

NOTICE OF GENERAL MEETING AND NOTICE OF SPECIAL MEETING

including Explanatory Memorandum, Independent Expert's Report and Tax Adviser's Report

for the proposed selective capital reduction involving the payment to Small Shareholders of A\$0.26 per Share in cancellation of their Shares (**Capital Reduction**) and removal of Resource Equipment Limited (**REL** or **Company**) from the Official List of the ASX (**Delisting**).

This document contains notice of:

- a General Meeting of all shareholders of the Company to be held on 14 April 2015 commencing at 10:00am; and
- a Special Meeting of all shareholders of the Company other than Pump Services, LLC, Mr Loddie Naymola, CFT (CMS) Pty Ltd and Ashsky Pty Ltd to be held on 14 April 2015 commencing at 11:00am or the conclusion or adjournment of the General Meeting, whichever is earlier.

The Independent Expert has concluded that the Capital Reduction is "fair and reasonable to the shareholders of the Company as a whole".

This is an important document and requires your immediate attention. You should read this document in its entirety. If you are in doubt as to what you should do, please consult your investment or other professional adviser.

The Independent Directors recommend that all Shareholders approve the Capital Reduction by voting in favour of the resolution proposed in the Meetings. The Board recommends that all Shareholders approve the Delisting by voting in favour of the resolution proposed in the General Meeting.

Key Dates

Event	Expected date
Date of this Explanatory Memorandum	11 March 2015
Date and time for determining eligibility to vote at the Meetings	12 April 2015 at 11:00am
Deadline for lodgement of Proxy Forms	12 April 2015 at 10:00am
General Meeting of all Shareholders	14 April 2015 at 10:00am
Special Meeting of Small Shareholders	14 April 2015 at 11:00am
Company commences Buy-back of Shares	15 April 2015*
Company concludes Buy-back of Shares	17 April 2015 at 4:00pm*
Suspension of trading of Shares	20 April 2015 at trading close*
Record Date for determining entitlement to consideration	21 April 2015*
Shares held by the Small Shareholders are cancelled	29 April 2015*
Payment / dispatch of return of capital to the Small Shareholders	29 April 2015*
Delisting of REL from ASX	15 May 2015*

* All dates subsequent to the Special Meeting and General Meeting are subject to the passing of the resolutions to approve the Capital Reduction and Delisting (respectively) at those Meetings. The above dates are indicative only and are subject to change. All references in this document to time relate to the time in Sydney, Australia.

Important Notices

Defined terms and interpretation

Unless otherwise defined, capitalised terms and certain abbreviations used in the Notices of Meeting and the Explanatory Memorandum have the defined meanings set out in section 11.

Responsibility statement

The information concerning Pump Services and its Associates (not including REL) contained in the Explanatory Memorandum, including information as to the views and intentions of Pump Services and its Associates (not including REL) has been provided by Pump Services and is the responsibility of Pump Services. REL does not assume any responsibility for that information, nor has it engaged in any procedures to independently verify the accuracy of that information.

Third Party Reports

The Independent Expert's Report and the Tax Adviser's Report have been prepared by the Independent Expert and the Tax Adviser respectively, for the purposes of the Explanatory Memorandum, and the Independent Expert and Tax Adviser are responsible for those reports. Neither REL nor any of its officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report or the Tax Adviser's Report.

Role of ASIC

A copy of the Explanatory Memorandum has been lodged with ASIC and ASX. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the contents of the Explanatory Memorandum.

Forward looking statements

Certain statements in the Explanatory Memorandum relate to the future. Such forward looking statements are not based on historical facts, but rather reflect the current assumptions and expectations of REL concerning future events and circumstances including the operations of REL and the economic and regulatory environment in which REL will operate in future. Forward looking statements may generally be identified by the use of forward looking verbs such as aim, anticipate, believe, estimate, expect, foresee, intend or plan, by words denoting uncertainty such as likely, may, potential or should, or by derived or similar words. Similarly, statements that describe the expectations, objectives, plans or targets of REL may be forward looking statements.

The assumptions and expectations on which forward looking statements are based are subject to a number of risks and uncertainties that could cause the actual outcomes, and the actual performance or results of REL to be materially different from the outcomes, or the performance or results of REL, expressed in, or implied by, such statements. These risks and uncertainties include among other things, general economic conditions, changes in law, regulation or government policy, the impact of increased competition and certain other operational and financial risks and uncertainties associated with carrying on business in the industries in which REL operates. All forward looking statements should be read in light of such risks and uncertainties.

None of REL or any of its officers, employees and advisers makes any representation or warranty that any outcome, performance, or result expressed in or implied by any forward looking statement in the Explanatory Memorandum will actually occur. You should treat all forward looking statements with caution and not place undue reliance on them.

Any forward looking statements in the Explanatory Memorandum reflect the assumptions and expectations of REL as at the date of the Explanatory Memorandum. Except as required by law, REL and its officers, employees and advisers disclaim any obligation to revise or update any forward looking statements after the date of the Explanatory Memorandum to reflect any change in the assumptions or expectations on which those statements are based.

Privacy and personal information

REL has collected personal information about Shareholders to assist REL in conducting the Meetings and to enable REL to implement the Capital Reduction and Delisting. The Corporations Act requires the name and address of Shareholders to be held in a public register. The personal information collected includes the names and addresses of Shareholders and details of their holdings of Shares. This personal information may be disclosed to professional advisers, printers, mailing houses and other organisations providing services to REL in connection with the Capital Reduction and Delisting, to other members of REL Group, and to ASIC and other regulatory authorities.

Individuals in respect of whom personal information is collected have certain rights to access that personal information. If you would like details of information about you held by REL, please contact Computershare Investor Services Pty Limited, Level 2, 45 St Georges Terrace, Perth WA 6000 or on 1300 850 505 (if within Australia). The registered address of REL is 276 Treasure Road, Welshpool, WA, 6106.

No consideration of personal circumstances

The Explanatory Memorandum does not constitute financial product advice and has been prepared without reference to your individual objectives, financial situation or other circumstances. The Explanatory Memorandum should not be relied upon as the sole basis for any decision as to how to vote at the Meetings and you should consider seeking independent financial, legal or other professional advice before making any such decision.

Effect of rounding

Certain amounts or figures in the Explanatory Memorandum are subject to the effect of rounding. Accordingly, the actual calculation of these amounts or figures may differ from the amounts or figures set out in the Explanatory Memorandum.

References to currency

Unless otherwise indicated, all references to \$, A\$, dollars or cents in the Explanatory Memorandum are to Australian currency.

References to time

Unless otherwise indicated, all references to time in the Explanatory Memorandum are to the time in Sydney, Australia.

Further questions

If you have any questions in relation to the Explanatory Memorandum, please contact your broker or legal, financial or professional adviser.

Date of the Explanatory Memorandum

The Explanatory Memorandum is dated 11 March 2015.

Independent Directors' Letter

Dear Shareholder

On 19 February 2015, Resource Equipment Limited (**Company**) announced that it was considering a proposal to:

- remove the Company from the official list of the ASX (**Delisting**); and
- reduce its share capital by cancelling all shares in the Company other than those shares in which Pump Services, LLC, Mr Loddie Naymola, CFT (CMS) Pty Ltd, Ashsky Pty Ltd or their Associates have a relevant interest (together, **Continuing Shareholders**) in exchange for the payment of A\$0.26 per share (**Capital Reduction**).

In order for the Capital Reduction to be implemented, it must be approved by special resolution at:

- a general meeting of all shareholders of the Company (**General Meeting**) (although any votes cast in favour of the resolution by the Small Shareholders (as defined below) at the General Meeting are to be disregarded); and
- a special meeting of the holders of shares to be cancelled (**Small Shareholders**) (**Special Meeting**).

The Delisting must be approved by ordinary resolution of the General Meeting and is not conditional on the Capital Reduction occurring. No votes may be cast in respect of the Delisting resolution by Pump Services and its Associates, including Mr Loddie Naymola. The Company will be delisted from the official list of ASX if it is approved in the General Meeting, notwithstanding that the Capital Reduction is not approved.

The General Meeting will be held on 14 April 2015 commencing at 10:00am. The Special Meeting will be held on 14 April 2015 commencing at 11:00am or at the conclusion or adjournment of the General Meeting, whichever is the first to occur. Both Meetings will be held at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney NSW 2000.

To ensure that shareholders are provided with information to consider the Capital Reduction and Delisting resolutions, the board of the Company appointed Messrs Andrew Aitken and Stephen Donnelley as directors independent of the interests of the Continuing Shareholders (together, **Independent Directors**). The relevant meeting documentation enclosed for your review has been prepared under the supervision of the Independent Directors and consists of the following:

- the Notice of General Meeting;
- the Notice of Special Meeting;
- an Explanatory Memorandum providing details of the Capital Reduction and Delisting and other relevant information;
- an Independent Expert's Report on the fairness and reasonableness of the Capital Reduction to all shareholders; and
- a Tax Adviser's Report which outlines the key tax implications for your consideration,

(together, **Meeting Documentation**).

As part of this process, the Independent Directors appointed Lonergan Edwards & Associates Limited (**Independent Expert**) to prepare an Independent Expert's Report that considered whether the Capital Reduction is fair and reasonable to the shareholders of the Company as a whole. The Independent Expert has concluded that the Capital Reduction is fair and reasonable to the shareholders of the Company as a whole. A copy of the Independent Expert's Report is set out in Annex 1 to the Explanatory Memorandum.

Where a director has a financial interest in the outcome of a proposed resolution, that director would typically refrain from making a recommendation to shareholders. With this in mind, your directors Messrs Loddie Naymola (80.15%), David Campbell (9.75%) and Roderick Hayes (8.36%) do not consider it appropriate to make a recommendation in respect of the Capital Reduction. In respect of the Delisting, the Board unanimously recommends that all shareholders vote in favour of the Delisting resolution in the General Meeting.

Your choices in relation to the proposed resolutions are as follows:

(a) If you are a Small Shareholder:

- (i) at the Special Meeting, you can vote (in person or by proxy) in favour of the Capital Reduction which, if approved by at least 75% of the votes cast by the Small Shareholders, will return A\$0.26 per share to you and your shares will be cancelled; or
- (ii) at the Special Meeting and/or General Meeting, you can vote (in person or by proxy) against the Capital Reduction which, if defeated, will mean that you retain your shareholding in the Company and will not receive any consideration for your shares. However, notwithstanding your vote, if the Capital Reduction is approved at the General Meeting and Special Meeting, then your shares will be cancelled and you will receive A\$0.26 per share, or you may elect to sell your shares on ASX pursuant to the Buy-back (as detailed below); or
- (iii) at the General Meeting, you can vote (in person or by proxy) in favour of or against the Delisting; or
- (iv) you can sell your shares on ASX (prior to the suspension of trading in shares if the Delisting occurs) or pursuant to the Buy-back if the Capital Reduction is approved; or
- (v) you can abstain from voting at the General Meeting or Special Meeting.

If the Capital Reduction is approved, the Company will also conduct an on-market buy back of its shares at A\$0.26 per share for 3 trading days following the Special Meeting and you may elect to sell your shares on ASX during that period (**Buy-back**). The sale of Shares pursuant to the Buy-back may incur brokerage costs. Refer to section 10 of the Explanatory Memorandum and the Tax Adviser's Report for the tax implications of the cancellation of your shares through the Capital Reduction versus the Buy-back.

(b) If you are not a Small Shareholder:

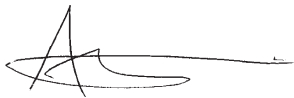
- (i) at the General Meeting, you can vote (in person or by proxy) in favour of or against the Capital Reduction or Delisting (noting that no votes may be cast in respect of the Delisting resolution by Pump Services and its Associates, including Mr Loddie Naymola); or
- (ii) you can sell your shares on ASX (prior to the suspension of trading in shares if the Delisting occurs); or
- (iii) you can abstain from voting at the General Meeting.

CFT (CMS) Pty Ltd and Ashsky Pty Ltd have each indicated to the Company that they do not wish to sell their shares and do not wish to participate in the Capital Reduction or the Buy-back.

For the reasons set out in the Meeting Documentation, the Independent Directors recommend that you vote in favour of the resolutions set out in the Notices of Meeting in order to approve the Capital Reduction. The Board unanimously recommends that you vote in favour of the resolution set out in the Notice of General Meeting in order to approve the Delisting. Each director intends to vote the shares they control in favour of all resolutions on which they are entitled to vote.

You are encouraged to read the Meeting Documentation in full and to consider the Capital Reduction and Delisting having regard to your personal circumstances. You should also consider seeking independent legal, financial or taxation advice prior to deciding how to vote at the meetings.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Aitken', with a long horizontal stroke extending to the right.

Andrew Aitken

A handwritten signature in black ink, appearing to be 'Donnelley', with a stylized, cursive script.

Stephen Donnelley

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RESOURCE EQUIPMENT LIMITED
ACN 098 812 492
(Company)

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of the shareholders of the Company will be held at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney NSW 2000 on 14 April 2015 at 10:00am.

For the purpose of this General Meeting:

- (a) the “Small Shareholders” consist of all shareholders of the Company other than the Continuing Shareholders; and
- (b) the “Continuing Shareholders” consist of each holder of Shares in which Pump Services, LLC, Mr Loddie Naymola, CFT (CMS) Pty Ltd, Ashsky Pty Ltd or their Associates have a relevant interest.

1. BUSINESS OF THE GENERAL MEETING

The business of this General Meeting is to consider and, if thought fit, pass the following resolutions which will be proposed as ordinary or special resolutions of the Company for the purposes of the *Corporations Act 2001* (Cth) (**Corporations Act**), the ASX Listing Rules, and for all other purposes, as specified below:

Resolution	Type of resolution
<p>1. Delisting</p> <p><i>That, for the purposes of ASX Listing Rule 17.11 and for all other purposes, the Company be removed from the official list of the ASX on 15 May 2015 (or such later date as is agreed with the ASX) and that the directors of the Company be authorised to do all things reasonably necessary to give effect to the delisting of the Company from the official list of the ASX.</i></p>	Ordinary Resolution
<p>2. Capital Reduction</p> <p><i>That, subject to the capital reduction resolution being passed at the Special Meeting, for the purposes of section 256C(2)(a) of the Corporations Act 2001 (Cth), the share capital of Resource Equipment Limited be reduced by cancelling up to a maximum of 7,950,826 ordinary shares in which Pump Services, LLC, Mr Loddie Naymola, CFT (CMS) Pty Ltd, Ashsky Pty Ltd or their Associates have no relevant interest (the holders of such shares being Small Shareholders) in consideration for the payment by Resource Equipment Limited to each Small Shareholder of A\$0.26 for each ordinary share held by that Small Shareholder that is cancelled.</i></p>	Special Resolution

2. INFORMATION ON THE RESOLUTIONS TO BE CONSIDERED AT THE GENERAL MEETING

To enable you to make an informed decision, further information on the proposed resolutions to be considered at the General Meeting is set out in the Explanatory Memorandum, Independent Expert's Report and Tax Adviser's Report which are attached. These documents contain important information for shareholders in relation to the proposed resolutions. Shareholders should read and consider this information carefully in conjunction with this Notice of General Meeting.

3. INTERDEPENDENCE OF RESOLUTIONS

The Delisting resolution must be approved by ordinary resolution of the General Meeting. No votes may be cast in respect of the Delisting resolution by Pump Services and its Associates, including Mr Loddie Naymola. The Delisting resolution is not conditional on any other resolution.

