

## Market Update

Titan Energy Services (Titan) today announces the following:

- an equity capital raise comprising a placement and an entitlement offer to strengthen the Company's balance sheet in light of the recent trading conditions;
- a restructure of RCH accommodation camp lease arrangements – involving de-hiring ~60% of existing leased camps, equivalent to ~500 rooms, payment deferrals including new security arrangements and extended credit terms;
- amended covenants for existing Senior Debt facilities; and
- an earnings guidance update.

### Capital Raising

Titan is undertaking an equity capital raise of up to \$6.1m comprising a placement to a new cornerstone investor, Ausdrill International Pty Ltd (a wholly owned subsidiary of Ausdrill Ltd – ASX:ASL) of \$1.0m and a partially underwritten 3 for 5 accelerated non-renounceable entitlement offer of \$5.1m (if fully subscribed).

Under the placement, Titan will issue 5.5 million new ordinary shares at \$0.18 per share to raise approximately \$1.0m together with issuing 2.1 million free attaching options to acquire ordinary shares, exercisable at \$0.28 with an expiry of 31 December 2016. The terms and conditions of the options are set out in the annexure to this announcement. In addition, a representative of Ausdrill will be nominated for appointment to the Board of Directors.

Titan Chairman Shaun Scott said "We are very pleased to have a company with the industry and operational expertise of Ausdrill become a major shareholder and provide this vote of confidence in Titan's business. We see many potential opportunities for cooperation between our companies for the mutual benefit of all shareholders."

Under the entitlement offer, Titan will issue up to 34.0 million new ordinary shares at \$0.15 per share to raise up to \$5.1m (if fully subscribed). The entitlement offer issue price of \$0.15 per share represents a 34.8% discount to Titan's closing price of \$0.23 on 6 January 2015, a 23.8% discount to the theoretical ex-rights price<sup>1</sup> and a 16.7% discount to the placement price.

The Directors intend to take up their full entitlements under the entitlement offer and have also entered into additional sub-underwriting commitments. The Entitlement Offer is being partially underwritten by Bizzell Capital Partners Pty Ltd and Wilson HTM Corporate Finance Limited (Underwriters) up to an amount of \$3.3m.

The entitlement offer is being made under a prospectus which has been lodged with the ASIC and released separately to ASX.

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<sup>1</sup> Theoretical ex-rights price (TERP) of \$0.197 is the theoretical price at which Titan shares should trade immediately after the ex-date for the Entitlement Offer. The TERP is calculated using Titan's last closing price on 17 December 2014 and assumes 100% take up under the entitlement offer and includes proceeds raised under the placement.

## **Restructure of RCH Accommodation Room Lease Arrangements**

Titan has entered into agreements to restructure its existing camp lease arrangements to de-hire ~60% of existing camps, defer the lease payments of remaining camp leases (subject to 10% p.a. interest charge) and extended credit terms on outstanding invoices to 1 September 2015. Titan retains ~560 rooms including 187 owned rooms.

The restructure is being effected under separate commercial agreements with individual suppliers. One of the agreements has already taken effect and another is subject to the successful completion of the capital raising and the parties entering into definitive legal agreements consistent with the binding heads of agreement.

The result of these changes once fully implemented will be the reduction of the forward camp lease commitments balance by ~\$13.8m, the balance as at 30 November 2014 was \$20.7m; and lease cost savings in FY15 of ~\$2.9m.

Titan will secure its obligations under one of the agreements by providing a second ranking security subordinated to its Senior Lender. Any amounts owing to that supplier after 31 August 2015, may be settled with the issue of ordinary shares (at the suppliers election) at the 5 day volume weighted average share price.

Further details are contained in the investor presentation released to ASX with this announcement.

## **Debt Facilities**

Titan has agreed with its Senior Lender to amend their debt facility agreements as follows:

- revise the cash flow related covenant calculation;
- suspend the camp and rig utilisation covenants for the six months to 30 June 2015;
- for the Loan to Value Ratio not to exceed 85% as at 30 June 2015;
- to satisfactorily document the arrangements in relation to the camp lease restructure by 23 January 2015; and
- to conduct an equity capital raising to raise a minimum of \$4.0m on or before 6 February 2015.

Further details are contained in the investor presentation released to ASX with this announcement.

## **Earnings Guidance Update**

Since the last market update, market conditions have remained soft. As a result Titan's EBIT loss for the 6 months to 31 December 2014 is expected to be approximately \$4.0m, excluding the Hofco retention payment of \$1.9m and any asset impairment charges.

Updated FY15 guidance is not provided at this point given the uncertainty of project commencements and conversion of tenders, but it is clear that Titan will not meet the most recent FY15 EBIT guidance issued of \$10m – 12m (excluding the Hofco retention payment of \$1.9m). Further market updates will be provided when our full year earnings position is more certain.

## **Outlook**

While global factors including oil, coal and commodity price falls combined with the transition in the CSG-LNG projects from development to production have created difficult market conditions not just for Titan but for many of our customers and suppliers, it will also create numerous opportunities.

Titan Chairman Shaun Scott said “The significant business restructuring we have worked hard to deliver over the last few months coupled with a successful equity raising and the restructure of Titan’s accommodation camp lease arrangements, will position Titan to capture these opportunities when market conditions improve during 2015 as first gas is shipped from the QLD CSG-LNG projects”.

