CURRENT ASSETS</b>	<b>883,542</b>	<b>1,182,862</b>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	24,533	17,690
Receivables	2,473,147	12,000
Other financial assets	10	110
<b>TOTAL NON-CURRENT ASSETS</b>	<b>2,497,690</b>	<b>29,800</b>
<b>TOTAL ASSETS</b>	<b>3,381,232</b>	<b>1,212,662</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	174,250	55,971
Provisions	—	2,244
<b>TOTAL CURRENT LIABILITIES</b>	<b>174,250</b>	<b>58,215</b>
<b>TOTAL LIABILITIES</b>	<b>174,250</b>	<b>58,215</b>
<b>NET ASSETS/(LIABILITIES)</b>	<b>3,206,982</b>	<b>1,154,447</b>
<b>EQUITY</b>		
Issued capital	18,041,710	12,542,332
Reserves	220,986	1,488,067
Accumulated losses	(15,055,714)	(12,875,952)
<b>TOTAL EQUITY</b>	<b>3,206,982</b>	<b>1,154,447</b>
FINANCIAL INFORMATION ON THE PARENT ENTITY FOR THE FINANCIAL YEAR:		
Profit/(loss) after related income tax expense	(2,179,762)	(1,288,170)
Other comprehensive income	—	—
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(2,179,762)</b>	<b>(1,288,170)</b>

There are no contingent liabilities of the Parent Entity as at the reporting date.

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

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**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

**NOTE 15. CASH FLOW INFORMATION**

RECONCILIATION OF CASH FLOW FROM OPERATIONS WITH PROFIT/(LOSS) AFTER INCOME TAX

Profit/(loss) after tax	(2,732,087)	(1,338,809)
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*Cash flows in profit/(loss) attributable to non-operating activities*

Exploration expenditure	35,542	78,944
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*Non-cash flows in profit/(loss)*

Amortisation	5,849	69,056
Depreciation of plant and equipment	14,952	27,935
Exploration expenditure written off	558,560	—
Cost of share based payment		—
Loss/(Profit) on disposal of oil and gas properties		
Loss/(Profit) on disposal of plant & equipment	68,521	(582)
Foreign exchange loss	44,762	28,521
Charges to provisions	(2,244)	1,006

*Changes in assets and liabilities*

Decrease/(increase) in debtors and receivables	(14,681)	18,091
Decrease/(increase) in inventories	5,623	1,462
Increase/(decrease) in creditors and accruals	(26,772)	(49,137)

**NET CASH FROM/(USED IN) OPERATING ACTIVITIES**

	(2,041,975)	(1,163,513)
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RECONCILIATION OF CASH AND CASH EQUIVALENTS

*Cash and cash equivalents at the end of the financial year is shown in the accounts as:*

Cash	2,338,818	1,173,445
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**CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR**

	2,338,818	1,173,445
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At 30 June 2012 cash balances comprised A\$853,571 denominated in Australian Dollars and A\$1,485,247 denominated in United States Dollars.

NON-CASH FINANCING AND INVESTING ACTIVITIES

During the year, free options were issued to nominees of the underwriter of a non-renounceable offer valued at \$60,473.

There were no other non-cash financing and investing activities during the year.

There are no financing facilities in place for the Company.

**NOTE 16. AUDITOR'S REMUNERATION**

Remuneration of the auditor for:

Auditing or reviewing the financial report	25,500	26,000
Tax compliance services	7,650	5,775

	33,150	31,775
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE 2012**

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**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

**NOTE 17. EXPENDITURE COMMITMENTS**

Non-Cancellable operating leases contracted for but not capitalised in the accounts:

*Payable*

not later than one year	83,754	75,402
later than 1 year but not later than 5 years	21,750	18,966

**AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE**

	105,504	94,368
	105,504	94,368

The property lease is a non-cancellable lease which expires on 30 September 2013 with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased on each 1 October during the lease by the higher of 2.5% or the CPI per annum.

**CAPITAL EXPENDITURE COMMITMENTS**

*Coal Seam Methane Projects  
onshore Western Australia*

The Company is the sole holder of a drilling reservation (DR11) for the area known as Eneabba North with a work commitment of two stratigraphic wells and a 2D seismic survey in the first year. The seismic survey has been completed. Due to a delay in the Governmental work approval process, the commitment is carried forward and will remain the same. The estimated cost of the two stratigraphic wells is \$550,000.

AWE Limited ("AWE") has farmed-in for a 81.5 per cent equity share in Exploration Permit ('EP') for an area known as Eneabba South (EP455) in the North Perth Basin. Pursuant to the farmin agreement, AWE will carry TTE through a gross permit expenditure of up to \$7,500,000 after which AWE will pay 81.5 per cent and TTE 18.5 per cent of approved work programs and budget expenditure. The estimated expenditure requirement established under the permit for EP455 is \$4,100,000 by 21 June 2013. The estimated expenditure requirement established under the permit for EP455 is well within the agreed gross permit expenditure by AWE.

Red Mountain Energy Pty Ltd (on behalf of The Company) has applied for a new SPA for the areas previously known as Vasse (DR 10) and Treeton (DR 8) as these drilling reservation permits have expired. The area is now referred to as Vasse - Treeton. The SPA application has not yet been granted and there will be no expenditure commitment until the SPA application has been approved. Red Mountain Energy Pty Ltd is a company controlled by Mr Stephen Thomas, a director of the Company.

The Company's expenditure commitments for these EL's, SPA's, DR's and EP's is estimated as follows:

**Consolidated Entity**  
**2012**                      **2011**  
**\$**                              **\$**

*Payable*

not later than one year	4,650,000	3,290,000
later than 1 year but not later than 5 years	—	2,060,000

**AGGREGATE EXPENDITURE CONTRACTED FOR AT REPORTING DATE**

	4,650,000	5,350,000
	4,650,000	5,350,000

The expenditure commitment at 30 June 2012 of \$4,650,000 includes \$4,100,000 in respect of EP455. This expenditure commitment is expected to be met by expenditure covered by the AWE farmin agreement. In the event that AWE do not proceed with the farmin, then this expenditure commitment would fall to the Company.

Should the Company fail to meet these expenditure commitments, they could forfeit the permit concerned. In the directors' opinion, the Company will be able to meet these commitments as and when they fall due.

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


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**NOTE 18. KEY MANAGEMENT PERSONNEL**

## REMUNERATION OF KEY MANAGEMENT PERSONNEL

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
REMUNERATION OF KEY MANAGEMENT PERSONNEL		
Short term employee benefits	670,363	518,209
Post employment benefits	50,000	54,541
Share based payment benefits	—	—
	720,363	572,750
	720,363	572,750

## SHARES HELD BY KEY MANAGEMENT PERSONNEL

*Year Ended 30 June 2012*

	<b>Number of Ordinary Shares</b>			
	<b>1 July 2011 or Appointment</b>	<b>Issued as Remuneration</b>	<b>Net Change Other</b>	<b>30 June 2012 or Resignation</b>
Darren Levy (appointed 08-Jul-2011)	—	—	20,000,000	20,000,000
Paul Garner (appointed 19-Jul-2011)	—	—	22,055,716	22,055,716
Stephen Leslie Thomas	9,744,843	—	—	9,744,843
Peter Briggs (resigned 07-Jul-2011)	10,647,535	—	—	10,647,535
Chong Kwee Ch'ng (resigned 19-Jul-2011)	2,500,000	—	—	2,500,000
Jack Toby	—	—	5,000,000	5,000,000
	22,892,378	—	47,055,716	69,948,094
	22,892,378	—	47,055,716	69,948,094

