Acquisition of Hofco Oil Field Services and Equity Capital Raising

February 2013

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1. Executive Summary

1. Executive summary

- Titan Energy Services (ASX:TTN) ("Titan") is an oil and gas field services company focused on the rapidly growing CSG to LNG industry in QLD
- Since listing on ASX, Titan has successfully integrated RCH and has demonstrated a track record of delivering on its earnings guidance
- Titan has agreed to acquire Hofco Oil Field Services ("Hofco"), a leading directional drilling equipment and down hole tool rental provider to the oil and gas sector in QLD, for c.$21.7m[1]
- The acquisition is consistent with Titan's stated strategy of targeting other services in the CSG industry
- The Hofco acquisition will be funded through a combination of equity and operating cashflow

Titan Energy Services (post Hofco acquisition)

Atlas – CSG Drilling	RCH – Portable Accommodation	Nektar – Catering & Camp Management	Hofco - Equipment Hire
▪ 4 rigs under contract ▪ 3 owned rigs, 1 operating contract ▪ High utilisation ▪ 'Blue chip' customers	▪ 496 rooms as at 31 December 2012 ▪ Servicing CSG development and services industries ▪ Experiencing rapid growth	▪ Organic start-up business ▪ Operating for seven months ▪ 6 contracts secured ▪ Significant growth expected	▪ Provider of rental drilling and ancillary equipment to the oil and gas sector ▪ Growth potential under Titan ownership

[1] The total contract price is $30.5 million. At completion Hofco will have cash on hand of approximately $8.8 million, representing an acquisition value of $21.7 million on a cash free debt free basis.

2. Hofco Oil Field Services

2. Transaction overview

- Titan will acquire Hofco for cash of $21.7m[1] on a cash free and debt free basis, comprised as follows:
  - $15.9m upfront
  - $5.8m deferred consideration (payable at the earlier of Hofco's audited FY13 financial statements or 31 August 2013)
- Titan is acquiring Hofco on 3.5x FY13 EV/EBITDA and 4.3x EV/EBIT
- The Hofco acquisition is expected to be EPS neutral in FY13 on a pro forma basis
- Hofco is expected to deliver revenue of $8.5m, EBITDA of $6.2m, and EBIT of $5.1m in FY13 on a proforma stand alone basis
- Key management have agreed to: remain for 2 years; retention packages; and non compete arrangements for 2 years after departure from Titan
- Vendor has agreed to 5 year restrictive covenants

Downhole Motor

Cross Over Sub and Float Sub

Non Magnetic Drill Collars

[1] The total contract price is $30.5 million. At completion Hofco will have cash on hand of approximately $8.8 million, representing an acquisition value of $21.7 million on a cash free debt free basis.

2. Hofco business overview

- Hofco is a leading directional drilling equipment and down hole tool rental provider in QLD, currently focused on the CSG sector
- Established in 1980 by its vendor, Ian Hofmeier
- Run by a respected and experienced management team who have agreed to remain with the business for at least two years
- Hire equipment includes: drill collars and pipes; downhole motors; hydraulic drilling jars; survey instruments; stabilisers; and fishing equipment
- The down hole directional and drilling tools market is expected to grow as the CSG market develops and matures and as more unconventional oil and gas opportunities are explored and developed

Wire Line Unit

Float Valve

<u>What is Hofco's equipment used for?</u>

Directional drilling equipment and down hole tools enable the rig to drill directional wells that serve to enhance the exploration and appraisal potential, and ultimately the productivity of CSG and conventional oil and gas wells

2. Hofco business model

- In FY12, approximately 95% of Hofco's revenue was generated from equipment hire
- The specialised nature of the equipment has led to lower utilisation rates (c.50%) compared to Atlas Drilling and RCH, however Hofco's margins are high (c.73% in FY12)
- The rental periods can range from 1 week to 12 months
- Equipment is generally hired out at a daily rate
- The customer is responsible for replacement of lost equipment and refurbishment costs

Non Magnetic Drill Collars

Integral Blade Stabilizer

2. Hofco customers

- Hofco does not have customer concentration issues
  - Throughout FY11, FY12 and FY13YTD, the Company's top 10 customers represented on average approximately 53% of total revenues
- Hofco distributes and services a wide selection of industry participants without significant exposure to any particular operator
- Long term relationships with major customers and low churn
  - Each top 10 customer in FY11 was a customer in FY12

Customers include:

- AGL
- Atlas Drilling
- Beach Energy
- Santos
- Senex Energy Limited
- Smith
- Transfield

2. Strategic rationale and growth potential

Diversification

- Stated objective of acquiring or starting an oil and gas equipment rental business strengthens Titan's position as a diversified oil and gas services company

