



## Consolidated Financial Report for the Half-Year ended 31 December 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>	<b>Computershare Investor Services Pty Ltd</b> 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

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## DIRECTORS' REPORT

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The directors of Titan Energy Limited A.C.N. 109 213 470 ("Parent Entity" or "Company") present their report including the consolidated financial report of the Company and its controlled entities ("Consolidated Entity" or "Group") for the half-year ended 31 December 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 who held office during or since the end of the half-year are:-

Darren Levy  
Stephen Thomas  
Paul Garner

### OPERATING RESULTS

The comprehensive operating loss for the Consolidated Entity, after income tax amounted to \$2,416,703.

### SIGNIFICANT CHANGES AND REVIEW OF OPERATIONS

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

On 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).

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## DIRECTORS' REPORT

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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.

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.

On 21 September 2012, the Company issued 4,027,250 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012, and issued 25,000,000 fully paid ordinary shares for \$0.01 (1 cent) each pursuant to the exercise of options expiring on 31 March 2013.

On 28 September 2012, the Company issued 20,000,000 fully paid ordinary shares for \$0.0125 (1.25 cents) each pursuant to the exercise of options expiring on 30 September 2012.

On 24 October 2012, the Company announced that it had achieved successful oil flows from the first two wells in a multi-well recompletion and exploration programme in the Allen Dome salt dome oil field in Texas. A re-entry of the Reese #5 well on the northern flank of Allen Dome, where the Company is Operator, produced initial oil to surface. It also successfully re-entered the Reese #2a well where it initially uncovered mechanical problems with existing equipment. This was quickly rectified allowing the well to flow at a sustained higher rate from the current zone.

On 31 October 2012, the Company announced that increased its area of interest in the Greathouse Prospect in Louisiana from 110 acres to 148 acres. The Company currently has operatorship and a 50% interest on a ground floor basis in the 148 acre project area, also has an option over a further 209 acres.

On 5 November 2012, the Company issued 83,334 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012.

On 26 November 2012, the Company announced that that EP455 Joint Venture Operator and the Joint Venture partner AWE Limited ("AWE"), had elected to proceed with the JV agreement covering the onshore Perth Basin permit. AWE holds Operatorship and an 81.5% interest in EP455, while the Company's interest in the licence is 18.5%.

On 6 December 2012, the Company issued 1,906,381 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012, issued 6,500,000 free options exercisable at 3 cents each and expiring on 31 October 2015 to employees and/or consultants of the Company as approved in Resolution 8 at the shareholder meeting held on 8 November 2012 and issued 12,000,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012.

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## DIRECTORS' REPORT

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On 13 December 2012, the Company announced that it had established a currently restricted, initial flow of oil from co-mingled zones in the Reese #2a well following recent workover and re-completion operations.

On 13 December 2012, the Company issued 20,000,000 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012.

On 19 December 2012, the Company announced underwriting for the exercise of options at 1.5 cents each and expiring on 31 December 2012 ("Listed Options") of \$1.8 million ("Underwritten Amount") of the option exercise proceeds for a fee of \$10,000 plus 6% of the Underwritten Amount and 7.2 million options exercisable at 3 cents each and expiring 31 October 2015. The underwriting will be an issue of shares to clients of Pendulum at 1.5 cents each for the shortfall (if any) between the Underwritten Amount and the amount raised subsequent to 19 December 2012 from the issue of shares pursuant to the exercise of Listed Options.

On 27 December 2012, the Company announced that it was preparing to spud its first oil exploration well, the J T Reese #10 well, at the Allen Dome Salt Dome field in Texas.

On 31 December 2012, the Company announced increased underwriting for the exercise of options at 1.5 cents each and expiring on 31 December 2012 ("Listed Options"). The underwritten amount was increased to \$2,487,939 comprising 165,862,633 Listed Options. The underwriting fees were increased proportionately.