The approval of the Capital Reduction resolution in the General Meeting is conditional on the corresponding resolution at the Special Meeting being passed by the requisite majority.

4. VOTING EXCLUSION FOR THE CAPITAL REDUCTION RESOLUTION

In accordance with section 256C(2)(a) of the Corporations Act, any votes cast in favour of the Capital Reduction resolution by:

- (a) any person who will receive consideration as part of the proposed capital reduction; or
- (b) any Associate of any such person,

will be disregarded for the purposes of determining whether the special resolution is passed at the General Meeting.

As such, votes cast in favour of the Capital Reduction resolution by any Small Shareholders or their Associates at this General Meeting will be disregarded. However, the Company will not disregard any votes cast against the Capital Reduction resolution by any Small Shareholders.

The Company also need not disregard a vote cast in favour if:

- (a) it is cast by a person as proxy for a person who is entitled to cast a vote in favour, in accordance with the directions on the relevant Proxy Form; or
- (b) it is cast by the person chairing the General Meeting as proxy for a person who is entitled to cast a vote in favour, in accordance with a direction on the Proxy Form to vote as the proxy decides.

5. VOTING EXCLUSION FOR THE DELISTING RESOLUTION

In accordance with the conditions proposed by the ASX, any votes cast by Pump Services and its Associates, including Mr Loddie Naymola, will be disregarded for the purposes of determining whether the ordinary resolution in respect of the Delisting is passed at the General Meeting.

6. VOTING ENTITLEMENT

The Company has determined that for the purposes of voting at the General Meeting, all shares in the Company will be taken to be held by the persons who held them as registered shareholders on 12 April 2015 at 11:00am (**Entitlement Time**). Subject to the voting exclusion noted above, all holders of shares in the Company as at the Entitlement Time will be entitled to vote at the General Meeting.

7. APPOINTING A PROXY

A shareholder who is entitled to attend and vote at the General Meeting may appoint a proxy. If the shareholder is entitled to more than one vote, the shareholder may appoint one or two proxies. Where the shareholder appoints two proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes, in which case any fraction of votes will be disregarded.

A proxy need not be a shareholder of the Company. If you require an additional Proxy Form, the Company will supply it on request. The Proxy Form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company or the Company's share registry on or prior to 10:00am on 12 April 2015. Any Proxy Form received after that time will not be valid for the scheduled General Meeting.

An instrument appointing a proxy must be in writing under the hand of the appointer or of the appointer's attorney duly authorised in writing or, if the appointer is a corporation, under seal. If the appointer is a corporation and does not have a seal, the corporation may wish to appoint a body corporate representative under section 250D of the Corporations Act to exercise all or any of the powers the corporation may exercise at the General Meeting, or appoint an attorney to sign the Proxy Form. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Company's constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, a proxy may vote as he or she thinks fit. If a shareholder appoints the chairman of the General Meeting as the shareholder's proxy and does not specify how the chairman is to vote on an item of business, the chairman will vote, as proxy for the shareholder, in favour of the item on a poll.

Registered Office: Resource Equipment Limited
 276 Treasure Road
 Welshpool WA 6106
 Facsimile: +61 8 9258 9804

Share registry: Computershare Investor Services Pty Limited
 GPO Box 242 Melbourne
 Victoria 3001 Australia
 Facsimile:
 (within Australia) 1800 783 447
 (outside Australia) +61 3 9473 2555

Your proxy form is enclosed.

By order of the Board

Michael Kenyon
Company Secretary / Chief Financial Officer

Dated: 11 March 2015

RESOURCE EQUIPMENT LIMITED
ACN 098 812 492
(Company)

NOTICE OF SPECIAL MEETING

Notice is given that a Special Meeting of Small Shareholders (as defined below) of the Company will be held at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney NSW 2000 on 14 April 2015 at the earlier of 11:00am and the conclusion or adjournment of the General Meeting of shareholders to be held on the same date, whichever is earlier.

For the purpose of this Special Meeting:

- (a) the “Small Shareholders” consist of all shareholders of the Company other than the Continuing Shareholders; and
- (b) the “Continuing Shareholders” consist of each holder of Shares in which Pump Services, LLC, Mr Loddie Naymola, CFT (CMS) Pty Ltd, Ashsky Pty Ltd or their Associates have a relevant interest.

1. BUSINESS OF THE SPECIAL MEETING

The business of this Special Meeting is to consider and, if thought fit, pass the following resolution which will be proposed as a special resolution of the Company for the purposes of section 256C(2) of the *Corporations Act 2001* (Cth) (**Corporations Act**), and for all other purposes:

*That, subject to the capital reduction resolution being passed at the General Meeting, for the purposes of section 256C(2) of the Corporations Act 2001 (Cth), the share capital of Resource Equipment Limited be reduced by cancelling up to a maximum of 7,950,826 ordinary shares in which Pump Services, LLC, Mr Loddie Naymola, CFT (CMS) Pty Ltd, Ashsky Pty Ltd or their Associates have no relevant interest (the holders of such shares being **Small Shareholders**) in consideration for the payment by Resource Equipment Limited to each Small Shareholder of A\$0.26 for each ordinary share held by that Small Shareholder that is cancelled.*

2. INFORMATION ON THE RESOLUTION TO BE CONSIDERED AT THE SPECIAL MEETING

To enable you to make an informed decision, further information on the proposed resolution to be considered at the Special Meeting is set out in the Explanatory Memorandum, Independent Expert's Report and Tax Adviser's Report which are attached. These documents contain important information for shareholders in relation to the proposed resolution. Shareholders should read and consider this information carefully in conjunction with this Notice of Special Meeting.

3. INTERDEPENDENCE OF RESOLUTION

The approval of the Capital Reduction resolution in the Special Meeting is conditional on the corresponding resolution at the General Meeting being passed by the requisite majority.

4. VOTING ENTITLEMENT

The Company has determined that for the purposes of voting at the Special Meeting, all shares in the Company will be taken to be held by the persons who held them as registered shareholders on 12 April 2015 at 11:00am (*Entitlement Time*).

All holders of shares in the Company as at the Entitlement Time will be entitled to vote at the Special Meeting except the Continuing Shareholders. All votes cast by the Small Shareholders, whether they are cast in favour or against the proposed resolution, will be counted for the purposes of determining whether the resolution is passed at this Special Meeting.

5. APPOINTING A PROXY

A shareholder who is entitled to attend and vote at the Special Meeting may appoint a proxy. If the shareholder is entitled to more than one vote, the shareholder may appoint one or two proxies. Where the shareholder appoints two proxies, the appointment may specify the proportion or number of votes that each proxy may exercise. If the appointment does not specify a proportion or number, each proxy may exercise one-half of the votes, in which case any fraction of votes will be disregarded.

A proxy need not be a shareholder of the Company. If you require an additional Proxy Form, the Company will supply it on request. The Proxy Form and the power of attorney or other authority (if any) under which it is signed (or a certified copy) must be received by the Company or the Company's share registry on or prior to 10:00am on 12 April 2015. Any Proxy Form received after that time will not be valid for the scheduled Special Meeting.

An instrument appointing a proxy must be in writing under the hand of the appointer or of the appointer's attorney duly authorised in writing or, if the appointer is a corporation, under seal. If the appointer is a corporation and does not have a seal, the corporation may wish to appoint a body corporate representative under section 250D of the Corporations Act to exercise all or any of the powers the corporation may exercise at the Special Meeting, or appoint an attorney to sign the Proxy Form. A proxy may decide whether to vote on any motion, except where the proxy is required by law or the Company's constitution to vote, or abstain from voting, in their capacity as proxy. If a proxy is directed how to vote on an item of business the proxy may vote on that item only in accordance with that direction. If a proxy is not directed how to vote on an item of business, a proxy may vote as he or she thinks fit. If a shareholder appoints the chairman of the Special Meeting as the shareholder's proxy and does not specify how the chairman is to vote on an item of business, the chairman will vote, as proxy for the shareholder, in favour of the item on a poll.

Registered Office: Resource Equipment Limited
276 Treasure Road
Welshpool WA 6106
Facsimile: +61 8 9258 9804

Share registry: Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia
Facsimile:
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

Your proxy form is enclosed.

By order of the Board

Michael Kenyon
Company Secretary / Chief Financial Officer

Dated: 11 March 2015

Explanatory Memorandum

1. FREQUENTLY ASKED QUESTIONS

This section provides a summary of the Capital Reduction and Delisting and refers you to other sections of the Explanatory Memorandum where you will find more information on the subjects mentioned. This section does not provide all information that may be relevant. You should read the Explanatory Statement including the Independent Expert's Report and the Tax Adviser's Report in full before deciding how to vote at the Meetings.

What is the Capital Reduction?	The Capital Reduction involves a selective capital reduction of the issued share capital of REL. Under the Capital Reduction, all Shares which are not owned by the Continuing Shareholders will be cancelled in return for payment of A\$0.26 per Share.
What is the Delisting?	The Delisting involves the removal of REL from the Official List of ASX. If the Delisting is approved, Shares will no longer be capable of being traded on ASX.
What approvals are required?	<p>For the Capital Reduction to proceed, it must be approved by:</p> <ul style="list-style-type: none"> • a Special Resolution passed at the General Meeting by at least 75% of the votes cast by all Shareholders. However, votes cast in favour of the Capital Reduction by any Small Shareholder will not be counted; and • a Special Resolution passed at the Special Meeting by at least 75% of the votes cast by the Small Shareholders whose Shares are to be cancelled under the Capital Reduction. <p>For the Delisting to proceed, it must be approved by Ordinary Resolution passed at the General Meeting. No votes may be cast in respect of the Delisting resolution by Pump Services and its Associates, including Mr Naymola.</p>
When and where will the Meetings be held?	<p>Both of the Meetings will be held at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney, NSW, 2000.</p> <p>The General Meeting will be held at 10:00am on 14 April 2015.</p> <p>The Special Meeting will be held at 11:00am on 14 April 2015 or the conclusion or adjournment of the General Meeting, whichever is earlier.</p>
Am I entitled to vote at the General Meeting?	All Shareholders may vote on the Capital Reduction at the General Meeting. Under the Corporations Act, REL must disregard votes cast in favour of the Capital Reduction at the General Meeting by the Small Shareholders and their Associates. However, Small Shareholders wishing to vote against the Capital Reduction at the General Meeting may do so, and REL must take account of their votes.

	All Shareholders except for Pump Services and its Associates, including Mr Naymola may vote on the Delisting at the General Meeting.
Am I entitled to vote at the Special Meeting?	All Small Shareholders may vote on the Capital Reduction at the Special Meeting.
Am I a Small Shareholder?	Small Shareholders are all Shareholders in REL other than each holder of Shares in which Pump Services, Mr Naymola, CFT (CMS) Pty Ltd, Ashsky Pty Ltd or their Associates have a relevant interest.
How much will I receive under the Capital Reduction?	<p>If the Capital Reduction is approved, Small Shareholders will receive cash of A\$0.26 per Share on or around 29 April 2015 upon implementation of the Capital Reduction.</p> <p>If you are a Small Shareholder and you decide to sell your Shares on ASX pursuant to the Buy-back, you will receive cash of A\$0.26 per Share.</p>
When will Small Shareholders get paid?	<p>If the Capital Reduction is approved, the Small Shareholders will be paid by cheque on or about 29 April 2015, being approximately 15 days after the Meetings are held.</p> <p>If you decide to sell your Shares on ASX pursuant to the Buy-back, the usual rules for settlement of on-market transactions on ASX will apply in respect of the Buy-back. This means that REL will pay you on a T+3 basis (being 3 trading days after the date on which you sell your Shares on ASX).</p>
Should I vote?	<p>You do not have to vote, however:</p> <ul style="list-style-type: none"> the Independent Directors unanimously recommend that all Shareholders vote in favour of the resolutions to approve the Capital Reduction in the Meetings; the Board unanimously recommends that all Shareholders vote in favour of the resolution to approve the Delisting at the General Meeting; and the Board intends to vote the Shares they control or open proxies they hold in favour of the resolutions to the extent that they are not excluded from doing so.
How do I vote?	Details on how to vote, either in person or by proxy, are contained in section 3.
What happens if the Capital Reduction is approved?	<p>If the Capital Reduction is approved, REL will:</p> <ul style="list-style-type: none"> cancel all of the Shares of the Small Shareholders (which are not sold under the Buy-back) on or around 29 April 2015;

	<ul style="list-style-type: none"> • pay each Small Shareholder A\$0.26 per Share in cash, on or around 29 April 2015; • implement the Capital Reduction without the need for further notice to, or input from, the Small Shareholders; and • conduct an on-market Buy-back of its Shares at A\$0.26 per Share for 3 trading days following the Special Meeting so that you may elect to sell your Shares on ASX during that period. The sale of Shares pursuant to the Buy-back may incur brokerage costs. Refer to section 10 of the Explanatory Memorandum and the Tax Adviser's Report for the tax implications of the cancellation of your shares through the Capital Reduction versus the Buy-back.
What happens if the Capital Reduction is not approved?	<p>If the Capital Reduction is not approved:</p> <ul style="list-style-type: none"> • Small Shareholders will not receive A\$0.26 per Share; • Small Shareholders will continue to retain their Shares (unless they hold a non-marketable parcel – refer to section 4.3(g)); • REL will not conduct the Buy-back; and • Pump Services will continue to be a controlling Shareholder of REL.
What happens if the Delisting is approved?	<p>If the Delisting is approved, the last day for trading of Shares on the Official List of ASX is expected to be 14 May 2015. After that date, you will not be able to sell your Shares on ASX.</p>
What happens if the Delisting is not approved?	<p>If the Delisting is not approved:</p> <ul style="list-style-type: none"> • the future Share price may continue to be constrained by the existing ownership structure and the current relatively low liquidity of the Shares; and • the Share price may return to levels it traded at prior to the announcement of the Capital Reduction.
What is the opinion of the Independent Expert?	<p>The Independent Expert has concluded that the Capital Reduction is fair and reasonable to the Shareholders as a whole. You should read the Independent Expert's Report attached to the Explanatory Memorandum at Annex 1 in full.</p>
What is the difference between the Capital Reduction and the Buy-back?	<p>To participate in the Buy-back, you will need to sell your Shares on ASX and brokerage may be payable. If the Capital Reduction is approved, Small Shareholders do not need to take</p>

	any action to participate in the Capital Reduction. Refer to the Tax Adviser's Report for a general description of the tax implications.
What are the tax implications arising out of the Capital Reduction?	<p>Refer to the Tax Adviser's Report attached to the Explanatory Memorandum at Annex 2 for information on the tax implications arising out of the Capital Reduction. If the Capital Reduction is approved, the Company will conduct a Buy-back of its Shares at A\$0.26 per Share for 3 trading days following the Special Meeting and you may elect to sell your Shares on ASX during that period. Refer to section 10 and the Tax Adviser's Report for the tax implications of the cancellation of your Shares through the Capital Reduction versus the Buy-back.</p> <p>Tax implications will depend on your own individual circumstances and you should consult your financial, legal or other professional adviser before making a decision on how to vote at the Meetings.</p>

2. WHAT YOU SHOULD DO

2.1 Step 1 – Read the Explanatory Memorandum

The Explanatory Memorandum sets out the details of the Capital Reduction and Delisting for Shareholders. You should read and consider the Explanatory Memorandum carefully and note the date and times of the Meetings. If you are uncertain about any information in the Explanatory Memorandum please consult your financial, legal or other professional adviser.

2.2 Step 2 – Vote on the resolutions

Having considered the information provided to you in the Explanatory Memorandum, you should decide how you wish to vote at the relevant Meetings.

