

ASX Announcement/ Media Release

25 September 2014

Acquisition of Campbell Mining Services

Highlights

- Resource Equipment Limited (**REL**) to acquire leading Queensland based dewatering services and pump equipment rental business, Campbell Mining Services Pty Ltd (**CMS**)
- Increases scale, geographical coverage and customer base providing a platform for combined group to access new markets and accelerate growth
- Fully funded by issue of 133.3m new REL shares to CMS shareholders - representing 30% of REL's expanded issued capital – plus an additional earn-out of up to a further 19.9m REL shares (equivalent to 3% of the expanded capital) based on the combined performance of the group
- Loddie Naymola, CMS shareholder and US pump hire industry pioneer, to join REL board as a non-executive director after completion
- Transaction subject to REL shareholder approval at AGM in November 2014
- Transaction EPS accretive on a pro-forma FY14 basis

Transaction

Resource Equipment Limited (ASX: RQL), a WA-based supplier of pumping and dewatering systems, power generation, air compressors and associated equipment to the mining, oil & gas, heavy engineering and infrastructure sectors, has today entered into an agreement to acquire Campbell Mining Services Pty Ltd for the issue of 133.3 million new shares in REL, subject to certain conditions including REL shareholder approval.

REL Managing Director, Andrew Aitken said we are delighted to be able to bring our two businesses together and create a group with substantial West and East Coast Australian activities and teams. The proposed acquisition is an excellent fit with the current REL business and significantly enhances the overall position of the combined group. The commercial logic is compelling and it will enable us to accelerate our growth plans into further locations, sectors and customers. But more importantly, there is a strong cultural fit

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between our organisations and a talented and experienced team of people at Campbell Mining Services”.

CMS shareholder Loddie Naymola said: “The opportunity to put our two businesses together and leverage the combined group capabilities will enable us to extend and deepen our value offering to customers and stakeholders. Although conditions in the resources sector are currently challenging, the people, capabilities and geographic benefits of the merged business will position us for success. I am looking forward to sharing my experiences with the larger group and promoting our growth in the water and power niches”.

About Campbell Mining Services

Campbell Mining Services Pty Ltd is a privately owned specialist dewatering services and pump equipment rental business with a strong presence in Central Queensland. CMS provides turnkey solutions for its customers, delivering dewatering services as a complete package, including pump and water treatment systems, engineering expertise and project management under the name “National Pump Services”.

Key features of CMS are:

- Founded in 2001 by David Campbell and is today managed by David Campbell and Rod Hayes
- Entities associated with David Campbell and Rod Hayes together with Loddie Naymola own all of the shares in CMS and Ramps Australia Pty Ltd (**Ramps**), which in turn holds 51% of CMS
- Loddie Naymola is a pump hire industry pioneer in the United States
- Operates two branches as National Pump Services, serving Central Queensland customers from Mackay and South East Queensland customers from the new Yatala branch
- Will have approximately \$12m of pumps and ancillary fleet at completion
- Revenue for past 3 years has exceeded \$30m per annum
- EBITDA for the year ended 30 June 2014 of circa \$7.5m on an unaudited pro-forma basis
- Employs more than 50 people and is led by an experienced and long standing management team

Rationale

Enhanced East Coast operations

- National Pump Services is a leading Queensland based dewatering and pump rental business with a blue chip customer base
- High level of repeat business with several relationships held for over 10 years

- National Pump Services has a strong market share in Central Queensland, currently operating at approximately one-third of all operating coal mines in the region
- The combined group will have an improved nationwide footprint, providing REL with a platform for further geographical and industry growth

Financially attractive

- Exclusive of synergies, the acquisition of CMS is EPS accretive on a pro-forma FY 14 basis
- CMS adds significant free cash flow generation
- CMS achieved circa \$7.5m of EBITDA on a pro-forma basis for FY14
- CMS provides REL with revenue diversification benefits (geographically and mining end markets)

Operational synergies

Potential synergies have been identified, including:

- Increased utilisation from the reallocation of underutilised REL fleet to existing CMS customer sites
- Cross-sell opportunities with enhanced product range and expertise
- Removal of cost duplication where appropriate

Experienced management team

- The acquisition of CMS provides REL with access to a highly experienced management team (Rod Hayes and David Campbell) who have had proven success in their core market over an extended period
- Loddie Naymola provides significant industry experience as a pioneer of the pump hire industry in the United States. He recently sold his substantial US pump rental business to United Rentals.

Consideration

REL is acquiring all of the shares in CMS (including the acquisition of all shares in Ramps). The consideration is to be funded via the issue of new REL shares to CMS vendors in two tranches:

- 30% of the issued capital of REL on a fully diluted basis⁽¹⁾ issued at completion expected in November 2014 (133.3m REL shares)⁽²⁾
- Up to an additional 3% of the issued capital of REL on a fully diluted basis⁽¹⁾ issued within 16 months from completion subject to an agreed earn out (up to 19.9m shares)⁽²⁾

The transaction includes assumptions about CMS' working capital. The sale agreement includes a mechanism to adjust for any difference to this target which will be cash settled.