*Year Ended 30 June 2011*

	<b>Number of Ordinary Shares</b>			
	<b>1 July 2010 or Appointment</b>	<b>Issued as Remuneration</b>	<b>Net Change Other</b>	<b>30 June 2011 or Resignation</b>
Peter Briggs	10,647,535	—	—	10,647,535
Stephen Leslie Thomas	9,744,843	—	—	9,744,843
Chong Kwee Ch'ng (appointed 30-Sep-2010)	2,000,000	—	500,000	2,500,000
Kristian John Barnes (resigned 30-Sep-2010)	—	—	—	—
Jack Toby	—	—	—	—
	22,392,378	—	500,000	22,892,378
	22,392,378	—	500,000	22,892,378

## OPTIONS HELD BY KEY MANAGEMENT PERSONNEL

*Year Ended 30 June 2012*

	<b>Number of Options</b>			
	<b>1 July 2011 or Appointment</b>	<b>Granted as Remuneration</b>	<b>Net Change Other</b>	<b>30 June 2012 or Resignation</b>
Darren Levy (appointed 08-Jul-2011)	1,000,000	—	10,000,000	11,000,000
Paul Garner (appointed 19-Jul-2011)	7,750,000	—	10,000,000	17,750,000
Stephen Leslie Thomas	10,000,000	—	(10,000,000)	—
Peter Briggs (resigned 07-Jul-2011)	15,000,000	—	—	15,000,000
Chong Kwee Ch'ng (resigned 19-Jul-2011)	—	—	—	—
Jack Toby	9,000,000	—	6,000,000	15,000,000
	42,750,000	—	16,000,000	58,750,000
	42,750,000	—	16,000,000	58,750,000

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

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*Year Ended 30 June 2011*

	Number of Options			30 June 2011 or Resignation
	1 July 2010 or Appointment	Granted as Remuneration	Net Change Other	
Peter Briggs	15,000,000	—	—	15,000,000
Stephen Leslie Thomas	10,000,000	—	—	10,000,000
Chong Kwee Ch'ng (appointed 30-Sep-2010)	—	—	—	—
Kristian John Barnes (resigned 30-Sep-2010)	2,000,000	—	—	2,000,000
Jack Toby	—	—	9,000,000	9,000,000
	27,000,000	—	9,000,000	36,000,000

All options are vested and exercisable.

**NOTE 19. SHARE BASED PAYMENTS**

OPTIONS ISSUED AS SHARE BASED PAYMENTS	Number of Options	Weighted Average Exercise Price
Outstanding at beginning of year	37,000,000	\$0.05
Granted	21,996,951	\$0.0136
Forfeited	—	—
Exercised	(3,000,000)	\$0.01
Expired	(37,000,000)	\$0.05
<b>OUTSTANDING AND EXERCISABLE AT YEAR END</b>	<b>18,996,951</b>	<b>\$0.0142</b>

The weighted average remaining contractual life subsequent to 30 June 2012 of these options is 198 days.

The cost of share based payments for the year ended 30 June 2012 was \$60,473 (2011: \$Nil).

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. The issue of these options was approved at the Annual General Meeting of the Company held on 12 October 2011. The 15,996,951 free options exercisable at \$0.015 on or before 31 December 2012 were valued on the date of issue at 0.231 cents each using the Black & Scholes methodology and based on a risk free rate 4.75%, an underlying security spot price \$0.01 and a volatility factor of 80%. The 6,000,000 free options exercisable at \$0.01 (1 cent) on or before 31 March 2013 were valued on the date of issue at 0.392 cents each using the Black & Scholes methodology and based on a risk free rate 4.75%, an underlying security spot price \$0.01 and a volatility factor of 80%.

No share based payments were issued by the Company or by the Consolidated Entity during the year ended 30 June 2011.

**NOTE 20. 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 maker) 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.

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

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### 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 incurrence 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.

	YEAR TO 30 JUNE 2012			YEAR TO 30 JUNE 2011		
	Oil and Gas Exploration Australia \$	Oil and Gas Exploration USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil and Gas Exploration USA \$	Total \$
	SEGMENT PERFORMANCE					
External revenue	—	12,770	12,770	—	27,354	27,354
<b>TOTAL SEGMENT REVENUE</b>	<b>—</b>	<b>12,770</b>	<b>12,770</b>	<b>—</b>	<b>27,354</b>	<b>27,354</b>
Segment net profit/(loss) before tax	<u>(233,919)</u>	<u>(691,030)</u>	<u>(924,949)</u>	<u>(63,249)</u>	<u>(181,296)</u>	<u>(244,545)</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			78,702			22,778
Other income			110			5,937
Research and development tax concession rebate			—			211,138
Unrealised exchange loss			(44,762)			(28,521)
Other expenses			(1,841,188)			(1,305,596)
<b>NET PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>			<u><b>(2,732,087)</b></u>			<u><b>(1,338,809)</b></u>



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

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	30 JUNE 2012			30 JUNE 2011		
	Oil and Gas Exploration Australia \$	Oil and Gas Exploration USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil and Gas Exploration USA \$	Total \$
	<b>SEGMENT ASSETS</b>					
Segment assets	—	2,059,093	2,059,093	—	101,449	101,449
<b>RECONCILIATION OF SEGMENT ASSETS TO TOTAL ASSETS</b>						
<i>Unallocated assets:</i>						
Cash and cash equivalents			853,571			1,168,189
Receivables			41,971			26,673
Plant and equipment			24,533			17,690
<b>TOTAL ASSETS FROM CONTINUING OPERATIONS</b>			<u>2,979,168</u>			<u>1,314,001</u>

	30 JUNE 2012			30 JUNE 2011		
	Oil and Gas Exploration Australia \$	Oil and Gas Exploration USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil and Gas Exploration USA \$	Total \$
	<b>SEGMENT LIABILITIES</b>					
Segment liabilities	—	69,759	69,759	—	20,838	20,838
<b>RECONCILIATION OF SEGMENT LIABILITIES TO TOTAL LIABILITIES</b>						
<i>Unallocated liabilities:</i>						
Other liabilities			174,251			58,215
<b>TOTAL LIABILITIES FROM CONTINUING OPERATIONS</b>			<u>244,010</u>			<u>79,053</u>

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

### REVENUE BY GEOGRAPHICAL REGION

Revenue attributed to external customers is disclosed below based on the location of the external customers.

	Year to 30 June 2012 \$	Year to 30 June 2011 \$
Australia	—	—
USA	12,770	27,354
	12,770	27,354

### ASSETS BY GEOGRAPHICAL REGION

The location of assets is disclosed below by the geographical location of the assets.

	30 June 2012 \$	30 June 2011 \$
Australia	920,075	1,212,552
USA	2,059,093	101,449
	2,979,168	1,314,001

### MAJOR CUSTOMERS

Due to the nature of its current operations, the Group does not provide products and services.