Your vote is important and all Shareholders are urged to vote. Details of the relevant Meetings are set out in the Notice of General Meeting and Notice of Special Meeting enclosed. You can vote in person at the Meetings or by proxy. Refer to section 3 on "How to Vote".

2.3 Step 3 – Decide whether to sell into the Buy-back

If the Capital Reduction is approved, you should decide whether you prefer to sell your Shares on-market into the Buy-back or have them cancelled under the Capital Reduction.

3. HOW TO VOTE

3.1 Venue

Both of the Meetings will be held at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney NSW 2000.

The General Meeting will be held at 14 April 2015 commencing at 10:00am. The Special Meeting will be held at 14 April 2015 commencing at 11:00am or the conclusion or the adjournment of the General Meeting, whichever is earlier.

3.2 Take action

The Capital Reduction affects your shareholding and your vote is important. Please take action by voting in person or by proxy.

3.3 Voting in person

If you wish to vote in person you should attend the Meetings.

3.4 Voting by Proxy

If you are unable to attend either of the Meetings, please vote by completing, signing and delivering the relevant Proxy Form enclosed with this Explanatory Memorandum as soon as possible but so that it is received by REL or REL's share registry no later than 10:00am on 12 April 2015. Proxy Forms received after this time will be invalid.

Proxy Forms are to be returned to the Company or the Company's share registry:

Registered Office: Resource Equipment Limited
 276 Treasure Road
 Welshpool WA 6106
 Facsimile: +61 8 9258 9804

Share registry: Computershare Investor Services Pty Limited
 GPO Box 242 Melbourne
 Victoria 3001 Australia
 Facsimile:
 (within Australia) 1800 783 447
 (outside Australia) +61 3 9473 2555

4. CAPITAL REDUCTION

4.1 Purpose of this Explanatory Memorandum

This Explanatory Memorandum has been prepared for the purpose of providing Shareholders with all the information known to REL that is material to the Shareholders' decisions on how to vote on the proposed resolutions at the relevant Meeting. Accordingly, this Explanatory Memorandum is intended to satisfy REL's obligations under section 256C(4) of the Corporations Act.

We recommend you read this Explanatory Memorandum including the Independent Expert's Report and Tax Adviser's Report in its entirety before making a decision as to how to vote on the proposed resolutions at the Meetings.

4.2 Details of the Capital Reduction

The Capital Reduction involves a selective capital reduction of the issued share capital of REL. Under the Capital Reduction, it is proposed that all Shares which are not owned by the Continuing Shareholders will be cancelled in return for payment of A\$0.26 per Share. The Capital Reduction relates to 7,950,826 Shares being approximately 1.74% of the total number of Shares and, if approved, the aggregate consideration to be paid to Small Shareholders for the cancellation of their Shares will amount to approximately A\$2.1 million. After the Capital Reduction is completed, all Shares on issue will be held by the Continuing Shareholders.

The Continuing Shareholders, each of whom are controlled by directors of the Company have each indicated to the Company that they do not wish to sell their shares and do not wish to participate in the Capital Reduction or the Buy-back.

The Capital Reduction can only proceed if:

- (a) a Special Resolution approving the Capital Reduction is passed at the General Meeting of Shareholders, with no votes being cast in favour of the special resolution by any Small Shareholders (although such Small Shareholders may vote against the resolution); and
- (b) a Special Resolution approving the Capital Reduction is passed at the Special Meeting of those Shareholders whose Shares are to be cancelled under the Capital Reduction (i.e. Small Shareholders).

If the Capital Reduction is approved:

- (a) REL will pay to each Small Shareholder A\$0.26 per Share in cash on or around 29 April 2015;
- (b) REL will cancel all of the Shares of Small Shareholders on or around 29 April 2015;
- (c) REL will implement the Capital Reduction without the need for any further notice to, or input from, the Small Shareholders; and
- (d) REL will conduct a Buy-back of its Shares for 3 trading days following the Special Meeting so that you may elect to sell your Shares on ASX during that period. The sale of Shares pursuant to the Buy-back may also incur brokerage costs. Refer to section 10 of the Explanatory Memorandum and the Tax Adviser's Report for the tax implications of the cancellation of your shares through the Capital Reduction versus the Buy-back.

4.3 Advantages to the Small Shareholders if the Capital Reduction is approved

The following is a summary of the reasons why the Independent Directors consider approval and implementation of the Capital Reduction would be advantageous to the Small Shareholders.

- (a) ***The consideration payable pursuant to the Capital Reduction is at a substantial premium to recent trading price and the fair market value assessed by the Independent Expert***

If approved, the Capital Reduction will have the effect of returning A\$0.26 per Share to each Small Shareholder. This consideration represents a substantial premium over the volume weighted average share price (VWAP) for REL since the close of the Takeover Offer and for the 30, 60 and 90 days prior to 16 December 2014 (being the last day on which Shares traded on ASX prior to the announcement of the Takeover Offer), as indicated in the table below:

Cash Consideration A\$ per Share	VWAP A\$ since close of Takeover Offer ²	30 Day VWAP pre-Takeover Offer A\$ per Share	60 Day VWAP pre-Takeover Offer A\$ per Share	90 Day VWAP pre-Takeover Offer A\$ per Share
\$0.26	\$0.23	54.52%	64.20%	68.07%

1. *Excluding the Takeover Offer, the highest price paid for Shares in the 12 months to and including 16 December 2014 was A\$0.20 per Share and the lowest price paid for Shares in the 12 months to and including 16 December 2014 was A\$0.11 per Share.*
2. *Since the close of the Takeover Offer to and including 10 March 2015, the total volume of Shares traded has been 793,484, representing 0.88% (based on 90,480,818 Shares not held by Pump Services, Mr Naymola or their Associates).*

The Independent Expert has concluded that the Capital Reduction is “fair and reasonable” to Shareholders as a whole. In reaching its conclusion, the Independent Expert has estimated the fair market value of a Share to be in the range of A\$0.225 to A\$0.247 on a 100% controlling interest basis.

Accordingly, the value of the consideration offered to the Small Shareholders for their Shares is above the Independent Expert's assessed range of fair market value for a Share. A copy of the Independent Expert's Report is included as Annex 1 to this Explanatory Memorandum.

(b) ***Low liquidity of Shares***

The liquidity of Shares is constrained by the fact that Pump Services has a relevant interest in approximately 80.15% of the Shares. Further, Pump Services and Mr Naymola do not presently intend to trade any Shares in which they have a relevant interest and, therefore, it is only the remaining approximately 19.85% of Shares that are available to be traded. CFT (CMS) Pty Ltd and Ashsky Pty Ltd who hold a further 9.75% and 8.36% of Shares respectively, have indicated to REL that they do not wish to participate in the Capital Reduction or the Buy-back and they do not presently intend to trade their Shares in the near term. The consequence is a limited free float of the Shares and low market liquidity which constrains the ability of Shareholders to acquire and dispose of Shares.

(c) ***Opportunity for Small Shareholders to sell their Shares at the same price that was offered under the Takeover Offer***

The Capital Reduction presents an opportunity for those Small Shareholders who had intended to accept Pump Services' Takeover Offer, but who did not accept the Takeover Offer prior to the expiry of the offer period, to sell their Shares at the same price that was offered under the Takeover Offer. Furthermore, the sale of Shares pursuant to the Capital Reduction will not incur brokerage costs.

(d) ***Independent Expert concluded the Capital Reduction is fair and reasonable***

The Independent Expert's Report concludes the Capital Reduction is fair and reasonable to the Shareholders as a whole.

In reaching its conclusion, the Independent Expert has estimated the fair market value of a Share to be in the range of A\$0.225 to A\$0.247 on a 100% controlling interest basis.

Accordingly, the price offered to the Small Shareholders for their Shares is above the Independent Expert's assessed range of fair market value for a Share. Please refer to the Independent Expert's Report for details of the qualifications and assumptions underlying its assessment.

(e) ***No alternative transaction***

Given that Pump Services has a controlling interest of 80.15% in REL and the Shares are relatively illiquid, the Board considers that it is highly unlikely that an alternative third party will make a higher offer or put forward an alternative proposal for the Shares held by the Small Shareholders. To date, there have not been any alternative offers made for REL other than those made by Pump Services. In addition, Pump Services has informed REL that it has no current intention to dispose of its holding of Shares in the near term.

(f) ***No brokerage costs associated with the Capital Reduction***

As the Capital Reduction involves the cancellation of Shares (rather than a sale of those Shares) it will provide Small Shareholders with the opportunity to dispose of their Shares without incurring brokerage fees.

(g) ***Ability to sell non-marketable parcels***

A large number of Small Shareholders hold parcels of Shares worth less than A\$500 in total. This means that they do not hold a marketable parcel of Shares and, therefore, cannot sell those Shares on the ASX. The Capital Reduction affords those Small Shareholders who hold non-marketable parcels of Shares the opportunity to realise their investment in REL for fair and certain value, and without incurring any brokerage costs.

If the Capital Reduction resolution is not approved, the Board will give written notice to Shareholders with a non-marketable parcel of Shares stating that it intends to sell the non-marketable parcel, and specifying a date by which the Shareholder may give REL written notice that he or she wishes to retain the shareholding pursuant to REL's constitution. If a notice is not received from the relevant Shareholder before the relevant date, the Company may sell the Shares and pay the proceeds of sale into a separate bank account, and hold such proceeds in trust for the previous Shareholder.

4.4 Disadvantages to the Small Shareholders if the Capital Reduction is approved

The following is a summary of the reasons why the Independent Directors consider that approval and implementation of the Capital Reduction could be disadvantageous to the Small Shareholders:

(a) ***Inability to consider better offer in the future***

If the Capital Reduction is approved, the Small Shareholders will not be able to consider any potentially superior offer that may be proposed in the future.

(b) ***Cease having voting rights in REL***

If the Capital Reduction is approved and implemented, the Small Shareholders will cease to enjoy the rights that they have as Shareholders of REL, including attendance and voting at REL meetings.

(c) ***No continued exposure to REL***

Small Shareholders will no longer have any economic or financial exposure to REL's current or future operations, investments and performances and, accordingly, will no longer be able to participate in any future capital growth or potential dividends from REL.

Given the current challenges faced by REL and other mining services companies and Pump Services' intentions to support the growth of the REL Group (which will require capital to

acquire businesses and/or rental inventory), Pump Services anticipates that it is unlikely to support the payment of dividends in the short to medium term.

(d) ***Tax consequences***

Implementation of the Capital Reduction may trigger taxation consequences for you which may not suit your financial position. If the Capital Reduction is approved, REL will conduct a Buy-back of its Shares for 3 trading days following the Meetings and the Small Shareholders may elect to sell their Shares on ASX under the Buy-back during that period.

Please refer to section 10 and the Tax Adviser's Report for the tax implications of the cancellation of your Shares through the Capital Reduction versus the Buy-back. Shareholders should seek independent professional advice regarding tax consequences arising out of the Capital Reduction and Buy-back applicable to their individual circumstances.

4.5 Considerations for Continuing Shareholders

Pump Services considers that REL, as a separate listed entity, no longer meets its corporate objectives and that privatisation of REL via the Capital Reduction and removal of REL from the Official List would be in the best interests of all Shareholders.

If the Capital Reduction is approved, the Shares held by the Continuing Shareholders will constitute all of the issued capital of REL and the Continuing Shareholders will be fully exposed to the potential risks or rewards associated with their investment in REL for so long as they remain shareholders in REL.

4.6 Implications of not proceeding with the Capital Reduction

If the Capital Reduction is not approved, REL will continue to conduct a general operational review of its business as disclosed in Pump Services' bidder's statement dated 18 December 2014.

Furthermore, if the Capital Reduction is not implemented, Shareholders should note that:

- (a) Small Shareholders will not receive the return of capital of A\$0.26 per Share;
- (b) Small Shareholders will continue to retain their Shares (unless they hold a non-marketable parcel – refer to section 4.3(g)); and
- (c) Pump Services will continue to be a controlling Shareholder.

The Delisting resolution is not conditional on the outcome of the Capital Reduction. Refer to section 5.4 for the effects of the Delisting if it is implemented. If the Delisting is not implemented, Shareholders should note that:

- (d) the future Share price may continue to be constrained by the existing ownership structure and the current relatively low liquidity of the Shares; and
- (e) the Share price may return to the levels it traded at prior to the announcement of the Capital Reduction.

4.7 Implications for creditors

The Independent Directors have considered the effect of the Capital Reduction on the creditors of REL and have formed the view that the implementation of the Capital Reduction will not materially prejudice REL's ability to pay its creditors.

4.8 Shareholder approval process

Under the Corporations Act, REL can only implement the Capital Reduction if:

- (a) the Capital Reduction is fair and reasonable to REL's Shareholders as a whole;
- (b) the Capital Reduction does not materially prejudice REL's ability to pay its creditors; and
- (c) REL obtains Shareholder approval by Special Resolution at the General Meeting and at the Special Meeting.

Two meetings are separately required because the Capital Reduction involves a selective capital reduction and the cancellation of Shares.

(a) General Meeting

A Special Resolution to approve the Capital Reduction must be passed at a meeting of all Shareholders. For the Capital Reduction to be implemented, it must be approved by at least 75% of the votes cast either in person or by proxy by the Shareholders. As the Small Shareholders will receive consideration for the cancellation of their Shares under the Capital Reduction, the Corporations Act provides that any votes cast in *favour* of the Capital Reduction by the Small Shareholders at the General Meeting are to be disregarded. However, votes cast against the Capital Reduction by the Small Shareholders at the General Meeting will be taken into account.

Pump Services and Mr Naymola have a relevant interest in approximately 80.15% of the Shares and have stated that they will vote their Shares in favour of the Capital Reduction at the General Meeting. Accordingly, if the Capital Reduction is approved at the Special Meeting, it will also be approved at the General Meeting. The Capital Reduction resolution at the General Meeting is conditional upon the approval of the Capital Reduction resolution set out in the Special Meeting.

(b) Special Meeting

A Special Resolution to approve the Capital Reduction must be passed at a meeting of the Shareholders whose Shares are to be cancelled. Accordingly, only the Small Shareholders may vote on the Capital Reduction at the Special Meeting. For the Capital Reduction to be approved at the Special Meeting, it must be approved by at least 75% of the votes cast either in person or by proxy by the Small Shareholders. All votes cast by the Small Shareholders at the Special Meeting, whether for or against the Capital Reduction, will be counted in this vote. The terms of this resolution are set out in the Notice of Special Meeting. The Special Meeting is conditional upon the approval of the Capital Reduction resolution set out in the General Meeting.

4.9 Proxy voting intentions

Mr Stephen Donnelley, as the proposed chairperson of the Meetings, intends to vote undirected proxies in favour of the Capital Reduction and Delisting at the Meetings, noting that votes cast by

the Small Shareholders in favour of the Capital Reduction resolution at the General Meeting must be disregarded by REL for the reasons set out above.

If Pump Services' nominated Director (Mr Naymola) is appointed as an undirected proxy for any Small Shareholder, then Mr Naymola will vote in respect of the Shares held by that Small Shareholder in accordance with the chairperson's vote on undirected proxies.

5. DELISTING

REL is seeking to procure that it be removed from the Official List of ASX. Details of the proposed Delisting are set out below.

5.1 Background to the Delisting

REL has applied to the ASX to be removed from the Official List pursuant to Listing Rule 17.11.