REL has agreed to reimburse the CMS vendors in cash for certain capex incurred by CMS in relation to establishment of the Yatala branch since 30 June 2014 up to a maximum amount of \$2m. The value of any cash received by CMS for the sale of fixed assets since 30 June 2014 will be deducted from this amount.

The first tranche of REL shares issued as consideration on completion will be subject to a voluntary 2 year escrow period. However, the shares will be released from escrow in the event of a successful takeover bid or scheme of arrangement in relation to REL shares.

The precise number of earn out shares is based on the combined REL and CMS EBITDA for the 12 month period from completion. The straight-line calculation is summarised below:

Combined REL and CMS EBITDA	Earn out shares issued	Vendor shareholding in REL
EBITDA ≤ \$21.00m	0.0	30%
EBITDA \$21.33m	6.6	31%
EBITDA \$21.67m	13.3	32%
EBITDA ≥ \$22.00m	19.9	33%

(1) Based on total outstanding REL shares of 311,074,580 as at 25 September 2014

(2) Since (subject to the adjustment noted above) no cash is payable for the issue of the shares, the shares will be taken to be issued at a price equal to the 5 day volume weighted average price (VWAP) of REL shares prior to the date of issue

Shares issued on the earn out will not be subject to any escrow arrangements.

To the extent that the full number of earn out shares are not required to be issued, the CMS vendors have an option to subscribe for that number of shares representing the difference between any earn out shares issued and the maximum of 19,898,160 earn out shares. The issue price will be the higher of the 5 day VWAP of REL shares and the net tangible assets per share implied by the most recent REL audited accounts. If any shares are issued pursuant to this option, and assuming that there are no restrictions at that date with REL issuing new shares, they would be issued at the same time as any earn out shares, would rank equally with existing shares on issue and would not be subject to any escrow agreements. REL does not presently intend to seek shareholder approval for any shares that may issue if the option is exercised, and any such shares would be issued under REL's 15% placement capacity in ASX Listing Rule 7.1.

Conditions Precedent

Completion of the transaction is subject to the following key conditions precedent:

- REL shareholder approval under Listing Rule 7.1 at the company's Annual General Meeting, expected to be held on or around 12 November 2014
- No material adverse change in the business of either CMS or REL
- Any necessary change of control consents from customers, financiers and lessors
- Any necessary regulatory approvals
- Finalisation of employment agreements with David Campbell and Rod Hayes

Management

The acquisition of CMS provides REL with access to a highly experienced management team (Rod Hayes and David Campbell) who have a track record of success in their core market over an extended period and will take up senior management roles in REL focussed on the Queensland operations of the combined group.

Board Appointment

On completion of the transaction, Mr Loddie Naymola, who effectively holds 33.3% of CMS, will be appointed to the Board of REL as a Non-Executive Director. Mr Naymola was a pioneer of the pump hire industry in the United States and will be an outstanding addition to REL's Board. He was the founder of National Pump & Compressors, one of the largest pump hire companies in the USA, and has recently sold the pump component of this business to United Rentals.

Change in Scale of Activities

The acquisition of CMS will result in a change in the scale of REL's activities for the purpose of ASX Listing Rule 11.1. ASX has confirmed to REL (based on information REL has provided) that ASX does not require the acquisition to be approved by the shareholders of REL pursuant to Listing Rule 11.1.2 and does not require REL to re-comply with chapters 1 and 2 of the Listing Rules. Notwithstanding this, the transaction is still subject to REL shareholder approval under Listing Rule 7.1.

There are currently 311,074,580 fully paid ordinary shares on issue in REL. Following the proposed issue of 133,317,678 fully paid ordinary shares in REL to the CMS shareholders on completion there will be a total of 444,392,258 fully paid ordinary shares on issue in REL.

The financial impact of the transaction is demonstrated as follows:

Particulars	Prior to Transaction - Position of Company as stated in latest audited, consolidated financial statements as at 30/6/14	Effect of Transaction based on unaudited CMS balance sheet as at 30/6/14	Consolidated Post Transaction Proforma as at 30/6/14
Total Consolidated Assets as at 30/6/14 (A\$000)	151,286	20,515	171,801
Total Equity as at 30/6/14 (A\$000)	108,934	15,432	124,366
Annual Revenue for the financial year ended 30/6/14 (A\$000)	83,382	31,174	114,556
Annual Profit (before tax and extraordinary items) for the financial year ended 30/6/14 (A\$000)	-6,230	5,206	-1,024
Total No. of shares (Completion Shares only)*	311,074,580	133,317,678	444,392,258
Total No. of shares (Completion Shares and maximum Earn Out Shares)*	311,074,580	153,215,838	464,290,418
Total No. of options	3,000,000	0	3,000,000

*Number of ordinary shares on issue as at 25/09/14

Next Steps and Indicative Timetable

REL intends despatching the Notice of Annual General Meeting to its shareholders on or about 10 October 2014. The notice will include further details of the transaction and the resolutions to approve the issue of new shares to the vendors of CMS.

An indicative timetable for the transaction is set out below. REL notes that the timetable may be subject to change.

Event	Date
Dispatch Notice of Annual General Meeting to shareholders	10 October 2014
Annual General Meeting	12 November 2014
Completion of transaction	14 November 2014

Further Information

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