### EVENTS SUBSEQUENT TO BALANCE DATE

On 7 January 2013, the Company announced that on the 4th of January, 2013 it received notification from the Department of Mines and Petroleum that "a five month suspension of Year 3 and a corresponding extension of term for Drilling Reservation DR 11 has been approved". The Company is awaiting final Environmental approval before being granted a Drilling Permit to drill two petroleum exploration commitment wells in DR11.

On 9 January 2013, the Company issued 58,676,242 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012 and exercised prior to 31 December 2012. Also on 9 January 2013, the Company issued 250,000 free options exercisable at 3 cents each and expiring on 31 October 2015 to employees and/or consultants of the Company as approved in Resolution 8 at the shareholder meeting held on 8 November 2012, issued 51,000,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012 and issued 17,700,000 fully paid ordinary shares for \$0.015 each as approved in Resolution 6 at the shareholder meeting held on 8 November 2012.

On 11 January 2013, the Company issued 107,186,391 fully paid ordinary shares for \$0.015 each pursuant to the underwriting of the option exercise proceeds for the options which expired on 31 December 2012 and also issued 12,600,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012.

On 17 January 2013, the Company issued 24,000,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012 and issued 30,000,000 fully paid ordinary shares for \$0.015 each as approved in Resolution 6 at the shareholder meeting held on 8 November 2012.

On 21 January 2013, the Company issued 9,951,758 free options exercisable at 3 cents each and expiring on 31 October 2015 to nominees of the underwriter of the option exercise proceeds for the exercise of options at 1.5 cents each and expiring on 31 December 2012.

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## DIRECTORS' REPORT

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On 22 January 2013, the Company announced that it had elected to suspend drilling activities at the J T Reese #10 well at the Allen Dome oil field in Texas due to mechanical problems. The drill string had become stuck after drilling to a depth of approximately 1,800 feet, and despite a number of "jarring" attempts, the rig operator has been unable to free the bottom hole tools.

On 21 February 2013, the Company announced that the JT Reese #S1 exploration well had spudded, to target a proven oil-producing zone at 1,400 feet.

On 25 February 2013, the Company announced that the JT Reese #S2 exploration well had spudded and was to target five separate horizons at a location on the Northern flank of the Allen Dome salt dome to a Total Depth of 5,200 feet.

On 26 February 2013, the Company announced that it had elected to plug and abandon the JT Reese #S1 well as no hydrocarbons were encountered in the targeted "zone of interest". The well was successfully drilled to its planned Total Depth (TD) of 1400 feet, and logging and coring activities were then conducted over the "zone of interest". The 1,400 foot sand still had potential for commercial hydrocarbons in other parts of the Dome area.

On 28 February 2013, the Company announced that it had reached agreement to increase its Working Interest in the Allen Dome North oil field from approximately 84% to approximately 94%.

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

### AUDITORS INDEPENDENCE DECLARATION

In accordance with the Corporations Act 2001 section 307C the auditors of the Company have provided a signed auditors independence declaration to the directors in relation to the review for the half-year ended 31 December 2012. This declaration has been attached to the independent review report to the members of the Company.

Signed in accordance with a resolution of the directors.



Paul Garner  
Director

6 March 2013  
Perth, Western Australia

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**DIRECTORS' DECLARATION**

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

- a) in their opinion the accompanying financial statements and notes of the Consolidated Entity;
  - i) comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - ii) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and
- b) In their opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Paul Garner  
Director

6 March 2013  
Perth, Western Australia

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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

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	Note	Half-Year to 31 December 2012 \$	Half-Year to 31 December 2011 \$
Oil sales	2	146,147	10,721
Interest received	2	19,800	46,128
Other income	2	—	110
Other expenses	2	(2,582,650)	(1,499,814)
<b>LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX</b>		(2,416,703)	(1,442,855)
Income tax		—	—
<b>LOSS FROM CONTINUING OPERATIONS AFTER INCOME TAX</b>		(2,416,703)	(1,442,855)
<b>NET PROFIT/(LOSS) FOR THE PERIOD</b>		(2,416,703)	(1,442,855)
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD</b>		(2,416,703)	(1,442,855)
<b>BASIC EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)</b>		(0.25)	(0.28)
<b>DILUTED EARNINGS/(LOSS) PER SHARE (CENTS PER SHARE)</b>		(0.25)	(0.28)