In response to the application, ASX has provided in principle advice that it would approve the removal of REL from the Official List, subject to compliance with the following conditions (amongst others):

- (a) the Delisting is approved by Ordinary Resolution of the Shareholders;
- (b) the Delisting must not take place any earlier than one month after the date of approval of the Delisting in the General Meeting; and
- (c) that no votes are cast by Pump Services and its Associates, including Mr Naymola in respect of the Delisting in the General Meeting.

The Delisting resolution is being considered in the General Meeting to satisfy conditions (a) and (c) above. A formal application for Delisting will be made to ASX if the Delisting is approved by Shareholders at the General Meeting.

5.2 Reasons for seeking removal from the Official List

The Board's key reasons for recommending that Shareholders approve the Delisting are as follows:

(a) *Low liquidity of Shares*

Prior to the Takeover Offer, there was a relatively low level of liquidity in trading in Shares on ASX. It is expected that the limited market for Shares will continue to be low and may decrease further in the future given Pump Services' relevant interest in 80.15% of REL. Further, Pump Services and Mr Naymola do not presently intend to trade any Shares in which they have a relevant interest and, therefore, it is only the remaining approximately 19.85% of Shares that are available to be traded. CFT (CMS) Pty Ltd and Ashsky Pty Ltd who hold a further 9.75% and 8.36% of Shares respectively, have indicated to REL that they do not wish to participate in the Capital Reduction or the Buy-back and they do not presently intend to trade their Shares in the near term. The consequence is a limited free float of the Shares and low market liquidity which constrains the ability of Shareholders to acquire and dispose of Shares.

(b) *Small spread of holdings*

Listing Rule 12.4 provides that “*An entity must maintain a spread of security holdings in its main class, which in ASX’s opinion, is sufficient to ensure that there is an orderly and liquid market in securities.*”

As at 5 March 2015, REL has 888 Shareholders. Of these Shareholders, 542 have holdings of less than A\$500 (based on the closing price of A\$0.245 as at 5 March 2015. As at that date, only 162 Shareholders had holdings of more than A\$2,000, compared to the spread requirements of 400 such shareholders in Chapter 1 of the Listing Rules.

Accordingly, the Board anticipates that REL does not currently and will not satisfy the usual spread requirements of ASX required under Listing Rule 12.4 (by reference to the spread requirements set out in Chapter 1 of the Listing Rules) and is not likely to be able to do so in the near future.

(c) ***Cost of maintaining an ASX listing is too high***

In its half year financial results for the six month period ended 31 December 2014 released on ASX on 26 February 2015, REL reported total comprehensive loss for the half year of A\$6,403,000. REL provides services to the mining industry which has recently experienced a downturn due to falling commodity prices. Therefore it is important to REL’s strategy that it is able to reduce costs as much as possible to enable funds to be spent on REL’s current strategy of utilisation of the rental fleet, delivering on oil and gas segment opportunities, considering acquisitive growth opportunities that complement the current business, and to minimise future losses. REL estimates that the annual cost of maintaining its ASX listing is approximately A\$600,000. These costs (including management time) will be saved as a result of REL no longer being listed on ASX.

(d) ***Inability to raise capital***

Given Pump Services’ relevant interest of 80.15% in REL, the current number of Shareholders, and the sustained difficult market conditions facing the mining industry and therefore entities serving the mining industry, the Board anticipates difficulty raising additional capital either from new or existing Shareholders other than Pump Services.

5.3 Advantages and Disadvantages of removal from the Official List

The Board notes that the primary advantage of REL’s removal from the Official List is the cost savings associated with no longer having to comply with the regulatory and administrative requirements of being a listed entity.

The Board notes that the disadvantages of REL’s removal from the Official List are as follows:

- Shares will no longer be capable of being traded on ASX which will directly affect the liquidity of Shares that may otherwise have been available to Shareholders;
- Shareholders will need to complete any subsequent transfer of Shares off-market;
- as an unlisted entity, REL would no longer have the ability to raise capital from the issue of securities on the ASX; and
- Shareholders will no longer enjoy the legal protections provided to shareholders of listed entities under the Listing Rules, such as the need for continuous disclosure, restrictions on the issue of share capital, financial reporting requirements, and the need to address ASX Corporate Governance Principles and Recommendations.

5.4 Effect of Delisting on Shareholders

If the Delisting is approved by the Shareholders, REL will be removed from the Official List on a date to be decided by REL and approved by ASX (**Removal Date**) that is no earlier than one month after the date of the Shareholder approval. This date is currently expected to be 15 May 2015. Before the Removal Date, Shares may continue to be traded on ASX. After the Removal Date, Shareholders will not be able to trade their Shares via CHESS and all transfers would need to be effected off-market. Shareholders who remain on REL's register after the removal of REL from the Official List will retain the protections afforded to them under the Corporations Act and REL's constitution.

5.5 Shareholder approval

As outlined above, ASX has advised that Shareholder approval of the Delisting must be obtained before ASX will act on REL's request for removal from the Official List. Accordingly, REL is seeking Shareholder approval for the removal of REL from the Official List. For the Delisting to be implemented, it must be approved by Ordinary Resolution of the Shareholders, being at least 50% of the votes cast whether in person or by proxy. REL is proposing that the Delisting resolution be considered at the General Meeting, the terms of which are set out in the Notice of General Meeting. All Shareholders except for Pump Services and its Associates including Mr Naymola may vote in respect of the Delisting resolution.

In accordance with the conditions set out by the ASX in its in principle advice, any votes cast by Pump Services and its Associates, including Mr Naymola will be disregarded for the purposes of determining whether the Ordinary Resolution in respect of the Delisting is passed at the General Meeting. A formal application for Delisting will be made to ASX if the Delisting is approved by Shareholders at the General Meeting.

6. ADDITIONAL INFORMATION

6.1 Directors of REL

The Board of REL as at the date of this Explanatory Memorandum are:

- (a) Loddie Naymola Jr, Chairman, Executive Chairman, Chief Executive Officer;
- (b) Andrew Aitken, Executive Director;
- (c) Stephen Donnelley, Non-Executive Director;
- (d) David Campbell, Executive Director; and
- (e) Roderick Hayes, Executive Director.

6.2 Directors' shares held in REL

The Board of REL and the number of Shares and Options held by or on behalf of each member of the Board and their related parties are set out below.

Name	Number of REL Ordinary Shares Held (directly or indirectly)	% of Issued Capital	Number of REL Options Held (directly or indirectly)	Number of REL Earn-Out Shares Held (directly or indirectly)
------	---	---------------------	---	---

Loddie Naymola Jr*	365,370,348	80.15%	Nil	6,632,720
Andrew Aitken	Nil	Nil	Nil	Nil
Stephen Donnelley	Nil	Nil	Nil	Nil
David Campbell**	44,439,226	9.75%	Nil	6,632,720
Roderick Hayes***	38,090,766	8.36%	Nil	6,632,720

* *These Shares are held by Mr Naymola in his personal capacity and by Pump Services. Mr Naymola is the sole manager / director and shareholder of Pump Services.*

** *These Shares are held by CFT (CMS) Pty Ltd acting in its capacity as trustee for the Campbell Family Trust. Mr David Campbell is the sole director of CFT (CMS) Pty Ltd and a general beneficiary of the Campbell Family Trust.*

*** *These Shares are held by Ashsky Pty Ltd acting in its capacity as trustee of the Hayco Investment Trust. Mr Hayes is the sole director of Ashsky Pty Ltd and is a general beneficiary of the Hayco Investment Trust.*

6.3 Director interests

No Director (other than Mr Naymola who is the sole director / manager and shareholder of Pump Services) has any interest in any arrangement or contract entered into with Pump Services or an associate of Pump Services or REL.

6.4 Payments or other benefits

No payment or benefit in connection with the Capital Reduction or Delisting is proposed to be made or will be given to any Director, secretary or executive officer of REL or any related body corporate as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in REL or any related body corporate.

6.5 No agreement or arrangement

There is no agreement or arrangement between a Director and any other person in connection with or conditional upon the outcome of the Capital Reduction or Delisting.

6.6 Capital structure of REL

The issued share capital of REL as at the date of this Explanatory Memorandum is 455,851,166. REL has recently cancelled 1,500,000 Options on issue for no consideration.

6.7 Consents

The Independent Expert and Tax Adviser have consented in writing to the inclusion of their reports and the statements based on their reports, in the form and context in which they appear in this document and have not withdrawn their consent.

6.8 Directors' recommendations

Mr Naymola is the sole manager / director and shareholder of Pump Services which has a relevant interest in 80.15% of the Shares, and does not consider it appropriate to make a recommendation to the Shareholders concerning the Capital Reduction.

Messrs David Campbell and Roderick Hayes have an interest in 9.75% and 8.36% of Shares, respectively. Accordingly they abstain from making a recommendation on the Capital Reduction resolution.

Capital Reduction

The Independent Directors have elected to make a recommendation in respect of the Capital Reduction. In doing so, they had regard to the opinion of the Independent Expert, noting that the Independent Expert has concluded that:

- (a) the Capital Reduction is fair and reasonable to the Shareholders as a whole; and
- (b) in the absence of the Capital Reduction (or an alternative transaction) and subject to the outcome of the Delisting resolution, Shares may trade below the prices achieved since the announcement of the Capital Reduction.

In these circumstances, the Independent Directors support the Capital Reduction and have formed the view that the Capital Reduction:

- (a) is in the best interests of the Small Shareholders;
- (b) is fair and reasonable to the Shareholders as a whole; and
- (c) does not materially prejudice REL's ability to pay its creditors.

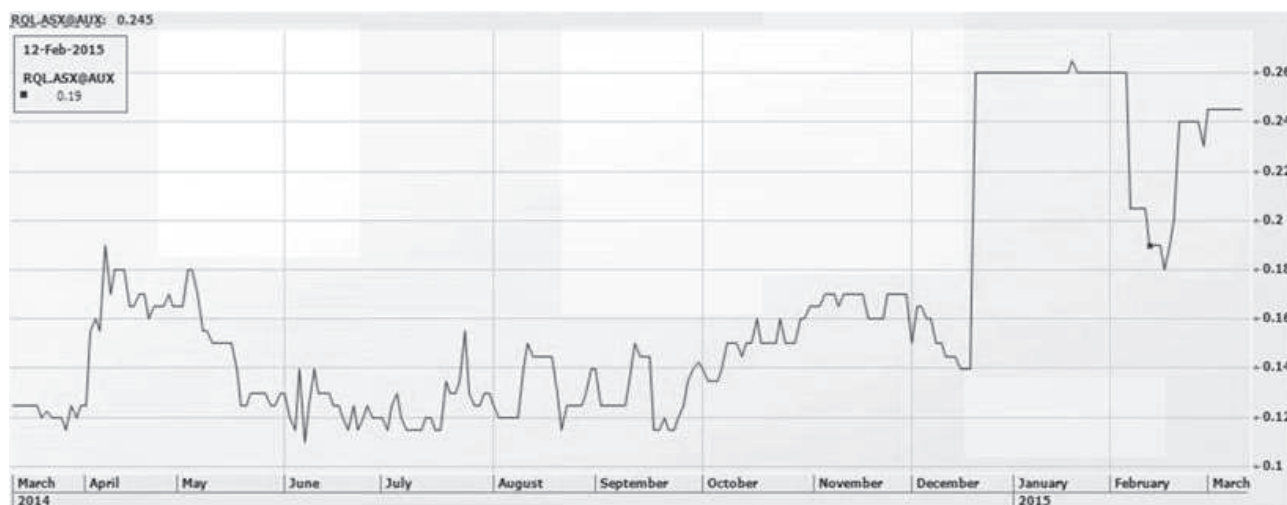
Delisting

The Board has elected to make a recommendation in respect of the Delisting resolution. The Board has considered the factors outlined in section 5 above and has concluded that the costs associated with maintaining an ASX listing are disproportionate to the benefits of remaining listed on ASX and, accordingly, Delisting is in the best interests of REL and all Shareholders.

The Independent Directors recommend that all Shareholders approve the Capital Reduction by voting in favour of the resolution proposed in the Meetings. The Board recommends that all Shareholders approve the Delisting by voting in favour of the resolution proposed in the General Meeting.

7. REL

7.1 Share price history



7.2 Changes in the financial position of REL

(a) Half year results

REL released its half year financial results for the six month period ended 31 December 2014 to ASX on 26 February 2015. A copy is available on ASX at: <http://www.asx.com.au/asxpdf/20150226/pdf/42wxlyf3bt4vm0.pdf>

(b) Other material matters

As at the date of this Explanatory Memorandum, REL has 455,851,166 Shares on issue. 7,950,826 of the Shares are held by the Small Shareholders. Assuming the Capital Reduction is approved by Shareholders, the issued capital would be reduced by a total of approximately A\$2,067,215 by returning A\$0.26 per Share to the Small Shareholders. REL's current liabilities will increase by A\$2,067,215 as a result of paying the Small Shareholders from its working capital.

Except as disclosed in this Explanatory Memorandum, based on the most recent financial information available as at the date of this Explanatory Memorandum, the Directors are not aware of any other material changes to the financial position of REL since 31 December 2014.

7.3 Pump Services' Takeover Offer

On 18 December 2014, Pump Services lodged a bidder's statement with respect to its unconditional on-market takeover bid to acquire all the issued shares in REL at A\$0.26 per Share (**Takeover Offer**). The cash offer of A\$0.26 per Share represented an 86% premium to REL's closing price of A\$0.14 on 16 December 2014, the last full trading day in the Shares prior to the announcement of the Takeover Offer, and a significant premium to the trading price of Shares over a range of time periods prior to the announcement date. The Board unanimously recommended that Shareholders accept the Takeover Offer in the absence of a superior proposal.

The Takeover Offer expired on 3 February 2015. As at that date, Pump Services and Mr Naymola had acquired a relevant interest in 80.15% of the Shares.

7.4 Company Shares

Top 20 Shareholders

As at 5 March 2015 the top 20 Shareholders in REL were as follows:

Top 20 Shareholders REL Shareholdings	
Top 20 Shareholders	Number of Shares
1. Pump Services LLC	308,901,685
2. CFT (CMS) Pty Ltd	44,439,226
3. Mr Loddie Naymola	44,439,226
4. Ashsky Pty Ltd	38,090,766
5. Merrill Lynch (Australia) Nominees Pty Ltd	13,029,437
6. Citicorp Nominees Pty Limited	722,759
7. Ms Dimitra Stratos	501,202
8. ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	258,877
9. Mr James Kelly & Ms Rita Ashlin <Kelly Ashlin Super Fund A/C>	224,362
10. Woods Super Pty Ltd <Woods Super Fund A/C>	200,000
11. Mr Peter Kim Flaherty	167,181
12. Samaron Pty Ltd <GRW Family A/C>	150,000
13. Mrs Susan Mary Taylor	150,000
14. Interthought Pty Ltd <The J W Wreford Family A/C>	141,130
15. Mr Mieczyslaw Rachwal	121,658
16. David William Cullen & Edrei Therese Cullen <One Louder Entertainment>	114,114
17. Mr Michael Richard Dwyer	100,000
18. Mr Nicholas Dermott McDonald	96,780
19. Rotherwood Enterprises Pty Ltd	88,989
20. 31 May Pty Ltd	81,267

Distribution of Shares

As at 5 March 2015 the distribution of shareholders was as follows:

Distribution of REL Shareholdings	
Distribution	Number of Shareholders
1 – 1,000	406
1,001 - 5,000	265
5,001 - 10,000	85
10,001 - 100,000	116
> 100,000	16
Total number of shareholders	888

8. PUMP SERVICES

8.1 Overview of Pump Services

Pump Services is a limited liability company incorporated in Delaware, United States of America and is wholly-owned by Mr Naymola. Pump Services has not undertaken any trading or other activities other than in connection with the Takeover Offer. Mr Naymola is the sole manager / director and shareholder of Pump Services.