Market leadership

- Hofco is a leading specialist provider of CSG drilling hire equipment in QLD
- Barriers to entry exist given brand awareness, industry and specialist equipment knowledge

Cross marketing

- Titan and Hofco have their own existing "distribution network" and relationships that will be mutually beneficial to business growth

Growth potential

- Growth through improved utilisation (Hofco FY13 YTD utilisation of c.50%)
- Increased market share through Titan involvement/management
- Significant growth is forecast in drilling activity in the CSG market over the next 15 years
- Potential to expand into unconventional oil and gas and shale
- Potential expansion of equipment offering over time

2. Hofco financials – Pro forma P&L

- Hofco's historical results and its pro forma combined revenue and earnings with Titan for FY13 are set out below
- Hofco's FY12 result included 2 large contracts. Similar sized contracts are not expected in FY13F
- FY13F is representative of Hofco business going forward (ex Titan improvements)

Profit & Loss ($ million)	Hofco FY11A(1)	Hofco FY12A(1)	Hofco FY13F(2)	Titan FY13F(3)	Combined Pro forma FY13F(4),(5)
Revenue	5.8	9.1	8.5	60.0 – 64.0	68.5 - 72.5
EBITDA	4.2	6.7	6.2	13.8 – 14.8	20.0 – 21.0
EBITDA Margin	*72%*	*74%*	*73%*	*23%*	*29%*
Depreciation & Amortisation	(0.5)	(1.0)	(1.1)	(4.8)	(5.9)
EBIT	3.7	5.7	5.1	9.0 – 10.0	14.1 – 15.1
EBIT Margin	64%	63%	*60%*	*15%*	*21%*
Hofco value(6)		21.7	21.7		
EV/EBITDA multiple		3.2x	3.5x		
EV/EBIT multiple		3.8x	4.3x		

Notes:

(1) Based on unaudited management accounts provided by Hofco.

(2) Titan management forecast for Hofco for FY13 based on information provided by Hofco. This includes the following information which has been subject to acquisition due diligence by Titan: Hofco's actual results for the 4 months ended 31 October 2012 based on Hofco's unaudited management accounts; and Hofco and Titan's forecast revenue and earnings for the remaining period ending 30 June 2013.

(3) Based on Titan's FY13 guidance announced on 22 January 2013.

(4) Pro forma combination has been prepared for illustrative purposes to assist investors understand the effect of the acquisition on Titan as if Hofco had been part of the Titan Group for all of FY13 and the proposed capital raising had been completed. It should not be treated as a forecast of the actual FY13 earnings of Titan post acquisition. Actual FY13 earnings results may differ due to revenue recognition - Titan expects to recognise revenue and earnings from Hofco for only part of FY13 – and other operational factors.

(5) Based on the information described in Notes (1) and (2) above, adjusted to reflect (a) the exclusion of certain non-recurring expenses such as Hofco management incentives and (b) the effect of expected acquisition accounting treatment.

(6) On a cash free, debt free basis.

2. Hofco financials - Pro forma Balance Sheet

$ Million	Titan 31 Dec 2012[1]	Hofco 31 Dec 2012[2]	Pro forma (Incl. Hofco) 2012[3]
Cash and cash equivalents	0.9	2.1[4]	3.0
Receivables	13.3	1.4	14.7
Property, Plant and equipment	31.5	7.0	38.5
Intangible assets	5.3	14.8	20.1
Deferred tax assets	1.1		1.1
Other Assets	0.5		0.5
Total Assets	52.6	25.3	77.9
Payables	10.6	1.3	11.9
Current tax liability	2.2	1.2	3.4
Borrowings – current	2.3	5.8[5]	8.1
Borrowings – non-current	8.9		8.9
Other Liabilities	0.9		0.9
Total Liabilities	25.0	8.3	33.3
Net Assets	27.6	17.0[6]	44.6

- As at 31 Dec 2012, Titan had net debt of $10.3m and gearing[7] of 27%
- On completion of the capital raising and the acquisition, Titan will have pro forma[3] net debt of $14.0m implying pro forma gearing of 24%[7]
- Titan announced the refinance of its debt facilities with GE in November 2012
- A summary of the GE facilities is as follows:

Facility	Limit (A$m)	Drawn (A$m)	Term
Term Loan	11.8	11.6	5 yrs
Capex	5.0	0.0	5 yrs
Working Capital	8.0	0.0	5 yrs
	$24.8	$11.6	

Notes:

(1) Taken from Titan's half year results announced on 31 January 2013.
(2) Based on unaudited Hofco management accounts and after likely accounting adjustments following Hofco's acquisition by Titan.
(3) Prepared for illustrative purposes to show the effect of Hofco on the Titan group as if it had been part of the Titan group as at 31 December 2012 and including the capital raising.
(4) Relates to the difference between capital raising ($18.0m) and upfront consideration of ($15.9m). Costs in relation to the capital raising and other acquisition expenses are included in payables.
(5) Relates to deferred consideration.
(6) Equity proceeds net of estimated acquisition and equity raising costs.
(7) Net Debt / Net Debt plus Book Equity.
(8) The pro forma balance sheet should not be treated as a forecast of the future financial position of Titan post acquisition. Its actual financial position may differ due to revenue recognition - Titan expects to recognise revenue and earnings from Hofco for only part of FY13 – the financial performance of Titan (including Hofco), cash flows and other movements in balance sheet items after 31 December 2012.