Despite the recent challenges Titan’s long-term strategy to provide a suite of diversified services to the energy and infrastructure markets remains sound, underpinned by 20 year+ QLD CSG-LNG project commitments as well as pipeline, infrastructure, rail, road and mining opportunities in Queensland and Australia.

Although we are not in a position to provide definitive guidance on second half earnings, it will be positively influenced by the restructuring of camp lease arrangements and the reduction of organisational costs. In the coming months we expect to receive commencement dates for delayed contracts pushed back from HY15 and anticipate that market activities will improve once LNG production commences and first gas is shipped.

Titan’s recent changes to organisational and business unit structures, cost savings initiatives and implementation of a consolidated sales team, ensures the Company has appropriate capacity to provide efficient and effective services to current and future clients.

The Company will continue to develop and improve its safety culture for the benefit of our staff, customers, suppliers and the community.

For more information please refer to the Equity Capital Raising presentation released to ASX with this announcement.

## **ENDS**

For Investor or media inquiries:

Christine Hayward  
Acting CEO  
Tel: 07 3013 0269

Rowan Greene  
Acting CFO  
Tel: 07 3013 0266

## **About Titan**

Titan Energy Services Limited (ASX:TTN) provides diversified energy and infrastructure services to the oil and gas, mining, pipeline, rail, road and infrastructure sectors.

Through its operating businesses Oil Field Services (Atlas Drilling and Hofco Oilfield Services) and Accommodation Services (Resources Camp Hire – RCH; Nektar Remote Hospitality and BASE Transport & Logistics). Titan provides expertise in CSG drilling, drilling equipment hire, camp hire and camp management, catering services and water and waste services.

## **Annexure**

### **Terms and conditions of placement options**

#### **Entitlement**

- 1 Subject to adjustment in accordance with these terms and conditions, the holder is entitled to subscribe for the allotment and issue of one fully paid ordinary share in the Company upon payment of the Exercise Price before the Expiry Date (**Option**).

#### **Exercise Price**

- 2 The Exercise Price of each Option is \$0.28 (Exercise Price).

#### **Exercise Period**

- 3 An Option is exercisable at any time after the date of grant and on or before 5pm on 31 December 2016 (Expiry Date). Options not exercised by the Expiry Date lapse and will be cancelled.
- 4 The Company will at least 10 Business Days before the Expiry Date send notices to the Option holder stating the name of the Option holder, the number of Options held and the number of securities to be issued on exercise of the Option, the exercise price, the due date for payment and the consequences of non-payment.

#### **Manner of exercise of Options**

- 5 Each Option may be exercised by giving notice in writing to the Company at its registered office accompanied by the Option certificate and payment of the required Exercise Price. All cheques must be payable to the Company and be crossed not negotiable.
- 6 The Option holder may not exercise less than 500,000 Options at any one time, unless the Option holder has less than 500,000 Options in which event the Option holder must exercise all such Options together.

#### **Timing of issue of shares**

- 7 After an Option is validly exercised, the Company must:
  - 7.1 issue and allot the shares within 10 Business Days of the exercise of the Option; and
  - 7.2 subject to the securities of the Company being listed on ASX and to any restrictions imposed on the Options or shares issued upon exercise of the Options under the Listing Rules of ASX, do all such acts matters and things to obtain the grant of quotation for the shares on ASX no later than 3 Business Days after the date of issue and allotment of the shares

#### **Ranking of shares**

- 8 Shares issued on the exercise of Options will rank equally with all existing shares on and from the date of issue in all respects.

#### **Options transferable**

- 9 Options may be transferred in the same manner as shares unless classified as restricted securities under the ASX Listing Rules and may be exercised by any other person or body corporate.

#### **Participation in new issues**

- 10 An Option holder may participate in new issues of securities to holders of shares only if and to the extent that:
  - 10.1 an Option has been exercised; and

10.2 a Share has been issued in respect of the exercise before the record date for determining entitlements to the new issue.

11 The Company must give notice to the Option holder of any new issue not less than 10 Business Days before the record date for determining entitlements to the issue.

#### **Adjustment for bonus issues of shares**

12 If the Company makes a bonus issue of shares or other securities to existing shareholders (other than an issue in lieu or in satisfaction, of dividends or by way of dividend reinvestment):

12.1 the number of shares which must be issued on the exercise of a Option will be increased by the number of shares which the Option holder would have received if the Option holder had exercised the Option before the record date for the bonus issue; and

12.2 no change will be made to the Exercise Price.

#### **Adjustment for rights issue**

13 If the Company makes an issue of shares pro rata to existing shareholders (other than an issue in lieu of in satisfaction of dividends or by way of dividend reinvestment) the exercise price of an Option will be reduced according to the following formula:

$$\text{New exercise price} = O - \frac{E[P-(S+D)]}{N + 1}$$

where

O = the old exercise price of the Option.

E = the number of underlying shares into which one Option is exercisable.

P = the average market price per of share (weighted by reference to volume) of the underlying shares during the 5 trading days ending on the day before the ex rights date or ex entitlements date.

S = the subscription price of a share under the pro rata issue.

D = the dividend due but not yet paid on the existing underlying shares (except those to be issued under the pro rata issue).

N = the number of shares with rights or entitlements that must be held to receive a right to one new share.

#### **Reorganisation of capital**

14 If there is a reorganisation of the issued capital of the Company (including a consolidation, sub-division, reduction or return of capital), then the rights of the holder of an Option will be changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.