8.2 Details of holdings in REL's securities

At the date of this Explanatory Memorandum, Pump Services is the registered holder of 308,901,685 Shares, Mr Naymola is the registered holder of 44,439,226 Shares and Merrill Lynch is the registered holder of 12,029,437 Shares on behalf of Mr Naymola. In aggregate, Pump Services and Mr Naymola have a relevant interest in 365,370,348 Shares being approximately 80.15% of the issued share capital. These are the only securities in REL in which Pump Services or its Associates have a relevant interest.

8.3 Dealings in Shares

There have been no dealings in Shares by Pump Services or its Associates over the past four months other than as set out below:

- (a) Merrill Lynch, on behalf of Mr Naymola, acquired 12,029,437 Shares between 14 February 2014 and 13 November 2014 via on-market acquisitions on ASX;
- (b) Mr Naymola acquired 44,439,226 Shares on 28 November 2014 pursuant to the CMS Transaction; and
- (c) Pump Services acquired 308,901,685 Shares between 18 December 2014 and 3 February 2015 via on-market acquisitions on ASX pursuant to the Takeover Offer.

8.4 No benefits to Pump Services

Neither Pump Services nor any of its Associates proposes to make or give any payment or other benefit to any Director, secretary or executive officer of REL or any related body corporate of REL as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in REL or any related body corporate.

8.5 No other arrangement or association

Neither Pump Services nor any of its Associates has entered into any arrangements or agreements with any of the Directors of REL in connection with or conditional upon the outcome of the Capital Reduction and Delisting.

Pump Services, Mr Naymola, CFT (CMS) Pty Ltd and Ashsky Pty Ltd have represented that CFT (CMS) Pty Ltd and Ashsky Pty Ltd are not Associates of Pump Services or Mr Naymola in relation to the affairs of the Company.

8.6 Pump Services' intentions

This section sets out Pump Services' intentions on the basis of facts and information concerning REL, which are known to Pump Services', and which REL has been advised of at the time of preparation of this Explanatory Memorandum, and the existing circumstances affecting the business of REL. However, final decisions will only be reached by Pump Services in light of material facts and circumstances following the general review of REL that Pump Services intends to conduct. Accordingly, the statements set out in this section are statements of Pump Services' current intentions as advised to REL, which may vary as circumstances require.

As previously disclosed in Pump Services' Bidder's Statement dated 18 December 2014, Pump Services' intentions for REL as an entity controlled by it are as follows:

(a) *Operational review*

Pump Services has begun its broad-based general review of REL's operations, assets, liabilities, employees and strategy to seek to evaluate how to maximise the performance of the REL Group operations. A number of strategic initiatives are now underway to increase REL Group's profitability and discontinue or restructure any un-profitable activities. The review will focus on a number of key areas including:

- (i) the major dewatering projects business and any other un-profitable aspects of REL Group. The Company has received a non-binding indicative approach from a third party in respect of an interest in purchasing the REL Group's Indonesian operations. The Indonesian operations are immaterial to the REL Group. The Company will make an announcement if an agreement is entered into to sell those operations. Such a decision would be made only upon consideration of the relevant legal, financial and taxation implications;
- (ii) a restructure of the rental operations in Welshpool (Perth). To date, this has seen a material reduction in employees through refining processes and leveraging Campbell Mining Services' capabilities. This restructure will provide material cost savings to the business (approximately A\$4.5m per annum) and not impact the Company's overall capability to deliver to customers;
- (iii) fully utilising the current information technology, accounting and other systems infrastructure of REL to better support REL Group's businesses; and

- (iv) a branch based approach to providing rental equipment to customers. This structure allows for better service delivery to customers as well as ownership of performance for the respective branches. The Company is also able to better measure performance and allocation of capital to each branch of the business. This structure will also allow for a reduction in the corporate overhead into the future, which should see further savings of approximately A\$2m per annum being realised over time.

(b) ***Other intentions***

Pump Services still intends to:

- (i) terminate any REL incentive plans operated for the benefit of executives or employees of members of REL Group and replace them with incentives appropriate to an unlisted company (the details of which have not yet been formulated); and
- (ii) to the extent that more employees are made redundant as a result of further review, they will receive all payments and benefits to which they are entitled under applicable laws and contracts.

8.7 Pump Services' voting intentions

Pump Services and Mr Naymola have informed REL that they intend to vote in favour of the Capital Reduction at the General Meeting. Pump Services and its Associates, including Mr Naymola are not entitled to vote at the Special Meeting or on the Delisting resolution in the General Meeting.

8.8 Directors

If REL is delisted from ASX, Pump Services does not intend to retain any independent Directors on the Board.

9. FINANCIAL IMPACT ON SHAREHOLDERS AND CREDITORS

If the Capital Reduction is approved and implemented, each Small Shareholder will receive A\$0.26 per Share and their Shares will be cancelled. On cancellation of their Shares, the Small Shareholders will cease to have any interest in REL.

As noted above, the Independent Expert has concluded that the Capital Reduction is fair and reasonable to the Shareholders as a whole. The Board believes that the implementation of the Capital Reduction will not materially prejudice REL's creditors. As at 31 December 2014, REL had total assets of approximately A\$175.0 million and total liabilities of approximately A\$47.4 million. Its net tangible assets (NTA) at this date is A\$102.6 million. At the completion of the implementation of the Capital Reduction, REL will return approximately A\$2.1 million in cash to Shareholders reducing its NTA to approximately A\$100.5 million. REL will have sufficient working capital from its ongoing cash flow and bank trade facilities to enable REL to pay its creditors and meet its debts when they fall due.

10. TAX IMPLICATIONS

REL has engaged PricewaterhouseCoopers as the Tax Adviser to report to Shareholders on the Capital Reduction and Buy-back. Attached to this Explanatory Memorandum in Annex 2 is the Tax Adviser's Report. Shareholders should read the Tax Adviser's Report in full before making a decision as to how to vote on the resolutions affecting the Capital Reduction. If a Shareholder requires further information on the tax implications arising out of the Capital Reduction or Buy-

back, or is unclear as to the tax implications, that Shareholder should consult their tax, investment or other professional adviser.

11. DEFINITIONS

The following capitalised terms, which are used in documents forming part of this Explanatory Memorandum, have the meanings set out below.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to it by section 12 of the Corporations Act.

ASX means ASX Limited ACN 008 624 691.

Board means the board of directors of REL.

Buy-back means an on-market buyback of Shares proposed by REL at A\$0.26 per Share if the Capital Reduction is approved.

Campbell Mining Services means Campbell Mining Services Pty Ltd ACN 100 097 112.

Capital Reduction means the proposed selective reduction of capital in REL as described in the Explanatory Memorandum and other documents forming part of this Explanatory Memorandum.

CMS Transaction means REL's acquisition of all of the issued share capital of Campbell Mining Services Pty Ltd (other than the shares owned by RAMPS) and all of the issued share capital of RAMPS, as described in REL's Notice of Annual General Meeting and Explanatory Memorandum dated 16 October 2014.

Continuing Shareholders means each holder of Shares in which Pump Services, Mr Naymola, CFT (CMS) Pty Ltd ACN 129 758 863, Ashsky Pty Ltd ACN 128 345 406 or their Associates have a relevant interest.

Corporations Act means the *Corporation Act 2001* (Cth).

Delisting means the proposed delisting of REL from the Official List as described in the Notice of General Meeting, Explanatory Memorandum and other documents forming part of this Explanatory Memorandum.

Director means a director of REL.

Earn-Out Shares means Shares that may be issued pursuant to the CMS Transaction as described in the Company's Notice of Annual General Meeting and Explanatory Memorandum dated 16 October 2014.

EBITDA means earnings before interest, tax, depreciation and amortisation.

Explanatory Memorandum means this document containing information on the resolutions set out in the Notices of Meeting.

General Meeting means the proposed meeting of all Shareholders at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney NSW 2000 on 14 April 2015 at 10:00am to consider and, if thought fit, pass the resolutions set out in the Notice of General Meeting.

Independent Directors means Messrs Andrew Aitken and Stephen Donnelley.

Independent Expert means Lonergan Edwards & Associates Limited.

Independent Expert's Report means the report prepared by the Independent Expert and which is enclosed with this Explanatory Memorandum at Annex 1.

Listing Rules means the ASX Listing Rules.

Meetings means both the General Meeting and the Special Meeting.

Merrill Lynch means Merrill Lynch (Australia) Nominees Pty Ltd.

Notice of General Meeting means the notice dated the date of the Explanatory Memorandum.

Notice of Special Meeting means the notice dated the date of the Explanatory Memorandum.

Notices of Meeting means both the Notice of General Meeting and the Notice of Special Meeting.

NTA means net tangible assets.

Official List means the official list of the ASX.

Option means an option issued by REL pursuant to the Directors and Executives Share Option Plan of REL.

Ordinary Resolution means a resolution of the Shareholders that has been passed by at least 50% of the votes cast by Shareholders entitled to vote on the resolution.

Proxy Form means each proxy form in respect of the General Meeting and Special Meeting enclosed.

Pump Services means Pump Services, LLC, a company incorporated in Delaware, United States of America.

RAMPS means RAMPS Australia Pty Ltd ACN 123 937 520.

REL or **Company** means Resource Equipment Limited ACN 098 812 492.

REL Group means REL and each of its subsidiaries.

Removal Date has the meaning given to it in section 5.4.

Share means a fully paid ordinary share issued in the capital of REL.

Shareholder means a holder of Shares.

Small Shareholders means a Shareholder other than the Continuing Shareholders.

Special Meeting means the proposed meeting of the Small Shareholders at Allen & Overy, Level 25, 85 Castlereagh Street, Sydney NSW 2000 on 14 April 2015 at the earlier of 11:00am and the conclusion or adjournment of the General Meeting to consider and, if thought fit, pass the resolution set out in the Notice of Special Meeting.

Special Resolution means a resolution of Shareholders that has been passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution.

Takeover Offer has the meaning given to it in section 7.3.

Tax Adviser means PricewaterhouseCoopers.

Tax Adviser's Report means the report prepared by the Tax Adviser and which is enclosed with this Explanatory Memorandum at Annex 2.

ANNEX 1

INDEPENDENT EXPERT'S REPORT

The Independent Directors
Resource Equipment Limited
276 Treasure Road
Welshpool WA 6106

11 March 2015

Subject: Proposed selective capital reduction

Dear Independent Directors

Introduction

The Proposal and the Delisting

- 1 On 19 February 2015, Resource Equipment Limited (Resource Equipment or the Company) announced that it intends to call two shareholder meetings to separately consider:
 - (a) a proposed selective capital reduction (the Proposal)
 - (b) a delisting of the Company from the Australian Securities Exchange (ASX) (the Delisting).
- 2 Pursuant to the Proposal, all shares in the Company other than those in which Mr Walter Naymola (Mr Naymola), Mr David Campbell (Mr Campbell) and Mr Rod Hayes (Mr Hayes) as well as each of their respective associates have a relevant interest (collectively the Continuing Shareholders¹) will be cancelled in return for a cash payment of 26.0 cents per Resource Equipment share (Proposed Consideration).
- 3 The Proposal is subject to shareholder approval and if approved, will be financed through existing cash resources or via current bank facilities (i.e. debt) in the order of \$2.1 million. The pro-forma impact of the Proposal on the ownership of the ordinary equity in the Company is as follows:

Resource Equipment – illustrative impact of the Proposal on equity ownership ⁽¹⁾				
	Shares – Pre Proposal ⁽²⁾		Shares – Post Proposal	
	000s	%	000s	%
Mr Naymola (including associates) ⁽²⁾	365,370.3	80.15	365,370.3	81.58
Mr Campbell (including associates) ⁽²⁾	44,439.2	9.75	44,439.2	9.92
Mr Hayes (including associates) ⁽²⁾	38,090.8	8.36	38,090.8	8.50
Exiting Shareholders	7,950.8	1.74	-	-
Total shares outstanding	455,851.2	100.00	447,900.3	100.00

¹ For the remainder of the report, we refer to those shareholders that will have their shares cancelled as Exiting Shareholders.

Note:

- 1 Rounding differences may exist.
- 2 Each of Mr Naymola, Mr Campbell and Mr Hayes may also be entitled to be issued up to 6.633 million fully paid ordinary shares in the Company pursuant to the earn-out provisions in the Share Sale Deed dated on or around 25 September 2014. Pursuant to this deed Resource Equipment acquired Campbell Mining Services Pty Ltd (CMS) and RAMPS Australia Pty Ltd (RAMPS). However, in the 31 December 2014 half year financial statements, the Company stated that having regard to current management earnings estimates, no additional consideration is likely to be payable to the CMS and RAMPS vendors.

Source: Resource Equipment.

- 4 It should also be noted that if the Proposal proceeds, Resource Equipment will conduct an on-market buy-back of its shares at 26.0 cents per share during the three trading days subsequent to the date of shareholder approval. Those shareholders that wish to sell on-market (rather than wait for the Proposal to be implemented) will be able to do so but may incur brokerage costs.
- 5 If approved, the Delisting will not occur any earlier than one month subsequent to the date of shareholder approval. The Delisting is not conditional on the Proposal proceeding.

Corporate background

- 6 Resource Equipment is an Australian equipment rental company that specialises in the supply of pumping and dewatering systems, power generation, air compressors and associated equipment to the mining, oil and gas, heavy engineering and infrastructure industry sectors. The Company provides turnkey solutions for its customers, delivering dewatering services as a complete package, including pump and water treatment systems, pipeline installation, engineering expertise and project management. Resource Equipment is listed on the ASX with a market capitalisation of approximately \$119 million².
- 7 On 27 November 2014, Resource Equipment completed the acquisition of CMS³, a Queensland based equipment rental company experienced in providing specialist water management services and support in open cut mines, coal preparation plants and metaliferous process plants. The CMS acquisition increased the scale, geographical coverage⁴ and customer base of the Company and was funded by the issue of 133.3 million new Resource Equipment shares⁵.
- 8 On 18 December 2014, Pump Services LLC (Pump Services), an entity controlled by Mr Naymola⁶, announced an on-market takeover offer to acquire 100% of the shares in Resource Equipment, at a price of 26.0 cents per Resource Equipment share (Pump Services Offer).

² Based upon the Proposed Consideration of 26.0 cents per share.

³ And associated entity RAMPS.

⁴ Resource Equipment was predominantly focused on the west coast of Australia and CMS on the east coast of Australia.

⁵ Pursuant to the CMS acquisition, there is also the potential for the CMS vendors to receive an additional 19.9 million shares, subject to the achievement of predetermined earn-out performance targets. However, in the 31 December 2014 half year financial statements, the Company stated that having regard to current management earnings estimates, no consideration is likely to be payable to the CMS vendors.

⁶ At the date of the announcement of the Pump Services Offer, Mr Naymola owned 56.5 million shares in Resource Equipment. The majority of these shares were received as consideration for Mr Naymola's one third interest in CMS when it was acquired by Resource Equipment.

The Pump Services Offer represented a substantial premium to the Resource Equipment share price at the time (e.g. an 86% premium to the closing share price on the day prior to the announcement of the bid) and was unanimously recommended by the Directors of Resource Equipment. The Pump Services Offer expired on 3 February 2015 and at the close of ASX trading on that day, Pump Services had acquired a relevant interest in 80.15% Resource Equipment ordinary shares.