### NOTE 21. CONTROLLED ENTITIES

	% Owned		Book value of shares held		Contribution to consolidated profit/(loss)	
	2012	2011	2012 \$	2011 \$	2012 \$	2011 \$
<i>Parent Entity</i>						
Titan Energy Ltd					(2,051,737)	(1,147,513)
<i>Entities controlled by Titan Energy Ltd</i>						
Titan Energy Inc	100%	Nil	10	—	(469,886)	—
Sunset Energy LLC	100%	100%	—	—	(221,144)	(181,296)
North Perth Basin Pty Ltd	100%	Nil	—	—	—	—
Westralian Petroleum Pty Ltd	Nil	100%	—	10	10,010	(10,000)
Sunset Energy Pty Ltd	Nil	100%	—	100	670	—
Flamestar Corporation Pty Ltd	Nil	100%	—	—	—	—
<i>Entities controlled by Titan Energy Inc</i>						
Titan Energy LLC	100%	Nil	—	—	—	—
Titan Allen Dome LLC	100%	Nil	—	—	—	—
Titan Energy Nevada LLC	100%	Nil	—	—	—	—
			10	110	(2,732,087)	(1,338,809)

During the year, the Company registered Titan Energy Inc in the United States of America. The results of Titan Energy Inc have been included in the Consolidated Entity from the date of its registration of 7 December 2011.

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

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During the year, the Company registered Titan Energy LLC in the United States of America. The results of Titan Energy LLC have been included in the Consolidated Entity from the date of its registration of 7 December 2011.

During the year, the Company registered Titan Energy Nevada LLC in the United States of America. The results of Titan Energy Nevada LLC have been included in the Consolidated Entity from the date of its registration of 6 February 2012.

During the year, the Company registered Titan Allen Dome LLC in the United States of America. The results of Titan Allen Dome LLC have been included in the Consolidated Entity from the date of its registration of 19 April 2012.

During the year, the Company registered North Perth Basin Pty Ltd in Western Australia. The results of North Perth Basin Pty Ltd have been included in the Consolidated Entity from the date of its registration of 12 March 2012.

Westralian Petroleum Pty Ltd, Sunset Energy Pty Ltd and Flamestar Corporation Pty Ltd were each deregistered on 30 October 2011.

Titan Energy Inc, Titan Energy LLC, Titan Allen Dome LLC and Sunset Energy LLC are registered in the State of Delaware in the United States of America. Titan Energy Nevada LLC is registered in the State of Nevada in the United States of America

**NOTE 22. SUPERANNUATION COMMITMENTS**

The Company makes contributions to complying superannuation funds based on the requirements of the Australian Superannuation Guarantee Charge or such higher amount as has been agreed with individual employees. There is a legally enforceable obligation on the Company to contribute to the superannuation plan for those contributions that have been agreed with individual employees as part of their conditions of employment.

**NOTE 23. CONTINGENT LIABILITIES**

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

**NOTE 24. FINANCIAL INSTRUMENTS****FINANCIAL RISK MANAGEMENT POLICIES**

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries, which arise directly from its operations. The Group's policy is that no trading in financial instruments shall be undertaken. The main purpose of non-derivative financial instruments is to finance Group operations. Derivatives are not used by the Group and the Group does not speculate in the trading of derivative instruments.

**TREASURY RISK MANAGEMENT**

The Board considers the Group's financial risk exposure and treasury management strategies in the context of the Group's operations. The Board's overall risk management strategy seeks to assist the consolidated Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

**FINANCIAL RISK EXPOSURES AND MANAGEMENT**

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk. The Board reviews each of these risks on an on-going basis.

**INTEREST RATE RISK**

The Company has a policy of minimising its exposure to interest payable on debt. The Group has no debt that requires the payment of interest.

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


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FINANCIAL INSTRUMENTS	TERMS AND CONDITIONS AND INTEREST RATE RISK
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Bank Deposits	Bank deposits are either held at call, subject to notice of withdrawal or subject to maturity after a specified period of time. All cash held is subject to floating interest rate risk.
Receivables	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.
Accounts Payable	There are no specific terms and conditions that may affect the amount, timing and certainty of future cash flows as they are all managed on a case by case basis. These are non interest bearing and there is no exposure to interest rate risk.

**FOREIGN CURRENCY RISK**

The Group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the Group's measurement currency. The Group is also exposed to fluctuations in foreign currencies arising from deposits with banks denominated in foreign currencies. The Group does not seek to hedge this exposure.

**LIQUIDITY RISK**

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate funds are available through on-going business activity, the sale of assets, joint venture arrangements and capital raising.

**CREDIT RISK**

At 30 June 2012, no cash deposits were committed as security for credit cards (2011: \$20,000)

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There are no other material amounts of collateral held as security at 30 June 2012 or at 30 June 2011. Credit risk is managed on a Group basis and reviewed by the Board. It arises from exposures to customers as well as through deposits with financial institutions. The Board monitors credit risk by actively assessing the quality and liquidity of counter parties, consequently only banks are utilised for deposits and all potential customers are assessed for credit worthiness taking into account their size, market position and financial standing. The counterparties included in trade and other receivables at 30 June 2012 and at 30 June 2011 are not rated, however given the amount and nature of these financial instruments, the Board is satisfied that they represent a low credit risk for the Group. There are no significant concentrations of credit risk within the Group.

**PRICE RISK**

The Group is exposed to commodity price risk through its own activities and its joint venture interests. Oil and gas prices have improved substantially over the last 12 months and the Group does not currently hedge the price it sells oil and gas at.

**FINANCIAL INSTRUMENT COMPOSITION AND MATURITY ANALYSIS**

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

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

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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>TRADE AND SUNDRY PAYABLES ARE EXPECTED TO BE PAID AS FOLLOWS:</b>		
Less than 6 months	244,010	76,809
6 months to 1 year	—	—
later than 1 year but not later than 5 years	—	—
over 5 years	—	—
	244,010	76,809

**FAIR VALUES**

The aggregate net fair values of the Consolidated Entity's financial assets and financial liabilities, both recognised and unrecognised are as follows:

	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2012 \$	AGGREGATE NET FAIR VALUE 2012 \$	CARRYING AMOUNT IN THE FINANCIAL STATEMENTS 2011 \$	AGGREGATE NET FAIR VALUE 2011 \$
<i><b>Financial Assets</b></i>				
Cash assets	2,338,818	2,338,818	1,173,445	1,173,445
Receivables	41,971	41,971	27,290	27,290
Other financial assets	—	—	—	—
<i><b>Financial Liabilities</b></i>				
Payables	244,010	244,010	76,809	76,809

*The following methods and assumptions are used to determine the net fair value of financial assets and liabilities:*

Cash assets and financial assets are carried at amounts approximating fair value because of their short term nature to maturity. Receivables and payables are carried at amounts approximating fair value. The Group does not carry financial instruments at fair value at 30 June 2012.

Listed investments have been valued at the quoted market bid price at balance date, adjusted for transaction costs expected to be incurred. For unlisted investments where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows of the investment.

**SENSITIVITY ANALYSIS**

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk and foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

**INTEREST RATE SENSITIVITY ANALYSIS**

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

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

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	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	\$	\$
CHANGE IN PROFIT DUE TO::		
Increase in interest rate by 2%	47,211	11,922
Decrease in interest rate by 2%	(47,211)	(11,922)
CHANGE IN EQUITY DUE TO::		
Increase in interest rate by 2%	47,211	11,922
Decrease in interest rate by 2%	(47,211)	(11,922)

**FOREIGN CURRENCY RISK SENSITIVITY ANALYSIS**

At 30 June 2012, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	\$	\$
CHANGE IN PROFIT DUE TO::		
Improvement in AUD to USD by 5%	104,702	4,242
Decline in AUD to USD by 5%	(94,730)	(3,839)
CHANGE IN EQUITY DUE TO::		
Improvement in AUD to USD by 5%	104,702	4,242
Decline in AUD to USD by 5%	(94,730)	(3,839)

**NOTE 25. RELATED PARTY TRANSACTIONS**

The Company is not controlled by any other entity.