2. Hofco business highlights

- **Strong margins** (74% in FY12)
  - Due to its market positioning, service ethic, low overheads and specialised nature of equipment
- **Low capital intensity**
  - Drilling tools and supplies have long useful life (usually 10 years)
  - Costs of tool refurbishment born by the user when returned
- **Loyal customer relationships** with significant levels of repeat business
- **High quality customers**
- **Barriers to entry**
  - Required in depth knowledge of specialised equipment
  - Industry relationships built up over 30 years
  - Strong brand with the CSG drilling community in Australia
  - Specialised equipment is difficult to source
- **Market positioning**
  - Titan management estimate that Hofco has c.50% share of the Australian down-hole CSG equipment rental market

3. Industry Overview and Opportunities

3. Industry overview and opportunities

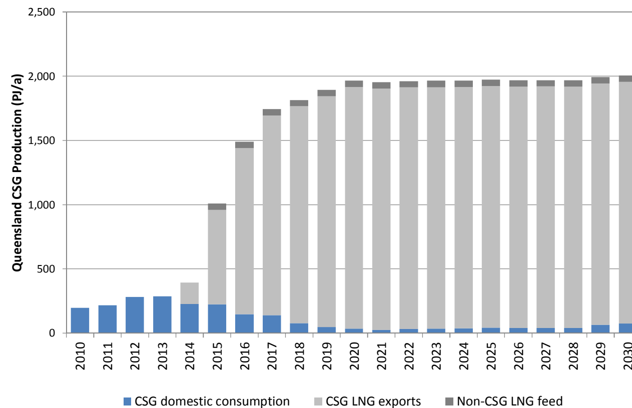
- The Hofco acquisition will allow Titan to further leverage the committed expenditure in QLD CSG-LNG
- Titan's target market of CSG-LNG drilling continues to grow
- 4 major LNG projects are progressing towards production by 2015/16
  - No sign of a slow down in cap ex
- LNG export facilities under construction or proposed by significant industry players are as follows:

Project	Sponsor	Proposed capacity (Mtpa)	Start year	Status	Total CSG wells required	Wells bought on line per year[(1)]
QCLNG	British Gas	8.5	2014	Under Construction	6,200	270-520
GLNG	Santos/Total Petronas/Kogas	7.8	2015	Under Construction	5,700	250-480
APLNG	Origin/Connoc Philips/Sinpoec	9	2015	Under Construction	6,600	280-550
SALNG	Shell/ PetroChina	8 to 9	2016-2017	Awaiting FID	5,300	260-490
Total		**Up to 34.3**			**23,800**	**1,060-2,060**

Sources: ACIL, Tasman, Company websites, Dept of Sustainability, Environment, Water, Population and Communities, Dept of State Development, Infrastructure and Planning
Note: (1) ACIL Tasman low and high forecast for number of wells drilled between CY2013 and the life of the relevant project

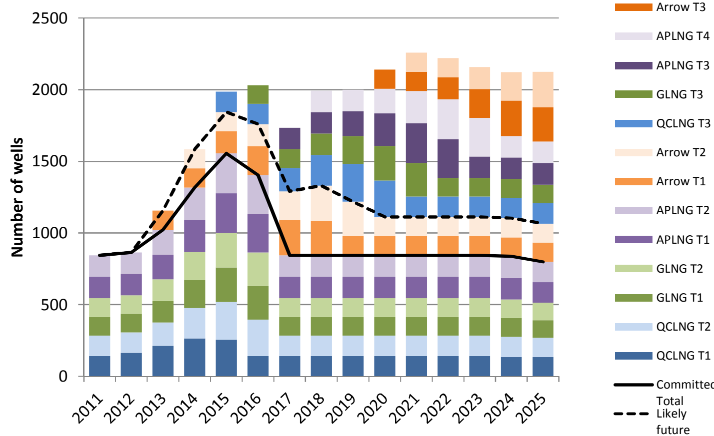
3. Industry overview and opportunities (cont'd)

QLD CSG production and consumption forecast



Source: ACIL Tasman

QLD CSG-LNG Drilling (# of Wells)



Source: ACIL Tasman

Note: (1) Mid cost forecast from the ACIL Tasman forecast .