Purpose of report

- 9 Section 256B(1) of part 2J.1 of the *Corporations Act 2001 (Cth)* (Corporations Act) permits a company to reduce its share capital in a way that is not otherwise authorised by law if the reduction:
 - (a) is fair and reasonable to the company's shareholders as a whole; and
 - (b) does not materially prejudice the company's ability to pay its creditors; and
 - (c) is approved by shareholders.
- 10 A selective capital reduction must be approved by a special resolution passed at a general meeting of the Company, with no votes cast in favour of the resolution by any person who is to receive consideration as part of the reduction⁷. If the capital reduction also involves the cancellation of shares, the reduction must also be approved by a special resolution passed at a meeting of the shareholders whose shares are to be cancelled (i.e. the Exiting Shareholders).
- 11 The Corporations Act requires the notice of meeting and explanatory memorandum to include all information (known to the company) that is material to the decision on how to vote on the resolution⁸. The Australian Securities & Investments Commission (ASIC) requires an entity to commission an expert report or, if it has the expertise, a director's report to the same standard, in order to discharge the information disclosure requirements imposed upon it by the Corporations Act.
- 12 The Independent Directors of Resource Equipment have requested Lonergan Edwards & Associates Limited (LEA) prepare an IER which addresses the requirements of section 256B(1)(a) only. That is, whether the Proposal is fair and reasonable to Resource Equipment's shareholders as a whole⁹.
- 13 LEA is independent of Resource Equipment and has no other involvement or interest in the Proposal.

Summary of opinion

- 14 In our opinion, the Proposal is fair and reasonable to Resource Equipment shareholders as a whole, in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

⁷ i.e. by at least 75% of the votes cast by members entitled to vote on the resolution.

⁸ The company is not required to disclose information if disclosure would be unreasonable having regard to previous disclosures made by the company.

⁹ Specifically, our report does not address the Delisting for which shareholder approval is also sought.

Exiting Shareholders

- 15 We summarise below the likely advantages and disadvantages for Exiting Shareholders if the Proposal proceeds.

Advantages

- (a) the Proposed Consideration of 26.0 cents per share is 2.4 cents per share above the mid-point of our assessed value range for Resource Equipment shares on a 100% controlling interest basis
- (b) the Proposed Consideration represents a significant premium to the recent market prices of the Company's shares prior to the announcement of the Pump Services Offer on 18 December 2014. Furthermore, the premium is higher than observed premiums generally paid to target company shareholders in comparable circumstances
- (c) if the Proposal does not proceed, and in the absence of an alternative offer or proposal, the price of Resource Equipment shares is likely to trade at a significant discount to our valuation and the Proposed Consideration due to the portfolio nature of individual shareholdings. Share market trading is also likely to be relatively illiquid, in addition to which it is also likely that Resource Equipment shares will be delisted from the ASX
- (d) given that Mr Naymola (and associates) has recently acquired a relevant interest in 80.15% of the issued capital and Mr Campbell (and associates) and Mr Hayes (and associates) each hold a relevant interest of 9.75% and 8.36% respectively in the issued capital, there is no realistic likelihood of a superior offer being received prior to the General Meeting and Special Meeting

Disadvantages

- (e) if the Proposal is implemented, Exiting Shareholders will no longer hold an interest in Resource Equipment and will therefore not participate in any future value created by the Company over and above that reflected in the Proposed Consideration. However, as our assessed value of the Company's shares is lower than the Proposed Consideration, in our opinion, the present value of Resource Equipment's future potential is fully reflected in the Proposed Consideration.

- 16 Given the above, we consider the Proposal to be fair and reasonable to the Exiting Shareholders, in the absence of a superior proposal.

Continuing Shareholders

- 17 In our opinion, the terms of the Proposal are fair and reasonable to the Continuing Shareholders (in the absence of a superior proposal) on the basis that:

- (a) the Proposal was formulated by the Board of Resource Equipment (which is controlled by Mr Naymola)
- (b) the Continuing Shareholders have extensive industry knowledge and the factors impacting the market in which the Company operates
- (c) the Continuing Shareholders have detailed knowledge of the operations and financial performance of both the Resource Equipment and CMS businesses

- (d) if the Proposal is approved, the Continuing Shareholders will no longer have to consider the interests of the Exiting Shareholders and incur associated costs.

18 In our opinion, whilst the position of the Continuing Shareholders is a relevant consideration, the primary focus of the report should be on the advantages and disadvantages to the Exiting Shareholders. We have therefore not undertaken any further analysis of the impact of the Proposed Transaction on the Continuing Shareholders.

Conclusion

19 Having regard to the advantages and disadvantages of the Proposal, we consider that, on balance, the Proposal is fair and reasonable to Resource Equipment shareholders as a whole, in the absence of a superior proposal.

General

20 In preparing this report we have considered the interests of Resource Equipment shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.

21 The impact of approving the Proposal on the tax position of Resource Equipment shareholders depends on the individual circumstances of each investor. Resource Equipment shareholders should read Section 10 of the Notice of Meeting and Explanatory Memorandum and consult their own professional advisers if in doubt as to the taxation consequences of the Proposal.

22 The ultimate decision whether to approve the Proposal should be based on each Resource Equipment shareholder's assessment of their own circumstances. If Resource Equipment shareholders are in doubt about the action they should take in relation to the Proposal or matters dealt with in this report, shareholders should seek independent professional advice.

23 For our full opinion on the Proposal and the reasoning behind our opinion, we recommend that Resource Equipment shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Nathan Toscan
Authorised Representative

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Appendices

- A Financial Services Guide**
- B Qualifications, declarations and consents**
- C Financial summary for CMS**
- D Listed company multiples and descriptions**
- E Transaction evidence**
- F Glossary**

I Key terms of the Proposal

Terms

- 24 On 19 February 2015, Resource Equipment announced that it intends to call two shareholder meetings to separately consider:
- (a) a proposed selective capital reduction (the Proposal)
 - (b) a delisting of the Company from the ASX (the Delisting).
- 25 Pursuant to the Proposal, all shares in the Company other than those in which Mr Loddie Naymola, Mr David Campbell and Mr Rod Hayes as well as each of their respective associates have a relevant interest (collectively the Continuing Shareholders¹⁰) will be cancelled in return for a cash payment of 26.0 cents per Resource Equipment share.
- 26 The Proposal is subject to shareholder approval and if approved, will be financed through existing cash resources or via current bank facilities (i.e. debt) in the order of \$2.1 million.
- 27 It should also be noted that if the Proposal proceeds, Resource Equipment will conduct an on-market buy-back of its shares at 26.0 cents per share during the three trading days subsequent to the date of shareholder approval. Those shareholders that wish to sell on-market (rather than wait for the Proposal to be implemented) will be able to do so but may incur brokerage costs.
- 28 If approved, the Delisting will not occur any earlier than one month subsequent to the date of shareholder approval. The Delisting is not conditional on the Proposal proceeding.

Conditions

- 29 The Proposal is subject to the satisfaction of a number of conditions precedent, including:
- (a) the independent expert concluding that the Proposal is fair and reasonable to Resource Equipment shareholders as a whole
 - (b) the receipt of tax advice on the Proposal
 - (c) necessary Resource Equipment shareholder approvals:
 - (i) **Special Resolution at the general meeting (General Meeting)** – a special resolution to approve the Proposal must be passed at a meeting of all shareholders. For the Proposal to be implemented, it must be approved by at least 75% of the votes cast either in person or by proxy by the shareholders. As the Exiting Shareholders will receive consideration for the cancellation of their shares under the Proposal, the Corporations Act provides that any votes cast in favour of the Proposal by the Exiting Shareholders at the General Meeting are to be disregarded.
- This resolution is conditional upon the approval of the resolution at the Special Meeting.

¹⁰ We refer to those shareholders that will have their shares cancelled as Exiting Shareholders.

- (ii) **Special Resolution at the special meeting (Special Meeting)** – a special resolution to approve the Proposal must be passed at a meeting of the shareholders whose shares are to be cancelled (i.e. the Exiting Shareholders). Accordingly, only the Exiting Shareholders may vote on the Proposal at the Special Meeting. For the Proposal to be approved at the Special Meeting, it must be approved by at least 75% of the votes cast either in person or by proxy by the Exiting Shareholders.

This resolution is conditional upon the approval of the resolution in respect of the Proposal at the General Meeting.

- 30 The Delisting will only proceed if it is approved by an ordinary resolution of shareholders and is not conditional on the Proposal occurring. No votes may be cast in respect of the Delisting by Mr Naymola (and his associates).
- 31 Further detail on the individual aspects of the Proposal, the Delisting and the respective conditions relating thereto is set out in the Notice of Meeting and Explanatory Memorandum.

II Scope of our report

Purpose

- 32 Section 256B(1) of part 2J.1 of the Corporations Act permits a company to reduce its share capital in a way that is not otherwise authorised by law if the reduction:
- (a) is fair and reasonable to the company's shareholders as a whole
 - (b) does not materially prejudice the company's ability to pay its creditors
 - (c) is approved by shareholders.
- 33 A selective capital reduction must be approved by a special resolution passed at a general meeting of the Company, with no votes cast in favour of the resolution by any person who is to receive consideration as part of the reduction¹¹. If the reduction also involves the cancellation of shares, the reduction must also be approved by a special resolution passed at a meeting of the shareholders whose shares are to be cancelled (i.e. the Exiting Shareholders).
- 34 The Corporations Act requires the notice of meeting and explanatory memorandum to include all information (known to the company) that is material to the decision on how to vote on the resolution¹². ASIC requires an entity to commission an expert report or, if it has the expertise, a director's report to the same standard, in order to discharge the information disclosure requirements imposed upon it by the Corporations Act.
- 35 The Independent Directors of Resource Equipment have requested LEA prepare an IER which addresses the requirements of section 256B(1)(a) only. That is, whether the Proposal is fair and reasonable to Resource Equipment's shareholders as a whole¹³.
- 36 This report has been prepared by LEA for the benefit of Resource Equipment shareholders to assist them in considering the resolution to approve the Proposal. Our report will accompany the Notice of Meeting and Explanatory Memorandum to be sent to Resource Equipment shareholders.
- 37 The ultimate decision whether to approve the Proposal should be based on each Resource Equipment shareholder's assessment of their own circumstances. If in doubt about the action they should take in relation to the Proposal or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 38 In preparing our report we have given due consideration to the relevant sections of the Corporations Act as well as the Regulatory Guides issued by ASIC including, in particular, Regulatory Guide 111 – *Content of expert reports* (RG 111).

¹¹ i.e. by at least 75% of the votes cast by members entitled to vote on the resolution.

¹² The company is not required to disclose information if that would be unreasonable having regard to previous disclosures made by the company.

¹³ Specifically, our report does not address the Delisting for which shareholder approval is also sought.

- 39 The Explanatory Memorandum to the Company Law Review Bill 1997 (the Bill) indicates that, in the context of section 256B(1)(a), ‘fair and reasonable’ is intended to be treated as a single concept rather than separately as ‘fair’ and ‘reasonable’.
- 40 In the context of the above, in our opinion, the most appropriate basis upon which to evaluate whether the Proposal is ‘fair and reasonable’ is to consider all the circumstances of the Proposal and assess whether the advantages of the Proposal outweigh the disadvantages from the perspective of shareholders as a whole. In doing so, we have separately assessed the merits of the Proposal from the perspective of the:
- (a) Exiting Shareholders (our assessment includes consideration of whether the Proposed Consideration to be paid to them is ‘fair’ in accordance with the requirements of RG 111¹⁴)
 - (b) Continuing Shareholders.
- 41 Our report has therefore considered:

Exiting Shareholders

- (a) the market value of 100% of the shares in Resource Equipment
- (b) the value of the Proposed Consideration
- (c) the extent to which (a) and (b) differ (in order to assess whether the Proposal is fair under RG 111 from the perspective of the Exiting Shareholders)
- (d) the extent to which a control premium is being paid to the Exiting Shareholders
- (e) the extent to which Exiting Shareholders are being paid a share of any synergies likely to be generated by the Continuing Shareholders
- (f) the listed market price of the shares in Resource Equipment, both prior to and subsequent to the announcement of the Proposal
- (g) the recent offer made for the Company’s shares by Pump Services and the level of acceptances received
- (h) the likelihood of a higher alternative offer being made for Resource Equipment prior to the date of the General Meeting
- (i) the likely market price of Resource Equipment shares if the Proposal is not approved
- (j) the other advantages and disadvantages of the Proposal from the perspective of the Exiting Shareholders

Continuing Shareholders

- (k) the impact of the offer (if successful) on the value of the Company’s shares
- (l) the impact the offer may have on the level of debt and therefore the gearing ratio of the Company
- (m) the benefits gained from buying out the Exiting Shareholders

¹⁴ Pursuant to RG 111 an offer is ‘fair’ if the value of the consideration is equal to, or greater than, the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the entity.

- (n) the other advantages and disadvantages of the Proposal from the perspective of the Continuing Shareholders.

Limitations and reliance on information

- 42 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 43 Our report is also based upon financial and other information provided by Resource Equipment and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 44 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposal from the perspective of Resource Equipment's securityholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecasts is beyond the scope of an IER.
- 45 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 46 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 47 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 48 In forming our opinion, we have also assumed that:
 - (a) the information set out in the Notice of Meeting and Explanatory Statement is complete, accurate and fairly presented in all material respects
 - (b) if the Proposal becomes legally effective, it will be implemented in accordance with the terms set out in the Notice of Meeting and Explanatory Memorandum.

III Profile of Resource Equipment

Overview

- 49 Resource Equipment is an Australian equipment rental company that specialises in the supply of pumping and dewatering systems, power generation, air compressors and associated equipment to the mining, oil and gas, heavy engineering and infrastructure industry sectors. The Company provides turnkey solutions for its customers, delivering dewatering services as a complete package, including pump and water treatment systems, pipeline installation, engineering expertise and project management. Resource Equipment is listed on the ASX with a market capitalisation of approximately \$119 million¹⁵.

History

- 50 The Resource Equipment business (then known as Resource Equipment Rentals Pty Ltd) was founded in 2003 by Mr Anthony Ryder and Mr Keith Lucas. The business targeted the provision of mine pumping equipment and dewatering systems for its clients, from concept through to commissioning. Resource Equipment Rentals Pty Ltd was acquired by the ASX listed company Repcol Ltd in April 2009 (effectively a backdoor listing of the business), which was later renamed Resource Equipment Limited. Since 2009 the Company has grown both organically and through acquisition.
- 51 On 28 February 2011, Resource Equipment acquired Dewatering Services Australia Pty Ltd and DSA Plant Co Pty Ltd (DSA) for a total consideration of \$13 million. DSA was a specialist contracting business which designed, installed and commissioned polythene pipelines and sold associated products. DSA's operations were predominantly based in Kalgoorlie and have since been rolled out into Resource Equipment's other locations. Prior to the acquisition, Resource Equipment was a major customer of DSA.
- 52 On 28 November 2014, Resource Equipment completed the acquisition of CMS¹⁶, a Queensland based equipment rental company experienced in providing specialist water management services and support in open cut mines, coal preparation plants and metaliferous process plants. The CMS acquisition increased the scale, geographical coverage¹⁷ and customer base of the Company and was funded by the issue of 133.3 million new Resource Equipment shares¹⁸.
- 53 On 18 December 2014, Pump Services, an entity controlled by Mr Naymola¹⁹, announced an on-market takeover offer to acquire 100% of the shares in Resource Equipment, at a price of 26.0 cents per Resource Equipment share (Pump Services Offer). The Pump Services Offer

¹⁵ Based upon the Proposed Consideration of 26.0 cents per share.