The accompanying notes form part of this financial report



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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2012**

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	Note	31 December 2012 \$	30 June 2012 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	1,952,542	2,338,818
Trade and other receivables		16,544	29,971
<b>TOTAL CURRENT ASSETS</b>		1,969,086	2,368,789
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		113,998	24,533
Receivables		12,000	12,000
Capitalised oil and gas expenditure	3	2,031,684	573,846
<b>TOTAL NON-CURRENT ASSETS</b>		2,157,682	610,379
<b>TOTAL ASSETS</b>		4,126,768	2,979,168
<b>CURRENT LIABILITIES</b>			
Trade and other payables		195,102	244,010
Provisions		1,995	—
<b>TOTAL CURRENT LIABILITIES</b>		197,097	244,010
<b>TOTAL LIABILITIES</b>		197,097	244,010
<b>NET ASSETS</b>		3,929,671	2,735,158
<b>EQUITY</b>			
Issued capital	4	21,024,365	18,041,710
Reserves	5	849,547	220,986
Accumulated losses		(17,944,241)	(15,527,538)
<b>TOTAL EQUITY</b>		3,929,671	2,735,158

The accompanying notes form part of this financial report

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**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

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	Half-Year to 31 December 2012	Half-Year to 31 December 2011
Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from customers	146,147	10,721
Payments to suppliers & employees	(1,101,035)	(1,047,608)
Interest received	19,800	46,128
<b>NET CASH FROM/(USED IN) OPERATING ACTIVITIES</b>	<b>(935,088)</b>	<b>(990,759)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and production expenditure	(1,792,590)	(377,868)
Purchase of property, plant and equipment	(66,898)	(21,580)
<b>NET CASH FROM/(USED IN) INVESTING ACTIVITIES</b>	<b>(1,859,488)</b>	<b>(399,448)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from equity issues	2,652,255	3,245,616
Share issue costs	(72,600)	(189,969)
Capital raising funds received in previous year	(143,750)	—
<b>NET CASH FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>2,435,905</b>	<b>3,055,647</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(358,671)</b>	<b>1,665,440</b>
Net foreign exchange differences	(27,605)	302
Cash and cash equivalents at beginning of period	2,338,818	1,173,445
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>1,952,542</b>	<b>2,839,187</b>

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The accompanying notes form part of this financial report

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

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

<b><u>Attributable to Members of Titan Energy Limited</u></b>	<b>Issued Capital \$</b>	<b>Option Premium Reserve \$</b>	<b>Accumulated Losses \$</b>	<b>Total Equity \$</b>
<i>At 1 July 2012</i>	18,041,710	220,986	(15,527,538)	2,735,158
Total comprehensive loss for the period	—	—	(2,416,703)	(2,416,703)
<b>SUBTOTAL</b>	—	—	(2,416,703)	(2,416,703)
<i>Transactions with owners in their capacity as owners</i>				
Securities issued	3,055,255	628,561	—	3,683,816
Capital raising costs	(72,600)	—	—	(72,600)
<b>AT 31 DECEMBER 2012</b>	21,024,365	849,547	(17,944,241)	3,929,671

The accompanying notes form part of this financial report

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

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

These general purpose financial statements for the interim half-year reporting period ended 31 December 2012 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Titan Energy Limited (“Company”) and its controlled entities (“Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2012, together with any public announcements made during the half-year.