QLD CSG-LNG production and consumption forecasts (2010 to 2030)

- QLD CSG production is forecast to increase from c. 200 PJ/a in 2011 to c.1,000 PJ/a by 2015

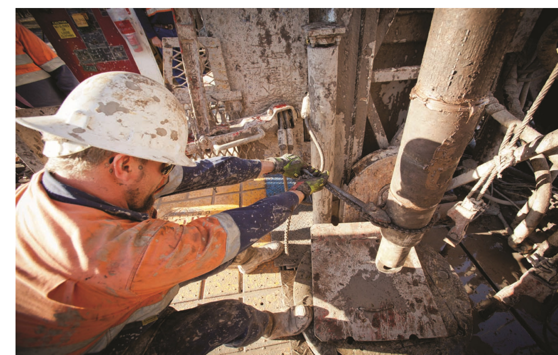
QLD CSG-LNG drilling No. of wells (2011 to 2025)

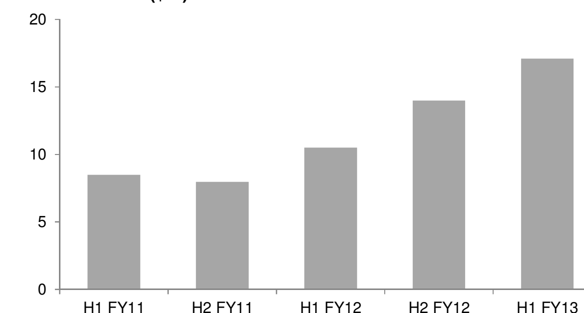
- Number of wells has increased from c. 850 wells per year in 2012 to a forecast > c.1,560 in 2015 and c.800 – 1,000 p.a. from 2015 - 2025 (this assumes no new projects are announced)

4. Titan Overview

4. Atlas Drilling

- Commenced in 2007 with its first rig
- Strong reputation for offering highly mobile, flexible and productive drilling packages
- Operating two owned rigs and a third rig under an Operating & Maintenance (O&M) contract
- A fourth rig is currently under construction and is expected to be operational in March 2013
- FY13 H1 utilisation at 98% underpinned by contracts with blue chip customers
- The business leverages its strong management team with significant experience in the oil and gas industry
- Given the current and forecast future activity in the CSG industry in QLD the business is well positioned for growth
- As at 31 December 2012, Rig 1 and 2 recorded 646 and 553 days Lost Time Injury (LTI) free respectively. Rig 3 recorded 2 LTIs during the first 6 months of its operation. It has since been 98 days LTI free.





4. Atlas Drilling – order book

- As the 4 major LNG projects in QLD move closer to production, demand for CSG drilling rigs has increased significantly
- Atlas Drilling has been able to secure longer term contracts for its rigs and expand the fleet to four
- Atlas Drilling's current order book:

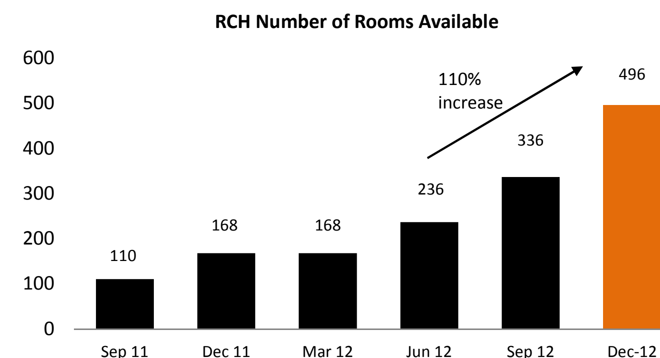
Rig#	Client	Term	Start	End	Comments
Rig 1	QGC	~12 months	Sept 2012	Sept 2013+	24 Well (to Sept 2013) + 6 month Option
Rig 2 (1)	Arrow	~14 months	Dec 2011	Feb 2013	Recontracting the Rig
Rig 3 (2)	APLNG	6 months	Dec 2012	May 2013+	6 month option
Rig 4	APLNG	12 months	Mar 2013	Feb 2014+	1 year extension

Note:
(1) Discussions advanced for recontracting Rig 2 with another client
(2) The Rig 3 contract involves Atlas Drilling operating the rig on behalf of a third party under an operating and maintenance contract. When the Rig is working for a third party, such as APLNG, the Rig is rented by Atlas Drilling.