¹⁶ And associated entity RAMPS.

¹⁷ Resource Equipment was predominantly focused on the west coast of Australia and CMS on the east coast of Australia.

¹⁸ Pursuant to the CMS acquisition, there is also the potential for the CMS vendors to receive an additional 19.9 million shares, subject to the achievement of predetermined earn-out performance targets. However, in the 31 December 2014 half year financial statements, the Company stated that having regard to current management earnings estimates, no consideration is likely to be payable to the CMS vendors.

¹⁹ At the date of the announcement of the Pump Services Offer, Mr Naymola owned 56.5 million shares in Resource Equipment. The majority of these shares were received as consideration for Mr Naymola's one third interest in CMS when it was acquired by Resource Equipment.

represented a substantial premium to the Resource Equipment share price at the time (e.g. an 86% premium to the closing share price on the day prior to the announcement of the bid) and was unanimously recommended by the Directors of Resource Equipment. The Pump Services Offer expired on 3 February 2015 and at the close of ASX trading on that day, Pump Services had acquired a relevant interest in 80.15% Resource Equipment ordinary shares.

Current operations

- 54 Resource Equipment operates from its Perth head office and employs approximately 180 full-time staff. The Company owns Australia's most diversified and largest range of high end pumping, evaporation, power generation, pipeline, compressed air and associated equipment designed specifically to meet the demands of the mining and oil and gas industries. The Company designs, selects and supplies the complete infrastructure for mining pumps, dewatering pumps and mine pumping systems. Its offering simplifies complex matters into one managed process, providing an entire solution, from concept through to commissioning.
- 55 Resource Equipment (including CMS) derives the majority of its revenue from the iron ore and coal industries, with other contributions to revenue sourced from a range of commodities including gold, nickel, manganese and oil and gas.
- 56 Through ongoing research and development and years of experience in power and water management, Resource Equipment has developed a 24 hour, seven days a week remote control and back to base monitoring system for its installations called RELAY. The RELAY technology enables the continuous monitoring of performance of mine pumping systems and efficiency, while detecting potential operating problems before they become problematic. RELAY also provides a wide range of reporting capabilities on matters such as water flow and fuel consumption. The commercial benefits of the RELAY monitoring for Resource Equipment have yet to be fully realised.

Clients and competitors

- 57 Resource Equipment (including CMS) provides equipment rental and ancillary services to support its rental equipment to major and mid-tier Australian based mining companies and major contract miners. Resource Equipment has generally maintained relationships with its customer base over many years.
- 58 Resource Equipment is among Australia's market leading water management equipment rental companies. There are also a number of equipment hire companies that lease similar equipment (but do not provide the related services) and a number of other companies that provide similar services in tandem with other mining services (i.e. not on a standalone basis).

Industry structure

- 59 Given prevailing lower commodity prices (particularly in coal, iron ore and oil and gas), a key risk to the operations of Resource Equipment is the potential for mining companies to buy the equipment and undertake their own water management services (effectively bringing the associated equipment rental back in-house as opposed to outsourcing). In this respect, based on discussions with Resource Equipment management, we understand that:

- (a) some mining companies have the requisite skills but not the equipment and vice versa
- (b) the high staff turnover in mining companies can lead to the loss of water management technical skills
- (c) specialist water management providers offer consistency of performance; and
- (d) historically there was a lack of suitable water management mining equipment in Australia (in particular water pumps).

Strategy

60 The growth strategy for Resource Equipment is built around the following key operating principles:

- (a) providing solutions for its customers which add value and have a point of difference
- (b) targeting exposure to ongoing production as well as construction or development activities
- (c) maintaining a competitive advantage through expertise, equipment availability and location as well as key competencies
- (d) providing services that maximise the use of its equipment and generate long-term revenues and mutually beneficial relationships
- (e) geographical expansion with diversification across commodities and customers; and
- (f) sensible acquisitions to complement organic growth.

Financial performance

61 The financial performance of Resource Equipment for the three years ended 30 June 2014 (FY14), as well as the half year to 31 December 2014 (1H15), is set out below²⁰:

²⁰ For a summary of the financial results for CMS for the four years to FY14, refer to Appendix C.

Resource Equipment – statement of financial performance					
	FY11⁽¹⁾	FY12	FY13	FY14	1H15
	Audited	Audited	Audited	Audited	Reviewed
	\$m	\$m	\$m	\$m	\$m
Total revenue	52.3	82.3	105.2	83.4	50.1
Operating expenses	(34.5)	(59.9)	(84.3)	(78.2)	(51.9)
EBITDA⁽²⁾	17.8	22.4	20.9	5.2	(1.8)
Depreciation	(4.5) ⁽³⁾	(7.4)	(10.4)	(11.0)	(5.0)
EBIT	13.3	15.0	10.5	(5.8)	(6.8)
Net financial expense	(1.2)	(1.6)	(2.4)	(2.1)	(1.1)
Profit / (loss) before tax	12.1	13.4	8.0	(8.0)	(7.9)
Income tax (expense) / benefit	0.1	0.3	(2.9)	3.5	0.9
Profit / (loss) after tax	12.2	13.6	5.2	(4.5)	(7.0)
Earnings margins (%)					
EBITDA	34.0	27.2	19.9	6.2	(3.6)
EBIT	25.5	18.2	9.9	(7.0)	(13.5)
Profit / (loss) after tax	23.3	16.6	4.9	(5.4)	(14.0)

Note:

- 1 Resource Equipment acquired DSA on 28 February 2011. Accordingly the FY11 results exclude an 8 month contribution from DSA. The inclusion of six months of results to 31 December 2010 (which was provided with the acquisition announcement) would increase revenue and EBITDA for Resource Equipment by some \$6.9 million and \$1.9 million respectively.
 - 2 Earnings before interest, tax, depreciation and amortisation (EBITDA).
 - 3 Includes \$82,000 customer contract amortisation.
- Rounding differences exist.

- 62 Below is a summary of the key factors that have impacted on the annual financial performance of Resource Equipment in FY12, FY13, FY14 and the half year to 31 December 2014.

Year to 30 June 2012 (FY12)

- revenue and EBITDA increased 57% and 26% respectively compared to FY11. However, the FY12 results included a full year of trading from the DSA business, which was acquired on 28 February 2011 (FY11 only included a four month contribution from DSA)
- during the year Resource Equipment began an integration and expansion process with DSA to develop the Company into the largest specialist pumping and pipeline business in Australia
- personnel costs increased significantly during FY12, due to the addition of new employees (including recruiting for projects commencing in FY13) and wage rises.
- an income tax benefit was recorded in FY12 primarily due to carried forward tax losses from previous years.

Year to 30 June 2013 (FY13)

- revenues increased 27% to \$105.2 million, predominantly due to increased contracting revenues from the Company’s pipeline installation business, as well as a moderate increase in equipment rental and associated revenues
- EBITDA of \$20.9 million reduced 7% from the prior year, notwithstanding a strong start to FY13. This was attributable to a marked downturn in the Australian mining industry that impacted mining services companies from late 2012. Resource Equipment stated that:
 - conditions became more challenging as mining companies executed cost reduction strategies and expenditure deferrals
 - despite the Company providing a niche customised dewatering solution to the market, a trend of insourcing quickly emerged. This resulted in utilisation rates of Resource Equipment’s specialist dewatering equipment fleet falling to around 50%
- as a result of Resource Equipment’s investment in rental fleet and supporting plant and equipment over FY11 to FY13, depreciation charges increased \$3 million from FY12 to \$10.4 million
- during FY13 Resource Equipment:
 - formed a new division to focus on the provision of power to remote sites. This activity had been undertaken for existing customers in past years but had not been actively marketed and promoted
 - established its operations in Indonesia. Start-up costs of approximately \$0.7 million were incurred.

Year to 30 June 2014 (FY14)

- Resource Equipment reported a net loss after tax of \$4.5 million due to continuing challenging trading conditions in the mining sector, with revenues and EBITDA decreasing 21% and 75% respectively compared to FY13. In particular, the Company reported that:
 - the construction phase of a number of mining projects had been completed and mining companies were now focusing on cost reductions during the production phase
 - commodity price falls had exacerbated the requirements by the miners to reduce costs even further
 - the impact of mining companies’ strategies had been felt for more than 18 months, causing utilisation rates of the Company’s rental fleet to fall to record lows
- extraordinary items relating to redundancy costs and hire purchase termination costs of approximately \$1.8 million were incurred during the period. The restructure of the Company’s hire purchase contracts also resulted in an additional \$5 million of funds being made available for use as working capital.

Half year to 31 December 2014

- Resource Equipment reported a net loss after tax of \$7 million on revenues of \$50.1 million (which included a one month contribution from the CMS business acquired on 28 November 2014). In particular, the Company reported that:
 - the net loss included a goodwill impairment charge of \$4.7 million, other non-recurring items of \$1.5 million (primarily related to the acquisition of CMS) and non-cash charges of \$2 million associated with the granting of performance rights to the former Chief Executive Officer
 - underlying EBITDA before non-recurring items increased to \$6.4 million from \$4.4 million in the previous corresponding half year period
 - while Resource Equipment’s operating performance had improved from the second half of the previous year, the Company was still experiencing difficult trading conditions in the broader mining services sector (right across Australia), with rental revenues remaining low in the Company’s traditional specialist pumping and power rental business as mining companies continued the trend of reducing costs and insourcing
 - Resource Equipment was in the process of undertaking a number of cost cutting initiatives to compensate for lower margin work
 - capital expenditure was kept at low levels as the overall equipment fleet was still significantly underutilised
- on 24 February 2015, Resource Equipment announced that 41 jobs from the Company’s Welshpool branch had been terminated as the result of a corporate restructure. This is expected to provide cost savings of \$4.5 million per annum, at a cost of \$0.5 million in redundancy termination payments²¹.

Financial position

- 63 The financial position of Resource Equipment as at 31 December 2014 (i.e. post the acquisition of CMS) is set out below:

²¹ These cost savings are unrelated to any synergies associated with the CMS acquisition.

Resource Equipment – statement of financial position	
	Reviewed 31 Dec 14 \$m
Debtors and prepayments	27.7
Inventories	3.0
Creditors, accruals and provisions	(18.1)
Net working capital	<u>12.6</u>
Plant and equipment	107.5
Intangible assets / goodwill	25.1
Deferred tax assets (non-current)	4.7
Employee benefits (non-current)	(0.9)
Provisions (non-current)	(0.1)
Total funds employed	<u>149.0</u>
Cash and cash equivalents	6.8
Interest bearing liabilities	(28.3)
Net cash / (borrowings)	<u>(21.5)</u>
Net assets attributable to Resource Equipment shareholders	<u><u>127.6</u></u>

Rounding differences exist.

- 64 Associated with the acquisition of CMS on 28 November 2014, the net assets of Resource Equipment increased by some \$19 million, the majority of which was attributable to the addition of CMS's rental equipment fleet and increased working capital levels.
- 65 Resource Equipment invested heavily in property, plant and equipment over FY11 to FY13 (some \$80 million, net of plant and equipment sales²²), in anticipation of new work at the time and the planned expansion of its product offering (i.e. adding DSA products at Resource Equipment's other sites). Due to changed market conditions, capital expenditure was reduced to \$2.3 million²³ in FY14 and \$3 million²³ for the six months to 31 December 2014 (including one month of the CMS operations).

Share capital and performance

Share capital

- 66 As at 2 March 2015, Resource Equipment had 455.9 million fully paid ordinary shares on issue. As at this date the significant shareholders in Resource Equipment were as follows:

²² Excluding CMS spending on plant and equipment.

²³ Net of plant and equipment sales.

Resource Equipment – significant shareholders ⁽¹⁾		
	000s	%
Mr Naymola (including associates) ⁽²⁾	365,370.3	80.15
Mr Campbell (including associates) ⁽²⁾	44,439.2	9.75
Mr Hayes (including associates) ⁽²⁾	38,090.8	8.36
Other shareholders (Exiting Shareholders)	7,950.8	1.74
Total	455,851.2	100.00

Note:

- 1 Rounding differences may exist.
- 2 Each of Mr Naymola, Mr Campbell and Mr Hayes may also be entitled to be issued up to 6.633 million fully paid ordinary shares in the Company pursuant to the earn-out provisions in the Share Sale Deed dated on or around 25 September 2014. Pursuant to this deed Resource Equipment acquired CMS and RAMPS. However, in the 31 December 2014 half year financial statements, the Company stated that having regard to current management earnings estimates, no consideration is likely to be payable to the CMS and RAMPS vendors.

Source: Resource Equipment.

- 67 In addition, there were 1.5 million options outstanding, which were significantly “out of the money” at an exercise price of 38.0 cents per share. These options have been cancelled for no consideration.

Share price performance

- 68 The price of Resource Equipment shares from 1 January 2012 to 19 February 2015 (i.e. up to the day prior to the announcement of the Proposal) is summarised below:

Resource Equipment – share price performance				
	High \$	Low \$	Close \$	Monthly volume 000
Quarter ended				
March 2012	0.55	0.34	0.52	6,504
June 2012	0.53	0.32	0.36	3,441
September 2012	0.42	0.30	0.35	4,685
December 2012	0.36	0.29	0.35	4,815
March 2013	0.40	0.19	0.20	7,260
June 2013	0.20	0.12	0.15	9,275
September 2013	0.19	0.14	0.18	3,967
December 2013	0.21	0.12	0.14	1,868
March 2014	0.16	0.11	0.13	3,054
June 2014	0.20	0.11	0.12	2,659
Month ended				
July 2014	0.16	0.12	0.13	2,993
August 2014	0.15	0.12	0.14	3,410
September 2014	0.15	0.12	0.14	3,176
October 2014	0.17	0.14	0.17	9,918
November 2014	0.18	0.16	0.17	4,958
December 2014 ⁽¹⁾	0.27	0.14	0.26	159,595
January 2015 ⁽¹⁾	0.27	0.26	0.26	138,252
1 February 2015 to 19 February 2015	0.27	0.17	0.20	13,247

Note:

1 Increased volume reflects the on-market Pump Services Offer.

Source: Bloomberg.

- 69 The following chart illustrates the movement in the share price of Resource Equipment shares from 1 January 2012 to 19 February 2015:

Resource Equipment – share price history
1 January 2012 to 19 February 2015



Source: Bloomberg.

- 70 The decline in the share price of Resource Equipment since mid 2012 coincided with the general deterioration of conditions in the mining services industry, as mining companies focused on increasing productivity and reducing input costs. This impacted in particular mining service companies such as Resource Equipment, as major miners brought back contracts in-house or renegotiated contracts at lower rates.
- 71 The increase in the Resource Equipment share price to 26.0 cents per share on 18 December 2014 reflects the Pump Services Offer. Upon expiry of the Pump Services Offer (on 3 February 2015) the Resource Equipment share price declined to a low of 17.0 cents per share. With the announcement of the Proposal after close of trade on the 19 February 2015, the Resource Equipment share price has since risen back to 24.5 cents per share as of 2 March 2015.