Marven Pty Ltd received benefits from the Company for services performed by Mr Darren Levy, while he was a director of the Company. This remuneration received by Marven Pty Ltd for the services of Mr Darren Levy as a director of the Company is included in the remuneration of Mr Darren Levy in the Remuneration Report which is within the Directors' Report.

Ohio Holdings Pty Ltd received benefits from the Company for services performed by Mr Paul Garner, while he was a director of the Company. This remuneration received by Ohio Holdings Pty Ltd for the services of Mr Paul Garner as a director of the Company is included in the remuneration of Mr Paul Garner in the Remuneration Report which is within the Directors' Report.

Coal Bed Methane Pty Ltd received benefits from the Company for services performed by Mr Stephen Thomas, while he was a director of the Company. This remuneration received by Coal Bed Methane Pty Ltd for the services of Mr Stephen Thomas as a director of the Company is included in the remuneration of Mr Stephen Thomas in the Remuneration Report which is within the Directors' Report.

Natural Resource Finance Pty Ltd received benefits from the Company for services performed by Mr Peter Briggs, while he was a director of the Company. This remuneration received by Natural Resource Finance Pty Ltd for the services of Mr Peter Briggs as a director of the Company is included in the remuneration of Mr Peter Briggs in the Remuneration Report which is within the Directors' Report.

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

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At 30 June 2012, directors and their related entities held directly, indirectly or beneficially 51,800,559 ordinary shares in the Company and 28,750,000 options over ordinary shares in the Company.

At 30 June 2011, directors and their related entities held directly, indirectly or beneficially 22,892,378 ordinary shares in the Company and 25,000,000 options over ordinary shares in the Company.

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

### CONTRACTUAL ARRANGEMENTS WITH DIRECTOR RELATED ENTITIES

#### RME FARM IN AGREEMENT

The RME Farm-in Agreement is between Red Mountain Energy Pty Ltd (RME), an entity controlled by director Stephen Thomas and the Company. Under it the Company may earn a 100% interest in the following Titles when granted:

- Drilling Reservation Licence DR7 (DR7 has now expired however a new application for the same area has been lodged).
- Exploration Permit EP 445.
- DR 10 has now expired and has been replaced with an application for an SPA (stp-spa-0006)

While it is performing its farm-in obligations the Company is appointed the operator to carry out all activities in respect of those titles and accordingly, has Operator Rights.

The Company has not yet completed its minimum work commitments on the titles.

#### RMEI ROYALTY

Under the RMEI Royalty, the Company must pay Red Mountain Energy Inc. (RMEI) a 2.25% royalty in respect of the royalty value (as defined in the Petroleum Act 1967) of petroleum recovered from each Royalty Title. Royalty Titles are those transferred to the Company pursuant to the RME Farm-In Agreement.

The royalty will be payable at the same time as that payable to the Minister under the Act. If no royalty is payable to the Minister under the Act, then no royalty is payable under the RMEI Royalty. If the Company is able to negotiate a reduced royalty arrangement with the Minister in respect of a Royalty Title, then the amount of royalty payable by the Company under the RMEI Royalty in respect of that Royalty Title will be reduced for the same period and in the same proportion.

#### EXPLORATION JVA

The Exploration JVA is binding on the parties, but upon request by a party is to be replaced by a more formal joint operating agreement. The Exploration JVA is preliminary in nature and does not contain the detailed provisions contained in a formal joint venture agreement to deal with matters like the manager's powers and default. The Exploration JVA does make provision for programmes and budgets and a management committee. Decisions of the management committee are by majority vote and accordingly unanimous approval will be required for programmes and budgets.

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

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DIRECTOR-RELATED ENTITIES

	<b>Consolidated Entity</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Amount owing to Stephen Thomas	—	14,850
Managing Director, Mr Stephen Thomas, controls Red Mountain Energy Inc (RMEI) which charges a fee for equipment rental and premises used by the Company's subsidiary Sunset Energy LLC. Fees charged by Red Mountain Energy Inc	7,238	21,021

At 30 June 2012, Sunset Energy LLC, a wholly owned subsidiary of the Company owed US\$Nil to Red Mountain Energy Inc, an entity controlled by director Stephen Thomas (2011: US\$21,000).

**NOTE 26. DIVIDENDS**

No dividends have been paid or proposed during the year.

**NOTE 27. EVENTS SUBSEQUENT TO BALANCE DATE**

On 2 July 2012, the Company issued 35,000,000 Ordinary Shares, 8,280,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012, 35,000,000 Options exercisable at 1 cent each and expiring on 31 March 2013 and 35,000,000 Options exercisable at 2 cents each and expiring on 31 July 2014. These securities were issued for no consideration in satisfaction of facilitation services provided by Cities Energy LLC to the Company in relation to the Allen Dome Acquisition; to provide Allen Dome Exploration LLC with an additional incentive and reward for their future services; and for Allen Dome Exploration LLC facilitating the Salt Dome Option and assisting in the due diligence process, and to incentivise Allen Dome Exploration LLC to assist the Company to secure additional acquisitions in the United States in the future. Also 3,600,000 Options issued in satisfaction of management services provided by Pursuit Capital Pty Ltd and 4,680,000 Options issued in satisfaction of management services provided by Pendulum Capital Pty Limited. The issue of these securities was approved at the General Meeting of shareholders of the Company held on 29 June 2012.

On 23 July 2012, the Company issued 126,800,000 Ordinary Shares for \$0.0125 per share, 20,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 at an issue price of \$0.001 each and 20,000,000 Options exercisable at 1.25 cents each and expiring on 30 September 2012 at an issue price of \$0.0005 each. The issue of 110,000,000 of the ordinary shares was approved at the shareholder meeting held on 29-Jun-12 comprising 20,000,000 shares pursuant to Resolution 7, 20,000,000 shares pursuant to Resolution 8 and 70,000,000 shares pursuant to Resolution 6. The issue of 20,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 was also approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 12.

On 2 August 2012, the Company announced the acquisition of a 50% interest in the approximately 110 acre Greathouse Prospect within the South Lake Charles oil and gas field in Louisiana, USA - with an option over a further 173 acres. The Company had paid US\$48,759 in lease costs for 50% interest in Greathouse and will pay its proportionate share of the cost of the drilling of a well into the prospect on a ground floor basis. The proposed well has an estimated dry hole cost of US\$1,200,000. The Company is in discussions to bring another partner into the permit area with the Company potentially farming out a 20% interest whilst retaining a 35% Working Interest (WI).

On 3 August, the Company announced that it had concluded a Purchase Agreement to acquire 276 acres of producing interests on the northern flank of the Allen Salt Dome in Brazoria County, including the related production equipment.

On 6 August, the Company announced that it had engaged Peterson Energy Operating Inc. to drill the Hettinger #1-15 exploration well at its Sodbuster II Project area in Colorado.



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

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On 14 August 2012, the Company issued 10,000,000 Ordinary Shares for \$0.0125 per share, 10,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 at an issue price of \$0.001 each and 2,400,000 free Options exercisable at 1.5 cents each and expiring on 31 December 2012. The issue of 10,000,000 Ordinary shares was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 6. The issue of 10,000,000 Options exercisable at 1.5 cents each and expiring on 31 December 2012 was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 12. The issue of 2,400,000 free Options exercisable at 1.5 cents each and expiring on 31 December 2012 was issued in satisfaction of management services provided by Pursuit Capital Pty Ltd and was approved at the shareholder meeting held on 29-Jun-12 pursuant to Resolution 10.