+ Denotes option to extend beyond this date

4. RCH overview

- RCH is a containerised portable camps business catering to CSG related services and infrastructure companies
- Acquired in September 2011 (effective 1 July 2011) with capacity of 110 rooms
- Post acquisition, Titan appointed a GM and BDM to oversee the operation and growth
- As at 31 December 2012, the RCH business has grown 110% to 496 rooms from 236 in June 2012
- The RCH business has grown from increases in enquiry and contract size
- Utilisation has remained high during the half at 78% with stronger utilisation expected in the second half of FY13



4. RCH overview (continued)

- RCH's containerised accommodation units are specifically suited to the oil and gas drilling sector as they are easily and rapidly mobilised
- RCH's business model is to hire its camps with ancillary and support services either provided directly or by sub-contractors
- RCH has grown rapidly due to its competitive advantages of:
  - Industry leading and new accommodation units;
  - Flexibility of the modular design;
  - Responsiveness and high level of client service relating to logistics services and camp relocations; and
  - Safety pre-qualification for top tier CSG companies

Contracts:

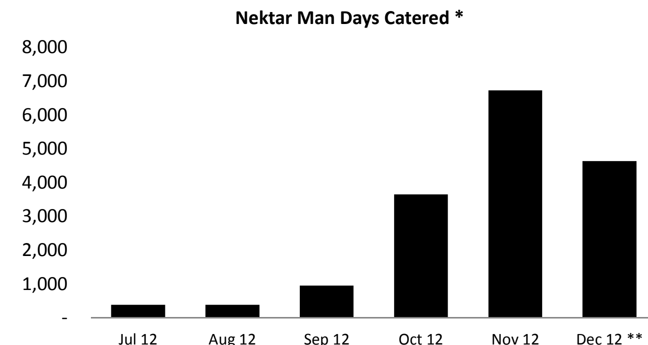
- Current contracts range from 3 to 18 months (average ~6 months)
- Order book remains strong

Major customers:

- APLNG
- Leighton's
- Daracon
- Bruhl
- General Trade Industries
- Energy Drilling Australia

4. Nektar Remote Hospitality

- Established by Titan in April 2012
- Nektar offers high quality catering and camp management services to remote accommodation service providers
- Low capital intensive business which will target remote catering opportunities throughout Australia
- The Nektar team quickly established themselves, winning their first contract in June 2012 (term 18 months)
- Currently servicing 6 contracts equating to serving approximately 16,000 meal days in its first six months of trading
- Significant potential market in both temporary and permanent catering and camp management



* Number of days Nektar has catered x number of people cater for

** Reduction in days catered due to reduced maning levels over holiday period

5. Titan 1H FY13 Results and Trading Update

5. Financial overview – Profit & Loss

$ Million	Actual 1H FY13	Actual 1H FY12	% Change
Revenue	29.6	15.0	97%
EBITDA	6.5	2.4 (1)	171%
EBITDA margin %	*22.0%*	*16.0%*	
EBIT	4.3	0.7	514%
EBIT margin %	*14.5%*	*4.7%*	*9.7%*
Net Profit Before Tax	3.3	0.4	725%
Net Profit After Tax	2.3	0.3	667%
Basic earnings per share (cents)	7.96	1.36	485%
Dividends per share (cents)	2.0	Nil	n/a

Note: (1): Reported EBITDA in 1H FY12 was $2.8m This has been adjusted by adding back share based expenses associated with the company's performance rights plan and employee share issue.

5. Financial overview – Balance Sheet

$ Million	31 December 2012	30 June 2012
Cash and cash equivalents	0.9	1.4
Receivables	13.3	6.5
Property, Plant and equipment	31.5	28.9
Intangible assets	5.3	5.3
Deferred tax assets	1.1	0.7
Other Assets	0.5	0.2
Total Assets	52.6	43.0
Payables	10.6	7.4
Current tax liability	2.2	0.8
Borrowings – current	2.3	2.0
Borrowings – non-current	8.9	7.4
Other Liabilities	1.0	0.3
Total Liabilities	25.0	17.9
Shareholders Equity	27.6	25.1

Note: (1) Net Debt / Net Debt plus Book Equity

- As at 31 December 2012, Titan had net debt of $10.3m and gearing[(1)] of 27%
- Receivables have increased in-line with strong business growth
  - $10.6m current
  - $2.7m non-current (of which $2.3m subsequently paid in January 2013)
- Net tangible assets per share of 76 cents as at 31 December 2012 (excludes intangible assets)
- Refinancing of Titan's debt occurred during the half to assist the Company's growth
- Undrawn funding facilities with GE as at 31 December
  - $5.0m in Capex facility
  - $8.0m working capital facility

5. Financial overview – working capital and cashflow

$ Million	Actual 30 Dec 2012
Cash flow from operations	2.5
CAPEX	(4.8)
Sale of PP&E	0.1
Increase / (decrease) from secured borrowings	1.7
Share issue proceeds net of costs	0.6
Dividend	(0.6)
Net cash flow	(0.5)