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

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

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

**Intra-Group Receivables**

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

	<b>Half-Year to 31 December 2012</b>	<b>Half-Year to 31 December 2011</b>
	\$	\$

**NOTE 2. REVENUE, INCOME AND EXPENSES**

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

REVENUE		
Oil sales	146,147	10,721
Interest received	19,800	46,128
	165,947	56,849
OTHER INCOME		
Other	—	110
	—	110

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**


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	Half-Year to 31 December 2012 \$	Half-Year to 31 December 2011 \$
CHARGING AS EXPENSES		
Exploration and production lease costs	259,391	30,005
Employee benefits and consultants expenses	611,911	688,398
Depreciation and amortisation expense	14,400	16,750
Exploration expenditure written off	(16,665)	221,810
Administrative expenses	637,633	467,692
Unrealised exchange loss	44,419	6,572
Value of share based payments	1,031,561	—
Loss on sale of plant and equipment	—	68,587
	2,582,650	1,499,814

**NOTE 3. CAPITALISED OIL AND GAS EXPENDITURE**

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

31 December 2012 \$	30 June 2012 \$
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**NOTE 4. ISSUED CAPITAL**
**ORDINARY SHARES**

1,010,461,944 (30 June 2012: 767,644,979) fully paid ordinary shares	21,024,365	18,041,710
	21,024,365	18,041,710

**MOVEMENTS IN ORDINARY SHARES**

At the beginning of the period	18,041,710
35,000,000 shares issued on 2 July 2012	455,000
126,800,000 shares issued on 23 July 2012	1,585,000
10,000,0000 shares issued on 14 August 2012	125,000
29,027,250 shares issued on 21 September 2012	310,409
20,000,000 shares issued on 28 September 2012	250,000
83,334 shares issued on 5 November 2012	1,250
1,906,381 shares issued on 6 December 2012	28,596
20,000,000 shares issued on 13 December 2012	300,000
Share issue expenses	(72,600)

**AT THE END OF THE FINANCIAL PERIOD**

21,024,365
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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

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	<b>31 December 2012 \$</b>	<b>30 June 2012 \$</b>
<b>NOTE 5. RESERVES</b>		
Option premium reserve	849,547	220,986
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	<b>849,547</b>	<b>220,986</b>
	<hr/>	<hr/>

**MOVEMENTS IN OPTION PREMIUM RESERVE**

At the beginning of the period	220,986
78,280,000 options issued on 2 July 2012	508,180
40,000,000 options issued on 23 July 2012	30,000
12,400,000 options issued on 14 August 2012	22,000
18,500,000 options issued on 6 December 2012	68,381

**AT THE END OF THE FINANCIAL PERIOD**

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<b>849,547</b>
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**NOTE 6. RECONCILIATION OF CASH AND CASH EQUIVALENTS**

For the purposes of the Cash Flow Statement and the Statement of Financial Position, cash and cash equivalents comprise cash at bank.

**NOTE 7. SEGMENT INFORMATION**

**IDENTIFICATION OF REPORTABLE SEGMENTS**

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

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

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

**BASIS OF ACCOUNTING FOR PURPOSES OF REPORTING BY OPERATING SEGMENTS**

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

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**


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	HALF-YEAR TO 31 DECEMBER 2012			HALF-YEAR TO 31 DECEMBER 2011		
	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$
<b>SEGMENT PERFORMANCE</b>						
External revenue	—	146,147	146,147	—	10,721	10,721
<b>TOTAL SEGMENT REVENUE</b>	<b>—</b>	<b>146,147</b>	<b>146,147</b>	<b>—</b>	<b>10,721</b>	<b>10,721</b>
Segment net profit/(loss) before tax	<u>(50,168)</u>	<u>(435,268)</u>	<u>(485,436)</u>	<u>(208,857)</u>	<u>(214,198)</u>	<u>(423,055)</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			19,800			46,128
Other income			—			110
Other expenses			(1,951,067)			(1,066,038)
<b>NET PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>			<u>(2,416,703)</u>			<u>(1,442,855)</u>

	31 DECEMBER 2012			30 JUNE 2012		
	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$	Oil and Gas Exploration Australia \$	Oil Production USA \$	Total \$
<b>SEGMENT ASSETS</b>						
Segment assets	<u>—</u>	<u>3,388,066</u>	<u>3,388,066</u>	<u>—</u>	<u>2,059,093</u>	<u>2,059,093</u>
RECONCILIATION OF SEGMENT ASSETS TO TOTAL ASSETS						
<i>Unallocated assets:</i>						
Cash and cash equivalents			596,160			853,571
Receivables			28,544			41,971
Plant and equipment			113,998			24,533
<b>TOTAL ASSETS FROM CONTINUING OPERATIONS</b>			<u>4,126,768</u>			<u>2,979,168</u>