There have been no other conversions to, calls of or subscriptions for ordinary shares or issues of potential ordinary shares.

No other matters or circumstances have arisen since the end of the financial year 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 future financial years.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TITAN ENERGY LTD

### REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Titan Energy Ltd, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 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 judgement, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### INDEPENDENCE

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

**OPINION**

In our opinion:

- a) the financial report of Titan Energy Ltd is in accordance with the *Corporations Act 2001*, including:
  - i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

**REPORT ON THE REMUNERATION REPORT**

We have audited the Remuneration Report included in pages 7 to 9 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**OPINION**

In our opinion the Remuneration Report within the directors' report of Titan Energy Ltd for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

**Somes Cooke****Kevin Somes**

Perth

Dated: 12 September 2012

### Auditor's Independence Declaration

To those charged with governance of Titan Energy Ltd and its controlled entities

As auditor for the audit of Titan Energy Ltd for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- i) no contraventions of the independence requirements of the Corporations Act 2001 in relation to the audit; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**Kevin Somes**

Partner  
12 September 2012

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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**ANALYSIS OF HOLDINGS OF LISTED SHARES AND OPTIONS IN THE COMPANY**

	Ordinary Shares	Options expiring 31 Dec 2012 1.5 cents
1 — 1,000	160	23
1,001 — 5,000	75	31
5,001 — 10,000	123	40
10,001 — 100,000	849	97
100,001 — and over	871	130
<b>Total number of holders</b>	<b>2,078</b>	<b>321</b>
Holdings of less than a marketable parcel	610	

**ANALYSIS OF HOLDINGS OF UNLISTED OPTIONS IN THE COMPANY**

	Options expiring 30 Sep 2012 1.25 cents	Options expiring 31 Mar 2013 1 cent	Options expiring 31 Jul 2014 2 cents
1 — 1,000	0	0	0
1,001 — 5,000	0	0	0
5,001 — 10,000	0	0	0
10,001 — 100,000	0	0	0
100,001 — and over	1	4	4
<b>Total number of holders</b>	<b>1</b>	<b>4</b>	<b>4</b>

	Options expiring 31 Oct 2013 2.75 cents	Options expiring 31 Jul 2015 5 cents	Options expiring 31 Oct 2015 3 cents
1 — 1,000	0	0	0
1,001 — 5,000	0	0	0
5,001 — 10,000	0	0	0
10,001 — 100,000	0	0	0
100,001 — and over	1	2	56
<b>Total number of holders</b>	<b>1</b>	<b>2</b>	<b>56</b>

**REGISTERED OFFICE OF THE COMPANY**

31 Ord St  
West Perth  
Western Australia 6005

Tel: +61 (8) 9322 6955  
Fax: +61 (8) 9322 6722

**STOCK EXCHANGE LISTING**

Quotation has been granted for all ordinary shares and all options expiring 31 December 2012 on the Australian Securities Exchange. The State Office of Australian Securities Exchange in Perth, Western Australia has been designated the Home Branch of Titan Energy Ltd.

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## ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012

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There are no current on-market buy-back arrangements for the Company.

A Level One American Depositary Receipt (ADR) program has been declared eligible by the US Securities and Exchange Commission. The Bank of New York Mellon had been appointed as the depositary bank for the ADR program. A Level One ADR program facilitates the purchase of Titan Energy Ltd shares by US investors. Under the program, one ADR is equivalent to 200 ordinary shares of Titan Energy Ltd. The ADRs trade in the US over-the-counter (OTC) market under the ADR trading symbol WGPY and the CUSIP number is 961436102.

### SHARE REGISTRY

The registers of shares and options of the Company are maintained by:-

Computershare Registry Services Pty Ltd  
Level 2, Reserve Bank Building  
45 St Georges Terrace  
Perth, Western Australia 6000

Tel: +61 (8) 9323 2000  
Fax: +61 (8) 9323 2033

### COMPANY SECRETARY

The name of the Company Secretary is Jack Hugh Toby.

### TAXATION STATUS

Titan Energy Ltd is taxed as a public company.

### VOTING RIGHTS

For all ordinary shares, voting rights are one vote per member on a show of hands and one vote per share in a poll.

### TWENTY LARGEST HOLDERS OF ORDINARY SHARES

	Number of Shares	Percentage of Total
Southern Energy Pty Ltd	64,150,000	6.83%
Marven Pty Ltd <Staff Super Fund No 1 A/C>	35,000,000	3.73%
Sunvest Corporation Limited	30,000,000	3.19%
Mr Andrew Trott Hopkins + Mrs Adrienne Janet Hopkins	29,500,000	3.14%
Gaks Investment Holdings Pty Ltd <Gaks Investment A/C>	25,879,219	2.75%
Malby Investments Pty Ltd	23,200,000	2.47%
Ohio Enterprises Pty Ltd <Ohio Super Fund A/C>	20,000,000	2.13%
Jannah Enterprises Pty Ltd <Jannah Enterprises PI Sf A/C>	17,185,000	1.83%
Dr Michael Ian Nissen	16,119,000	1.72%
The Trust Company (Superannuation) Limited <Korn Personal Super Fund A/C>	16,000,000	1.70%
Cities Energy LLC	10,000,000	1.06%
Ohio Enterprises Pty Ltd <Ohio Super Fund A/C>	10,000,000	1.06%
Mr Stephen Leslie Thomas <S L T Family A/C>	9,008,670	0.96%
Mr Simon Peter Wardman <Unwin Investment A/C>	8,400,000	0.89%
Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	8,000,000	0.85%
JP Morgan Nominees Australia Limited <Cash Income A/C>	7,916,000	0.84%
Dyamond Developments Pty Ltd	7,620,781	0.81%
Mr Michael Hoay-Chew Lim + Mrs Catherine Mae Lim	7,500,000	0.80%
Mocter Pty Ltd <Noel Carter Family A/C>	7,000,000	0.75%
Northgold Pty Ltd <Northgold Super Fund A/C>	7,000,000	0.75%
	359,478,670	38.26%

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**


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**TWENTY LARGEST HOLDERS OF 1.25 CENT OPTIONS EXPIRING 30 SEPTEMBER 2012**

	Number of Options	Percentage of Total
Dyamond Developments Pty Ltd	20,000,000	100.00%
	20,000,000	100.00%

**TWENTY LARGEST HOLDERS OF 1.5 CENT OPTIONS EXPIRING 31 DECEMBER 2012**

	Number of Options	Percentage of Total
Mr Matthew James Torenus	30,000,000	15.63%
Gaks Investment Holdings Pty Ltd <Gaks Investment A/C>	17,400,000	9.07%
Malby Investments Pty Ltd	10,000,000	5.21%
Marven Pty Ltd <Staff Super Fund No 1 A/C>	10,000,000	5.21%
Ohio Enterprises Pty Ltd <Ohio Super Fund A/C>	10,000,000	5.21%
Mrs Deepa Rani	8,796,025	4.58%
Park End Limited	8,750,000	4.56%
Mr Michael Katselis	7,025,000	3.66%
Dr Michael Ian Nissen	3,220,800	1.68%
Mr Toby John Durrance	3,093,334	1.61%
Berenes Nominees Pty Ltd <Berenes Super Fund A/C>	3,000,000	1.56%
Gaks Investment Holdings Pty Ltd <Gaks Investment A/C>	3,000,000	1.56%
Mr Michael Hoay-Chew Lim + Mrs Catherine Mae Lim	3,000,000	1.56%
Scintilla Strategic Investments Ltd	2,624,727	1.37%
Mr Steven Patrick Coughlan	2,430,261	1.27%
Mr Michael Leigh Ozolins	2,000,000	1.04%
Mr Simon Peter Wardman <Unwin Investment A/C>	1,850,000	0.96%
Mr Myles Patrick Cooper	1,816,000	0.95%
Mrs Silvija Palmer	1,600,004	0.83%
Mr Michael William Sheedy	1,581,000	0.82%
	131,187,151	68.34%