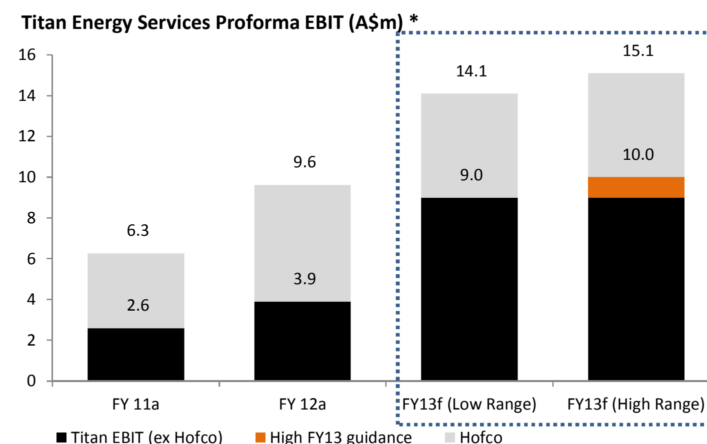
- Cashflow from operations and additional debt funding utilised to grow the business
- Capex through the period used to fund the initial stages of Rig 4 build-up, and maintenance and ancillary components of additional camps leased during the period
- Bank funding was refinanced with GE during the 6 months to December providing additional immediate funding and lines of funding for future expansion
- Share proceeds generated through the DRP placement, established for Titan's maiden dividend
- Future cashflow will be used to grow the business organically or through acquisition and pay dividends to shareholders (targeting 25% NPAT payout ratio)

5. FY13 outlook

- Expecting a stronger remainder of the year due to:
  - Fourth drill rig package to be in operation
  - Atlas Drilling utilisation expected to remain strong driven by major oil and gas company contracts
  - RCH starting the half year with 496 rooms, 110% capacity increase since June 2012
  - Growth within the Nektar business stronger than anticipated
  - CSG activity remains buoyant

- Titan's standalone full year EBIT forecast of $9.0-$10.0m represents a $1.0m increase on previous guidance (FY12: $3.9m)

- Including Hofco, Titan's pro forma combined FY13 EBIT would increase to between $14.1m - $15.1m(1), (2)



* See slide 12

Notes:

(1) See slide 12 for discussion generally of basis of preparation of proforma earnings and proforma adjustments

(2) The proforma combined FY13 EBIT has been prepared for illustrative purposes to assist investors understand the effect of the acquisition on Titan. It should not be treated as a forecast of Titan's actual FY13 EBIT post acquisition. Titan's actual FY13 earnings post acquisition may differ due to factors including: (1) revenue recognition - Titan expects to recognise revenue and earnings from Hofco for only part of FY13; (2) operational factors such as: significant unbudgeted weather events, Atlas Drilling utilisation e.g. if it does not remain high for 2HFY13; and demand for the RCH business e.g. if strong demand does not continue

6. Equity Raising

6. Acquisition funding

- The Hofco acquisition will funded by a combination of equity and operating cash flow:
  - Approximately $7.0m from a non renounceable entitlement offer at an issue price of $0.95;
  - Approximately $11.0m placement to institutional and sophisticated investors at an issue price of $1.05; and
  - The remainder from operating cash flow
- The proceeds of the equity raising will be primarily applied to the Hofco acquisition
- Titan does not intend to draw down any further debt from its existing facilities to pay for the acquisition

6. Placement details

Placement structure

- $11m placement to institutional and sophisticated investors
  - c.3.9m shares unconditional under Titan's existing placement capacity
  - c.6.6m shares conditional on approval at EGM
- Placement shares to be issued ex 2 cent interim dividend and will not participate in the Entitlement Offer

Offer price

- $1.05 per New Share
- c.16% discount to Titan's closing price of $1.25 on 30 January 2013
- c.19% discount to the 5 day VWAP

Settlement

- Placement to be settled in two tranches:
  - Unconditional placement to settle on 13 February 2013
  - Conditional placement to settle on 8 March 2013

Shareholder approval for conditional placement

- Settlement of the conditional placement is subject to Titan shareholder approval by ordinary resolution at EGM
- The EGM has been convened to be held on 5 March 2013

6. Entitlement Offer details

Entitlement Offer Structure and Size	▪ 1 for 4 pro-rata non-renounceable entitlement offer ("Entitlement Offer") to raise approximately $7.0m through the issue of approximately 7.4m shares ▪ Shares issued under the Entitlement Offer will rank equally with existing shares
Offer price	▪ $0.95 per New Share ▪ c.24% discount to Titan's closing price of $1.25 on 30 January 2013 ▪ c.18% discount to the theoretical ex-rights price (TERP)(1)
Commitment of major shareholders and Board	▪ Major shareholders XLX Pty Ltd and related entities have indicated an intention to take up 100% of their pro rata entitlements ▪ Directors Jim Sturgess, Shaun Scott, Stephen Bizzell and Simon Keyser will be entering into firm commitments to take up their pro-rata entitlements
Underwriting	▪ The Entitlement Offer is proposed to be underwritten by Wilson HTM and Bizzell Capital Partners