**NOTE 8. CONTINGENT LIABILITIES**

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

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**NOTE 9. EVENTS SUBSEQUENT TO BALANCE DATE**

On 7 January 2013, the Company announced that on the 4th of January, 2013 it received notification from the Department of Mines and Petroleum that “a five month suspension of Year 3 and a corresponding extension of term for Drilling Reservation DR 11 has been approved”. The Company is awaiting final Environmental approval before being granted a Drilling Permit to drill two petroleum exploration commitment wells in DR11.

On 9 January 2013, the Company issued 58,676,242 fully paid ordinary shares for \$0.015 each pursuant to the exercise of options expiring on 31 December 2012 and exercised prior to 31 December 2012. Also on 9 January 2013, the Company issued 250,000 free options exercisable at 3 cents each and expiring on 31 October 2015 to employees and/or consultants of the Company as approved in Resolution 8 at the shareholder meeting held on 8 November 2012, issued 51,000,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012 and issued 17,700,000 fully paid ordinary shares for \$0.015 each as approved in Resolution 6 at the shareholder meeting held on 8 November 2012.

On 11 January 2013, the Company issued 107,186,391 fully paid ordinary shares for \$0.015 each pursuant to the underwriting of the option exercise proceeds for the options which expired on 31 December 2012 and also issued 12,600,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012.

On 17 January 2013, the Company issued 24,000,000 options exercisable at 3 cents each and expiring on 31 October 2015 at an issue price of \$0.001 each as approved in Resolution 7 at the shareholder meeting held on 8 November 2012 and issued 30,000,000 fully paid ordinary shares for \$0.015 each as approved in Resolution 6 at the shareholder meeting held on 8 November 2012.

On 21 January 2013, the Company issued 9,951,758 free options exercisable at 3 cents each and expiring on 31 October 2015 to nominees of the underwriter of the option exercise proceeds for the exercise of options at 1.5 cents each and expiring on 31 December 2012.

On 22 January 2013, the Company announced that it had elected to suspend drilling activities at the J T Reese #10 well at the Allen Dome oil field in Texas due to mechanical problems. The drill string had become stuck after drilling to a depth of approximately 1,800 feet, and despite a number of “jarring” attempts, the rig operator has been unable to free the bottom hole tools.

On 21 February 2013, the Company announced that the JT Reese #S1 exploration well had spudded, to target a proven oil-producing zone at 1,400 feet.

On 25 February 2013, the Company announced that the JT Reese #S2 exploration well had spudded and was to target five separate horizons at a location on the Northern flank of the Allen Dome salt dome to a Total Depth of 5,200 feet.

On 26 February 2013, the Company announced that it had elected to plug and abandon the JT Reese #S1 well as no hydrocarbons were encountered in the targeted “zone of interest”. The well was successfully drilled to its planned Total Depth (TD) of 1400 feet, and logging and coring activities were then conducted over the “zone of interest”. The 1,400 foot sand still had potential for commercial hydrocarbons in other parts of the Dome area.

On 28 February 2013, the Company announced that it had reached agreement to increase its Working Interest in the Allen Dome North oil field from approximately 84% to approximately 94%.

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



## INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Titan Energy Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Titan Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Titan Energy Limited's financial position as at 31 December 2012 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Titan Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

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

## Conclusion

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

- (a) giving a true and fair view of Titan Energy Limited's financial position as at 31 December 2012 and of its performance for the half year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



**Somes Cooke**



**Kevin Somes**

6 March 2013

Perth  
Western Australia

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

Dear Sirs

### Auditors Independence Declaration

As lead auditor for the review of Titan Energy Limited for the half year ended 31 December 2012, I declare under Section 307C of the Corporations Act 2001 that to the best of my knowledge and belief, there have been:

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



**Somes Cooke**



**Kevin Somes**

Perth, 6 March 2013