**TWENTY LARGEST HOLDERS OF 1 CENT OPTIONS EXPIRING 31 MARCH 2013**

	Number of Options	Percentage of Total
Mrs Jirachaya Charnchayasuk	15,000,000	39.47%
Cities Energy LLC	10,000,000	26.32%
Worldwide Energy Co Ltd	10,000,000	26.32%
OKAP Ventures Pty Ltd	3,000,000	7.89%
	38,000,000	100.00%

**TWENTY LARGEST HOLDERS OF 2 CENT OPTIONS EXPIRING 31 JULY 2014**

	Number of Options	Percentage of Total
Worldwide Energy Co Ltd	18,000,000	51.43%
Allen Dome Exploration LLC	12,000,000	34.29%
Mr Stephen David Burgess	2,500,000	7.14%
Seacoast Oil & Gas Inc	2,500,000	7.14%
	35,000,000	100.00%

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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**TWENTY LARGEST HOLDERS OF 2.75 CENT OPTIONS EXPIRING 31 OCTOBER 2013**

	Number of Options	Percentage of Total
Sunvest Corporation Limited	30,000,000	100.00%
	30,000,000	100.00%

**TWENTY LARGEST HOLDERS OF 5 CENT OPTIONS EXPIRING 31 JULY 2015**

	Number of Options	Percentage of Total
Andwendrod Services Pty Ltd	3,000,000	60.00%
Northgold Pty Ltd <Northgold Super Fund A/C>	2,000,000	40.00%
	5,000,000	100.00%

**TWENTY LARGEST HOLDERS OF 3 CENT OPTIONS EXPIRING 31 OCTOBER 2015**

	Number of Options	Percentage of Total
Mrs Jirachaya Charnchayasuk	30,250,000	18.61%
Mr Noraset Charnchayasuk	13,382,624	8.23%
Northgold Pty Ltd <Northgold Super Fund A/C>	12,600,000	7.75%
Mr Matthew Issaac Levy	10,000,000	6.15%
Kyle Parade Pty Ltd <The Player S/F A/C>	9,750,000	6.00%
Playercorp Pty Ltd <SJ Player Family A/C>	8,400,000	5.17%
Bouta Pty Limited <J B Martel Practice S/F A/C>	7,800,000	4.80%
Ohio Holdings Pty Ltd	7,000,000	4.31%
Dyiamond Developments Pty Ltd	5,400,000	3.32%
Bill Brooks Pty Ltd <Bill Brooks Super Fund A/C>	5,000,000	3.08%
LSAF Holdings Pty Ltd <Owen Family A/C>	5,000,000	3.08%
Scintilla Strategic Investments Ltd	5,000,000	3.08%
Mainpass Holdings Pty Ltd	4,400,000	2.71%
Sunbeam Securities Pty Ltd <Sunbeam S/F A/C>	3,500,000	2.15%
Mr Michael Ian Nissen	3,225,800	1.98%
Rexi Marketing Pty Ltd	3,050,000	1.88%
Loeb Aron & Company Ltd	3,000,000	1.85%
Sunbeam Securities Pty Ltd <Sunbeam Super Fund A/C>	2,500,000	1.54%
Mrs Hayley Lyndall Stanton	2,000,000	1.23%
The Trust Company (Superannuation) Limited <Korn Personal Super Fund A/C>	1,700,000	1.05%
	142,958,424	87.97%

**INTERESTS IN OIL & GAS TENEMENTS**

<u>LEASE</u>	<u>INTEREST</u>
<b>AUSTRALIA</b>	
EP 455	18.50%
DR 11	100.00%



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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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**SUBSTANTIAL SHAREHOLDERS**

<b>Date Announced</b>	<b>Name</b>	<b>Number of Shares</b>
01-May-2012	Southern Energy Pty Ltd	56,765,983

**PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND RECOMMENDATIONS**

## INTRODUCTION

The directors are focussed on fulfilling their responsibilities individually, and as a Board, for the benefit of all the Company's stakeholders. That involves recognition of, and a need to adopt, principles of good corporate governance. The Board supports the guidelines on the "Principles of Good Corporate Governance and Recommendations – 2<sup>nd</sup> Edition" established by the ASX Corporate Governance Council.

Given the size and structure of the Company, the nature of its business activities, the stage of its development and the cost of strict and detailed compliance with all of the recommendations, it has adopted a range of modified systems, procedures and practices which it considers will enable it to meet the principles of good corporate governance.

The Company's practices are mainly consistent with those of the guidelines and where they do not correlate with the recommendations in the guidelines the Company considers that its adopted practices are appropriate to it. At the end of this statement a table is included detailing the recommendations with which the Company does not strictly comply.

The following section addresses the Company's practices in complying with the principles.

## BOARD CHARTER

The business of the Company is managed under the direction of the Board of Directors. The Board is accountable to shareholders of the Company for the performance of the Company.

The Board has primary responsibility to shareholders for the sustainability and relevance of the Company by guiding and monitoring its business and affairs.

Each Director of the Company will act in good faith in the best interests of the Company and collectively oversee and appraise the strategies, major policies, processes and performance of the company using care and diligence to ensure that Company's long term sustainability is assured.

Directors will not misuse their position on the Board to advance personal interests nor to represent particular constituencies. Directors will not use information available to them as Board members to advance personal interests or agendas.

Directors are required to inform the Board of any conflicts or potential conflicts of interest they may have in relation to particular items of business. Directors must absent themselves from discussion or decisions on those matters.

The Company's Constitution and Australian corporations law specifies the minimum and maximum number of directors of the Company.

The Directors must elect one of their number as Chairman.

## PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

*Role and Responsibilities of the Board*

The Company has established the functions reserved to the Board. The Board is responsible for:

- overseeing the Company, including its control and accountability systems;

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## ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012

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- appointing and removing the chief executive officer, managing director, or equivalent;
- ratifying the appointment and the removal of senior executives;
- providing input into and final approval of management's development of corporate strategy;
- reviewing, ratifying and monitoring risk management, internal control, codes of conduct and legal compliance;
- monitoring senior executives performance and implementation of strategy;
- ensuring appropriate resources are available to senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting.

### *Role and Responsibilities of Senior Executives*

The Company has established the functions reserved to senior executives. Those who have the opportunity to materially influence the integrity, strategy and operation of the Company and its financial performance are considered to be senior executives. The functions delegated to senior executives are:

- Managing and administer the day-to-day operations of the Company;
- Making recommendations to the Board on corporate strategy, risk management, internal control, codes of conduct and legal compliance.
- Supervising other staff and represent them to the Board
- Exercising such specific and express powers as are delegated to them by the Board from time to time;

### *Evaluation of the performance of Senior Executives*

The Board monitors the performance of senior executives on an on-going basis and conducts an evaluation of the performance of senior executives as and when the Board considers appropriate. A formal evaluation of the performance of senior executives was not carried out in the financial year ended 30 June 2012.