Note: (1) TERP is the theoretical price at which Shares should trade immediately after the ex-date for the Entitlement Offer assuming 100% take-up of the Entitlement Offer. The theoretical ex-rights price is a theoretical calculation only and the actual price at which Shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not be equal to the theoretical ex-rights price. TERP is calculated by reference to the closing price of Titan's shares on ASX of $1.16 as at 30 January 2013

6. Indicative timetable

Entitlement Offer and Placement	Date
Trading halt commences	Thursday 31 January 2013
Bookbuild opens	Thursday 31 January 2013
Bookbuild closes	Friday 1 February 2013
Announce capital raising and acquisition	Monday 4 February 2013
TTN shares trading on an ex-entitlement basis	Wednesday 6 February 2013
Record date for the Entitlement Offer (7.00pm AEST)	Tuesday 12 February 2013
Settlement of unconditional placement	Wednesday 13 February 2013
Allotment and trading of new shares issued under the unconditional placement	Wednesday 14 February 2013
Entitlement Offer opens	Monday 18 February 2013
Entitlement Offer closes	Monday 4 March 2013
Extraordinary General Meeting to approve conditional placement	Tuesday 5 March 2013
Settlement of conditional placement	Friday 8 March 2013
Allotment and trading of new shares issued under the conditional placement	Monday 11 March 2013
Trading of new shares issued under the Entitlement Offer	Wednesday 13 March 2013

Note: Dates and times are indicative only and are subject to change. TTN reserves the right, subject to the Corporations Act, the ASX Listing Rules and other applicable laws, to vary the dates and times. All times and dates refer to Australian Eastern Standard Time (AEST).

6. Key risk factors

Titan Energy Services' ("Titan" or the "Company") business is subject to a number of risk factors both specific to its business and of a general nature. Titan's business, financial condition and results of operations could be materially and adversely affected by the occurrence of any of the risks associated with its business. As a result, the trading price of Titan's shares could decline and shareholders could lose all or part of their investment. The risks outlined should not be considered exhaustive of the risks faced by Titan and its investors but these and other risks could have a material impact on the financial performance of Titan and the value of the Titan's shares.

Operational risks

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

The Company's business depends on, amongst other things, the level of activity in the oil and gas industry and in particular, the level of activity in the CSG industry. Any prolonged decline in the demand for oil and gas may result in a corresponding decline in demand for the Company's temporary accommodation and drilling services.

Operational Risks

The Company is exposed to a number of operational risks including adverse weather, natural disasters, labour shortages, loss of key personnel and industrial accidents.

Asset utilisation and productivity

Titan' financial performance is reliant on the utilisation and productivity of its key assets. Any unscheduled downtime or period of time where assets are uncontracted or unable to be utilised may have a material affect on the financial performance of the Company.

Contractual risks

The Company's operations rely on the performance of third party contracts, some of which may be terminated by the counterparty on short notice.

6. Key risk factors

Operational risks (continued)

Reliance on key personnel

Titan Energy Services' progress in pursuing its objectives could be dramatically influenced by the loss of key personnel or a failure to secure and retain additional key personnel as the Company grows.

Increased competition

Increased competition from existing competitors or the entry of new competitors in the market could result in reduced operating margins, loss of market share, increased labour costs and loss of key staff to competitors.

CSG industry specific regulatory and environmental risks

Due to the current public debate surrounding the environmental impact of the extraction of CSG, the industry is subject to substantial public and regulatory scrutiny. The implementation of future regulations or approval processes in the CSG industry may lead to a decrease in demand for the services of the Company.

Financing

Titan has debt facilities with GE. These facilities contain a variety of material financial and other covenants which Titan and each of its subsidiaries is required to comply with. In the event of a breach, GE may be entitled in certain circumstances to call for repayment of the facilities.

Equipment constraints

In order to conduct its business, Titan is reliant on purpose-built portable camps and drilling rigs. Titan may have difficulty in gaining access to purpose-built equipment at appropriate prices and in a timely manner or the quality of the available equipment may not be acceptable or suitable for its intended use.

6. Key risk factors

Operational risks (continued)

Sustainability of growth and margins

The sustainability of growth and the level of profit margins from operations are dependent to a degree on the Company's ability to secure new customers and contracts. Failure to obtain drilling or accommodation hire contracts may have a material adverse affect on the Company.