### *Availability to public*

The matters reserved for the Board, the matters delegated to senior executives and the Board Charter is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

#### *Composition of the Board*

The names of the directors of the Company and their qualifications are: set out in the section headed Directors' Report in the Annual Report for the year ended 30 June 2012.

The mix of skills and diversity for which the Board of directors is looking to achieve in membership of the Board is that required so as to provide the Company with a broad base of industry, business, technical, administrative, financial and corporate skills and experience considered necessary to represent shareholders and fulfil the business objectives of the Company.

The recommendations are that a majority of the directors and in particular the chairperson should be independent. An independent director is one who:

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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- is not a substantial shareholder of the Company or an officer or otherwise associated directly or indirectly with a substantial shareholder of the Company;
- has not within the last 3 years been employed in an executive capacity by the Company or another Group member or been a director after ceasing to hold such employment;
- has not within the last 3 years been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with such a service provided;
- is not a material supplier or customer of the Company or another Group member, or an officer of, or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or any other Group member other than as a director of the Company; and
- is free from any interest and any business or other relationship which could or could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the Company.

None of the Board members meet these criteria. Consequently, the Board does not have a majority of independent directors. Mr Darren Levy is the chairman of the Board. The Chairman is not an independent director.

The Chief Executive Officer (or equivalent) of the Company is the Managing Director, Mr Stephen Thomas.

The performance of the Board, its committees (if any) and the individual directors is assessed on an on-going basis by the Chairman of the Board. The performance of the Chairman of the Board is assessed on an on-going basis by the Board as a whole. A formal evaluation of the performance of the Board, or of individual directors, was not carried out in the financial year ended 30 June 2012.

#### *Gender Diversity*

There are no women on the Board. There are no women in senior executive positions in the Group. The proportion of women employees in the whole organisation is 14%.

#### *Nomination of Other Board Members*

Membership of the Board of directors is reviewed on an on-going basis by the Chairman of the Board to determine if additional core strengths are required to be added to the Board in light of the nature of the Company's businesses and its objectives. The Board does not believe that at this point in the Company's development it is necessary to appoint additional directors. Consequently, the Board has not established a nomination committee.

#### *Independent Advice*

Each of the directors is entitled to seek independent advice at the Company's expense to assist them to carry out their responsibilities however prior approval of the Chairman is required which is not unreasonably withheld.

#### *Availability to public*

The Board's policy for nomination and appointment of directors is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

#### **PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING**

The Company has established a code of conduct as to the:

- Practices necessary to maintain confidence in the Company's integrity;
- Practices necessary to take into account their legal obligations and the expectations of their stakeholders;
- Responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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The terms of the code of conduct are:

Directors, officers, employees and consultants to the Company are required to observe high standards of behaviour and business ethics in conducting business on behalf of the Company and they are required to maintain a reputation of integrity on the part of both the Company and themselves. The Company does not contract with or otherwise engage any person or party where it considers integrity may be compromised.

Directors are required to disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the director or the interests of any other party in so far as it affects the activities of the Company and to act in accordance with the Corporations Act if conflict cannot be removed or if it persists. That involves taking no part in the decision making process or discussions where that conflict does arise.

Each director and senior executive is required to advise the Chairman of the Board of any reports of unethical practises by any director, executive or employee of the Company. The Chairman of the Board will investigate the matter and report back to the Board as a whole.

*Availability to public*

The code of conduct is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

Directors are required to make disclosure of any trading in securities of the Company.

The Company has a policy for trading in the securities of the Company. The policy is:

**POLICY FOR TRADING IN THE SECURITIES OF THE COMPANY**

DEFINITIONS

*Insider Trading:*

'Insider trading' includes the trading of securities or some wider set of financial products (including derivatives and financial products able to be traded on a financial market) while in possession of information that is not generally available and would be likely to have a material effect on their price or value if it were generally available. The prohibition against insider trading extends to applying for, acquiring or disposing of, or entering into an agreement to apply for, acquire or dispose of relevant financial products, or procuring another person to so trade, or communicating that information where trading in the relevant financial products is likely to take place.

The insider trading provisions are found in Part 7.10, Division 3 of the Corporations Act 2001 ("Corporations Act"). Section 677 of the Corporations Act defines material effect on price or value. 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, or buy or sell, the first mentioned securities.

*Company Securities:*

Company Securities means shares, options or performance rights over those shares and other securities convertible into shares, and any financial products of the Company traded on ASX.

*Closed Periods:*

Closed Periods means the following periods of time:

- a) From 7 January of each year until the next announcement to the ASX of financial results either in the form of a cashflow report or in the form of profit results; and
- b) From 7 July of each year until the next announcement to the ASX of financial results either in the form of a cashflow report or in the form of profit results; and

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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*Key Management Personnel:*

Key Management Personnel are defined in the ASX Listing Rules.

*Declaration:*

A declaration may be validly issued in either written or electronic form. Electronic declarations may take the form of an email, fax or any other electronic recordable communication.

*Excluded Trading:*

Excluded trading means trading consistent with any of the following categories:

Transfers of Company's Securities already held into a superannuation fund or other saving scheme in which the restricted person is a beneficiary;

An investment in, or trading in units of, a fund or other scheme (other than a scheme only investing in the securities of the entity) where the assets of the fund or other scheme are invested at the discretion of a third party;

Where a restricted person is a trustee, trading in the Company's Securities of the entity by that trust provided the restricted person is not a beneficiary of the trust and any decision to trade during a closed period is taken by the other trustees or by the investment managers independently of the restricted person;

Undertakings to accept, or the acceptance of, a takeover offer;

Trading under an offer or invitation made to all or most of the security holders, such as, a rights issue, a security purchase plan, a dividend or distribution reinvestment plan and an equal access buy-back, where the plan that determines the timing and structure of the offer has been approved by the board. This includes decisions relating to whether or not to take up the entitlements and the sale of entitlements required to provide for the take up of the balance of entitlements under a renounceable pro rata issue;

A disposal of the Company's Securities that is the result of a secured lender exercising their rights, for example, under a margin lending arrangement, provided that the restricted person obtained the consent of the Chairman or Chief Executive Officer of the Company to enter into agreements that provide lenders with rights over their interests in the entity's securities;

Acquisition of the Company's Securities through an issue of securities by the Company;

The exercise (but not the sale of securities following exercise) of an option or a right, or the conversion of a convertible security;

Trading in accordance with a declaration by the Chairman or Chief Executive Officer which may be given in circumstances that they consider appropriate. The declaration may specify the circumstances and duration of excluded trading; or

Trading under a non-discretionary trading plan for which prior clearance by the Chairman or Chief Executive Officer of the Company has been provided and where:

- a) the restricted person did not enter into the plan or amend the plan during a closed period;
- b) the trading plan does not permit the restricted person to exercise any influence or discretion over how, when, or whether to trade; and
- c) there was no cancellation of the trading plan during a closed period other than in exceptional circumstances.

**TRADING RESTRICTIONS**

All Key Management Personnel and all employees of the Company are required to comply with the prohibition against Insider Trading at all times with respect to the Company's Securities. Contravention of the insider trading prohibition may result in significant penalties.