If Titan experiences strong growth in future years and is not able to properly manage such growth due to labour or capital equipment shortages, its financial performance could be adversely affected.

Acquisition risks

Completion risk
Completion of the Hofco acquisition is expected to occur in March 2013. Completion of this acquisition is subject to Titan obtaining sufficient funding by 15 March 2013. A component of the equity issue (second tranche of placement) requires approval at EGM. Should this approval not be received, for whatever reason, the acquisition may not proceed. If the acquisition does not complete for any reason, Titan will consider options in relation to the use of funds raised under the Offer, including use of the funds for working capital purposes.

Completion of the acquisition is also subject to other customary conditions precedent including entering into definitive contracts with senior Hofco executives; shareholder approval for Hofco providing to GE, after completion, a secured guarantee of Titan's obligations under the senior finance facilities; and there being no adverse material change in relation to Hofco and no material breach of representation or warranty by the Seller. The acquisition may not proceed if any of these conditions precedent are not satisfied.

Analysis of acquisition opportunity
Titan has undertaken financial, business and other analyses of Hofco in order to determine its attractiveness to Titan and whether to pursue the acquisition. It is possible that such analyses, and the best estimate assumptions made by Titan, draws conclusions and forecasts that are inaccurate or which are not realised in due course. For example, Hofco carries out certain environmentally relevant activities and Titan has made a commercial assessment that Titan's potential risks and exposures are acceptable. There may be a materially adverse effect if this assessment is later found to be incorrect (eg additional remediation costs or breach of banking covenants). To the extent that the actual results achieved by Hofco are different than those indicated by Titan's analysis, there is a risk that the profitability and future earnings of the operations of the expanded Titan business may be materially different from the profitability and earnings expected as reflected in this Presentation.

6. Key risk factors

Acquisition risks (continued)

Reliance on information provided

Titan undertook a due diligence process in respect of Hofco, which relied in part on the review of financial and other information provided by the vendors of Hofco. Despite taking reasonable efforts, Titan has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. Similarly, Titan has prepared (and made assumptions in the preparation of) the financial information relating to Hofco on a stand-alone basis and also to Titan post acquisition ("Titan Group") included in this Presentation in reliance on limited financial information and other information provided by the vendors of Hofco. Titan is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by Titan in its due diligence process and its preparation of this Presentation proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of Hofco and the Titan Group may be materially different to the financial position and performance expected by Titan and reflected in this Presentation. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the acquisition have been identified. Therefore, there is a risk that unforseen issues and risks may arise, which may also have a material impact on Titan.

Integration risk

The acquisition involves the integration of the Hofco business, which has previously operated independently to Titan. As a result, there is a risk that the integration of Hofco may be more complex than currently anticipated, encounter unexpected challenges or issues and takes longer than expected, diverts management attention or does not deliver the expected benefits and this may affect Titan's operating and financial performance. Further, the integration of Hofco' accounting functions may lead to revisions, which may impact on the Titan Group's reported financial results.

Historical liability

If the acquisition of Hofco completes, Hofco may become directly or indirectly liable for any liabilities that Hofco has incurred in the past, which were not identified during its due diligence or which are greater than expected, and for which the market standard protection (in the form of representations and warranties and indemnities) negotiated by Hofco prior to its agreement to acquire Hofco turns out to be inadequate in the circumstances. Such liability may adversely affect the financial performance or position of Hofco post acquisition.

6. Key risk factors

Acquisition risks (continued)

Acquisition accounting

In accounting for the acquisition in the pro-forma combined balance sheet, Hofco has performed a preliminary fair value assessment of all of the assets, liabilities and contingent liabilities of Hofco. Hofco will undertake a formal fair value assessment of all of the assets, liabilities and contingent liabilities of Hofco post-acquisition, which may give rise to a materially different fair value allocation to that used for purposes of the pro-forma financial information set out in this Presentation. Such a scenario will result in a reallocation of the fair value of assets and liabilities acquired to or from goodwill (included in the intangibles line in the pro-forma summary balance sheet) and may lead to an increase or decrease in depreciation and amortisation charges in Hofco's income statement (and a respective increase or decrease in net profit after tax).

General risks

Investors in Titan are exposed to general risks that may adversely affect the financial performance or the current and proposed operations of Titan. These risks include fluctuations in the market price of shares in Titan in accordance with general market conditions and factors specifically affecting the Australian energy and resource services sector in particular; changes in the general economic climate in which Titan operates including the general level of economic activity, interest rates, exchange rates, commodity and gas prices, inflation and other economic factors; changes in government fiscal, monetary or regulatory policies; and unforseen expenses that may need to be incurred that have not been taken into account

6. Selling restrictions

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