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## ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012

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With the introduction of the continuous disclosure regime, public listed companies and other disclosing entities are now required to disclose Price Sensitive Information on an on-going basis (subject to limited exceptions) so that at all times in the year the market can be fully informed and trading can be lawful. As a result the Company has decided not to specify safe periods but rather to designate periods when Trading by Key Management Personnel should not occur.

All Key Management Personnel are required to refrain from trading in the Company's Securities on the ASX during a Closed Period except for Excluded Trading.

All directors of the Company are required to comply with the Corporations Act and the ASX Listing Rules with regard to disclosure of their interests in the Company's Securities on their appointment as a director, on any change in their interests in the Company's Securities and on resignation as a director.

### *Availability to public*

The policy for trading in the securities of the Company is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

No audit committee has been established. The two executive directors play an active role in monitoring the daily affairs of the Company. As a result of the scale of operations it has not been considered necessary to form sub-committees.

Each Board member has access to the external auditors and the auditor has access to each Board member.

In the event of the resignation of external auditors, the Board will appoint a new external auditor which is subsequently ratified by shareholders in General Meeting. In all other cases an external auditor is nominated by a shareholder of the Company and is appointed by shareholders in General Meeting. An external auditor can be removed by shareholders in General Meeting. The Board does not have a policy for the rotation of external audit engagement partners.

### *Availability to public*

The above policies and procedures are included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company has established a policy to ensure compliance with ASX Listing Rule disclosure and accountability at senior executive level for that compliance. The terms of the policy are:

All directors, executives and staff are required to abide by all legal requirements, the Listing Rules of the Australian Stock Exchange and the highest standards of ethical conduct. This includes compliance with the continuous disclosure requirements of the listing rules.

The Company Secretary is the person responsible for overseeing and co-ordinating disclosure of information to ASX as well as communicating with the ASX.

### *Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Company has a communications policy for promoting effective communication with shareholders and encouraging shareholder participation at its Annual General Meetings. The terms of the communications policy are:

The Board seeks to inform shareholders of all major developments affecting the Company by:

- preparing half yearly and yearly financial reports and announcing these reports to the ASX;

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## ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012

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- preparing quarterly cash flow reports and reports as to activities and announcing these reports to the ASX;
- making announcement in accordance with the listing rules and the continuous disclosure obligations;
- maintaining the Company's website and hosting all of the above on the Company's website;
- annually, and more regularly if required, holding a general meeting of shareholders and forwarding to them the notice of meeting and proxy form; and
- voluntarily releasing other information which it believes is in the interest of shareholders.

The Annual General Meeting enables shareholders to receive the reports and participate in the meeting by attendance or by written communication. The Board seeks to notify all shareholders so they can be fully informed annually for the voting on the appointment of directors and so as to enable them to have discussion at the Annual General Meeting with the directors and/or the auditor of the Company who is invited to the Annual General Meeting. The Annual General Meeting is held each year at a convenient time and place.

### *Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

### PRINCIPLE 7: RECOGNISE AND MANAGING RISK

The Board is conscious of the need to continually maintain systems of risk management and controls to manage all of the assets and affairs of the Company. The Company has established a policy for the oversight of material business risks and the management of material business risks. Risk management is a process of continuous improvement that is integrated into existing practices or business processes. The terms of these risk management policies are:

- Liaise with internal and external stakeholders as appropriate at each stage of the risk management process and concerning the process as a whole.
- Define the basic parameters within which risks must be managed and set the scope for the rest of the risk management process.
- Identify the risks to be managed.
- Identify and evaluate existing controls. Determine consequences and likelihood and hence the level of risk. This analysis should consider the range of potential consequences and how these could occur.
- Compare estimated levels of risk against pre-established criteria (see risk matrix in Risk Management Guide) and consider the balance between potential benefits and adverse outcomes. This enables decisions to be made about the extent and nature of treatments required and about priorities.
- Develop and implement specific cost-effective strategies and action plans for increasing potential benefits and reducing potential costs. Allocate responsibilities to those best placed to address the risk and agree on target date for action.
- The Chairman and Chief Executive Officer are responsible for the implementation and maintenance of sound risk management. In carrying out this responsibility, senior managers review the adequacy of internal controls to ensure that they are operating effectively and are appropriate for achieving corporate goals and objectives.
- The Board is responsible for oversight and for providing corporate assurance on the adequacy of risk management procedures.
- Managers at all levels are to create an environment where managing risk forms the basis of all activities.

The risk management includes asset risk, operational risk, personnel health and safety risk, currency fluctuation risk, amongst others. The Company identifies and manages those risks on a case by case and overall corporate basis.

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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**

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The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and has required management to report to it on whether those risks are being managed effectively. The Chief Executive has reported to the board as to effectiveness of the Company's management of its material business risks.

The Board has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration under section 295A of the Corporations Act is founded on an appropriate system of risk management and internal control suitable for a small company, which is operating effectively in all material respects in relation to financial reporting risks.

*Availability to public*

The above policies are included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

**PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY**

There is no formal remuneration committee. The functions that would have been carried out by a remuneration committee are performed as follows:

- The remuneration of executive directors and senior executives is determined by the Board as a whole.
- A maximum amount of remuneration for non-executive directors is fixed by shareholders in general meeting and can be varied in that same manner. The Board as a whole determines the remuneration of each non-executive director. In determining the allocation of remuneration to each non-executive director, the Board takes account of the time demands made on the directors together with such factors as fees paid to other corporate directors and to the responsibilities undertaken by them.
- When the Board as a whole considers the remuneration of a particular director, that director will take no part in the decision making process or discussions.
- Each member of the Board has committed to spending sufficient time to enable them to carry out their duties as a director of the Company. One third of the directors retires annually in accordance with the Constitution and is free to seek re-election by shareholders.

There are no schemes for retirement benefits other than superannuation for non-executive directors. There is no policy on prohibiting transactions in associated products which limit the economic risk to directors and executives of participating in unvested entitlements under an equity based remuneration scheme. The Company does not currently have an unvested equity based remuneration scheme.

*Availability to public*

The above policy is included in the Company's annual report which is announced to the ASX and is also available from the Company's website.

**TABLE OF DEPARTURES AND EXPLANATIONS (FROM THE RECOMMENDATIONS OF THE ASX CORPORATE GOVERNANCE COUNCIL)**

"Recommendation" Ref (“Principle No” Ref followed by Recommendation Ref)	Departure	Explanation
2.1 and 2.2	The Board does not have a majority of independent directors. The Chairman is not an independent director.	Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of the shareholders.



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**ADDITIONAL INFORMATION AS AT 10 SEPTEMBER 2012**


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"Recommendation" Ref (“Principle No” Ref followed by Recommendation Ref)	Departure	Explanation
2.4	A separate Nomination Committee has not been formed.	The Board comprises three members each of who have valuable contributions to make in fulfilling the role of a nomination committee member. A director will excuse himself where there is a personal interest or conflict.
3.2 and 3.3	No formal diversity policy has been established.	Given the nature and size of the Company, its business interests and the stage of development, the Board is of the view that a diversity policy is not in the best interests of the Company at this time.
4.1, 4.2 and 4.3	No formal audit committee has been established or formal charter drawn	Given the size and nature of the Company, its business interests and the ongoing level of involvement of all directors it is not considered necessary that a formal audit committee be established or a charter be drawn.
8.1 and 8.2	No formal remuneration committee has been established.	Given the size and nature of the Company, its business interests and the ongoing level of involvement of all directors it is not considered necessary to establish a remuneration committee.