Liquidity in Resource Equipment shares

- 72 The liquidity in Resource Equipment shares based on trading on the ASX over the 12 month period prior to 18 December 2014 (i.e. the announcement of the on-market Pump Services Offer), and the period between the expiry of the Pump Services Offer and the announcement of the Proposal (i.e. 4 February 2015 to 19 February 2015), is set out below:

Resource Equipment – liquidity in shares						
Period	Start date	End date	No of shares traded 000	WANOS ⁽¹⁾ outstanding 000	Implied level of liquidity Period ⁽²⁾ %	Annual ⁽³⁾ %
4 to 19 February	4 Feb 15	19 Feb 15	153	455,851	0.03	0.82
1 month	18 Nov 14	17 Dec 14	1,332	395,913	0.34	4.04
3 months	18 Sep 14	17 Dec 14	16,960	339,762	4.99	19.97
6 months	18 Jun 14	17 Dec 14	25,987	324,716	8.00	16.01
1 year	18 Dec 13	17 Dec 14	42,791	296,541	14.43	14.43

Note:

- 1 Weighted average number of shares outstanding (WANOS) during relevant period.
- 2 Number of shares traded during the period divided by WANOS.
- 3 Implied annualised figure based upon implied level of liquidity for the period.

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- 73 The level of share trading in Resource Equipment shares prior to the announcement of the Pump Services Offer was relatively modest, indicating a low level of market liquidity for a company of its size.

IV Valuation methodology

Valuation approaches

- 74 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 75 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 76 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 77 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 78 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 79 The market value of Resource Equipment has been assessed by aggregating the market value of the business operations, together with the realisable value of any surplus assets and net cash (or deducting debt) balances.
- 80 The value of the business has been made on the basis of market value as a going concern and on a 100% controlling interest basis. The primary valuation methodologies employed to value Resource Equipment are the capitalisation of future of EBITDA and EBITA²⁴ methodologies. Under these methodologies the value of the business is represented by its core underlying EBITDA or EBITA capitalised at a rate (or multiple) reflecting the risks inherent in those earnings.
- 81 We have adopted these methods for several reasons including:
- (a) Resource Equipment has a well established market position in the Australian mining services industry and a demonstrated history of profitability
 - (b) Resource Equipment has not prepared any long-term cash flow projections to enable a DCF valuation to be undertaken
 - (c) the EBITDA and EBITA multiples for listed mining services companies can be derived from publicly available information; and
 - (d) transaction evidence in the mining services sector is generally expressed in terms of EBITDA and EBITA multiples.
- 82 We have cross-checked our valuation of Resource Equipment by:
- (a) assessing the level of implied goodwill for reasonableness; and
 - (b) considering the market price of Resource Equipment shares prior to the Pump Services Offer, adjusted for a premium for control.

²⁴ While Resource Equipment does not incur acquisition intangible amortisation expenses (which are non-cash charges), some of the listed mining services companies do. Accordingly, we have adopted EBITA as opposed to EBIT to enhance comparability.

V Valuation of 100% of Resource Equipment

Valuation methodology

83 As stated in Section IV, we have assessed the value of Resource Equipment on a 100% controlling interest basis. We have adopted the capitalisation of EBITDA and EBITA²⁵ methods as our primary valuation methodologies. Under these methods the EBITDA and EBITA (before non-recurring items) is capitalised at an appropriate earnings multiple. The value of the equity in Resource Equipment is then derived by deducting the net interest bearing debt balance.

Assessment of EBITDA and EBITA

84 In order to assess the appropriate level of earnings for valuation purposes we have had regard to the historical results of Resource Equipment as well as CMS, given the recent acquisition of this business. We have also discussed the financial performance, operating environment and prospects with Resource Equipment management.

85 A summary of the combined revenue, EBITDA and EBITA (before non-recurring items) for Resource Equipment and CMS for the four years to FY14 and the half year to 31 December 2014, is set out below:

Resource Equipment and CMS – Revenue / EBITDA / EBITA ⁽¹⁾					
	FY11 \$m	FY12 \$m	FY13 \$m	FY14 \$m	1H15 \$m
Revenue					
Resource Equipment	52.3 ⁽²⁾	82.3	105.2	83.4	50.1 ⁽³⁾
CMS	26.5	35.1	34.8	30.8	7.2 ⁽⁴⁾
	78.8	117.4	140.0	114.3	57.3
EBITDA before non-recurring items					
Resource Equipment ⁽⁵⁾	17.8 ⁽²⁾	22.4	21.6	7.0	6.4
CMS ⁽⁶⁾	4.5	9.1	8.7	7.5	nm ⁽⁷⁾
	22.3	31.6	30.3	14.5	6.4
EBITA before non-recurring items					
Resource Equipment ⁽⁵⁾	13.3 ⁽²⁾	15.0	11.2	(4.0)	1.4
CMS ⁽⁶⁾	3.8	7.9	7.1	5.7	nm ⁽⁷⁾
	17.1	22.9	18.2	1.6	1.4
Combined Resource Equipment and CMS					
EBITDA margin (%)	28.3	26.9%	21.6%	12.7%	12.9%
EBITA margin (%)	21.7	19.5%	13.0%	1.4%	2.9%

²⁵ While Resource Equipment (nor CMS historically) does not incur acquisition intangible amortisation expenses (which are non-cash charges), some of the listed mining services companies do. Accordingly we have adopted EBITA as opposed to EBIT to enhance comparability.

Note:

- 1 Rounding differences may exist.
 - 2 Resource Equipment acquired DSA on 28 February 2011. Accordingly, the FY11 results for Resource Equipment exclude an eight month contribution from DSA. In the six months to 31 December 2010 DSA generated revenue and EBITDA of some \$6.9 million and \$1.9 million respectively.
 - 3 Includes one month of CMS revenue and earnings contribution.
 - 4 Revenue for the period 1 July 2014 to 28 November 2014.
 - 5 Non-recurring start-up costs in Indonesia of \$0.7 million (FY13), redundancy costs and hire purchase termination costs of \$1.8 million (FY14), impairment of goodwill of \$4.7 million and redundancy costs, CMS acquisition costs and other items totalling \$3.5 million (1H15) have been added back
 - 6 Confidential non-recurring costs of \$0.2 million and \$0.7 million in FY13 and FY14 respectively have been added back.
 - 7 No material earnings contribution was generated by CMS in the period 1 July 2014 to 28 November 2014.
- nm = not meaningful.

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- 86 While Resource Equipment's earnings fell materially in FY14, CMS's FY14 results only partially reflect the impact of recently renegotiated major client contracts, which are on less favourable terms than previously (refer Appendix C). Accordingly, CMS's historic levels of profitability (FY12 and FY13 in particular) are unlikely to be repeated in the near term.
 - 87 As stated in Section III, there has been a stepped change in industry dynamics since late 2012, with mining companies now more cost conscious due to prevailing lower commodity prices. In the latest half year period, Resource Equipment reported revenue growth, but stated that such revenues were generating lower margins than have historically been achieved and its equipment fleet was significantly underutilised. In this operating environment, Resource Equipment's ability to reduce its cost base is integral to its level of profitability.
 - 88 In response to industry conditions, Resource Equipment management have commenced a corporate restructuring exercise that has removed 41 permanent and part time positions to date²⁶. This exercise is expected to reduce operating expenses by \$4.5 million per annum, at a one-off cost of \$0.5 million. We also understand that the Company has conducted preliminary investigations into additional initiatives to reduce costs. However, there remains uncertainty about the achievability of these additional cost savings, which may also be offset by continued pressure on the Company's margins.
 - 89 The planned reduction in duplicated personnel, overheads and other costs associated with the combination of Resource Equipment and CMS is also expected to provide annual benefits (synergies) of approximately \$2.5 million, with the majority of these savings expected to be realised in (calendar year) 2015²⁷.
 - 90 Having regard to the above, we have assessed EBITDA and EBITA for valuation purposes at \$25 million and \$16 million respectively. This reflects in particular:
 - (a) the current outlook for Resource Equipment

²⁶ This restructuring excludes expected cost savings associated with the combination of the Resource Equipment and CMS businesses.

²⁷ Revenue synergies have also been identified. However, these are harder to reliably predict (and generate) and hence measure.

- (b) a level of earnings for CMS that is above its current low level of earnings
- (c) higher equipment utilisation than that achieved at present
- (d) a risk adjusted assessment of cost savings (from the ongoing restructure) and synergies (from the acquisition of CMS)
- (e) cost savings from delisting, estimated at approximately \$0.6 million per annum.

91 In a mature business, capital expenditure and depreciation amounts would be expected to be fairly consistent over a given period. However, as the result of both Resource Equipment and CMS incurring high levels of expenditure on plant and equipment during more favourable industry conditions (i.e. FY11 to FY13) and the current low levels of equipment utilisation²⁸, the Company has equipment that is surplus to its current requirements²⁹. We therefore do not view current depreciation levels as representative of ongoing (or maintainable) capital expenditure. We also note that recent capital expenditure levels (FY14 and the half year to 31 December 2014), as well as expectations of capital requirements for the near term, are materially below current depreciation levels. Accordingly, our assessment of earnings adopted for valuation purposes implies lower depreciation expenses than the Company is currently incurring.

EBITDA and EBITA multiples

92 The selection of the appropriate earnings multiple to apply is a matter of judgment but normally involves consideration of a number of factors including, but not limited to:

Earning multiple considerations

- | | |
|---|---|
| <ul style="list-style-type: none"> • The stability and quality of earnings • The quality of the management and the likely continuity of management • The nature and size of the business • The spread and financial standing of customers • The financial structure of the company and gearing level • The multiples attributed by share market investors to listed companies involved in similar activities or exposed to the same broad industry sectors • The multiples that have been paid in recent acquisitions of businesses involved in similar activities or exposed to the same broad industry sectors | <ul style="list-style-type: none"> • The future prospects of the business including the growth potential of the industry in which it is engaged, strength of competitors, barriers to entry, etc • The cyclical nature of the industry and the stage in the cycle at the valuation date • Expected changes in interest rates • The asset backing of the underlying business of the company and the quality of the assets • The extent to which a premium for control is appropriate • Whether the assessment is consistent with historical and prospective earnings |
|---|---|

93 We discuss below specific factors taken into consideration when assessing the appropriate EBITDA and EBITA multiple range for Resource Equipment.

²⁸ This is consistent with the experience of other Australian equipment hire companies exposed to the mining industry at present.

²⁹ As noted above, our assessment of earnings for valuation purposes assumes higher equipment utilisation than is currently being achieved.

Listed company multiples

94 There are no Australian mining equipment hire and service companies that are directly comparable to Resource Equipment listed on the ASX. We have therefore set out below the EBITDA and EBITA multiples of various Australian mining service and equipment hire companies, which we have categorised as follows:

- (a) mining equipment and services companies – companies that provide mine equipment sales and / or maintenance in addition to mine services
- (b) specialist drilling companies – specialist drilling mining services companies
- (c) contract mining services companies – includes outsourced contract mining, civil engineering and construction, on-site services, engineering and plant and maintenance
- (d) equipment hire companies – companies involved in the hiring of equipment to specific sectors of the economy, in particular the mining sector.

Listed company multiples ⁽¹⁾							
	EV ⁽²⁾	EBITDA multiple			EBITA multiple		
	A\$m	FY14	FY15 ⁽³⁾	FY16 ⁽³⁾	FY14	FY15 ⁽³⁾	FY16 ⁽³⁾
	x	x	x	x	x	x	x
Mining equipment and services							
Bradken	816.3	4.7	5.3	4.9	6.8	7.6	7.0
Austin Engineering	151.9	9.8	5.7	4.1	30.7	9.8	6.1
Imdex	118.8	14.7	6.9	5.2	nm	12.6	7.8
Saunders International	40.7	4.5	4.5	4.3	4.8	4.8	4.5
Specialist drilling							
Boart Longyear	847.1	6.2	17.3	10.9	nm	nm	nm
Ausdrill	510.1	2.9	3.5	3.0	6.8	10.7	7.7
Swick Mining Services	54.9	3.4	2.6	2.2	17.3	5.8	4.7
Contract mining services							
MACA	207.5	1.5	1.4	1.6	2.4	2.2	2.7
Macmahon Holdings	127.2	0.7	1.0	1.0	1.8	3.4	3.2
NRW Holdings	111.4	0.9	1.2	1.2	1.5	2.5	2.7
Calibre Group	97.4	2.2	2.5	2.5	3.1	3.4	3.2
Sedgman	53.0	2.8	2.1	2.0	13.4	4.1	3.0
Mastermyne Group	30.0	2.5	3.5	2.7	5.7	7.6	3.9
Equipment hire companies							
Emeco Holdings	350.0	4.9	4.3	3.6	nm	nm	nm
Boom Logistics	125.6	3.0	4.0	3.1	9.0	13.9	9.6

Note:

- 1 Refer to Appendix D for further financial details and a description of each company's activities.
- 2 Enterprise value (EV) and earnings multiples calculated as at 18 February 2015. EV includes net debt (interest bearing liabilities less non-restricted cash), convertible notes, net derivative liabilities, market capitalisation adjusted for material option dilution and buybacks and excludes surplus assets.
- 3 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis. nm – not meaningful.

- 95 As indicated above the listed company multiples vary widely. Accordingly, we have considered the comparability of the above companies to Resource Equipment and note the following:
- (a) the above multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control). Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBITDA / EBITA multiple or enterprise value level, although this varies depending on the level of debt funding employed in each company
 - (b) the high FY14 multiples for Austin Engineering and Imdex are reflective of depressed earnings (compared to recent historical performance), rather than incremental earnings growth expectations
 - (c) the ASX listed equipment hire companies have specialised operations, with Emeco Holdings focused on the provision of heavy earth moving equipment and Boom Logistics primarily offering cranes and lifting equipment. While these companies are heavily exposed to the mining industry (100% of revenue for Emeco Holdings and 60% of revenue for Boom Logistics) they do not provide the same equipment (i.e. pumps and generators) or specialised services (design, installation and maintenance) as Resource Equipment
 - (d) the level of depreciation as a percentage of EBITDA for the above companies is generally significantly higher than the level of depreciation for Resource Equipment.
- 96 As noted above, the mining services industry is currently facing a number of challenges stemming from lower commodity prices. As a reflection of the challenging industry conditions:
- (a) there have been numerous profit downgrades by mining service companies
 - (b) the majority of the above companies reported materially lower earnings in FY14 than in FY13 and FY12
 - (c) all but three of the above companies (the exceptions being Bradken, Saunders International and Sedgman) are trading at an implied market capitalisation that is lower (and in some cases significantly lower) than their reported net tangible asset backing (which indicates that no goodwill is reflected in their respective company values implied by share market trading)³⁰.
- 97 These ongoing conditions have impacted investor confidence in both the mining sector and the service companies exposed to the mining sector. This has resulted in lower implied earnings multiples than in prior periods. In such an environment:
- (a) the mining service companies providing basic contract mining services and equipment rentals (that are more easily replaced by in-house services) appear to be the most

³⁰ Noting that after the application of a theoretical control premium of 32.5% the number of companies with implied goodwill increases to six, including Bradken, Austin Engineering, Saunders International, Maca, Calibre Group, and Sedgman.

exposed to contract losses and/or contract price reductions. The recent trading performance of a number of these companies has been impacted by such events and the market appears to be factoring in the likelihood that these risks will be ongoing, with these companies trading on very low multiples by historical standards

- (b) the implied EBITDA and EBITA multiples for:
- (i) the mining equipment and service companies are more reasonable when compared against historical multiples and reflect the specialised nature of the offering and the level of intellectual property (specialist knowledge) these companies retain (notwithstanding the materially lower earnings at present compared to previous earnings levels)
 - (ii) the equipment hire companies are supported by the significant equipment hire assets held by these companies.

Transaction evidence

98 A summary of the EBITDA and EBITA multiples implied by the transactions for mining service and equipment hire companies is shown below. The transactions have been categorised by size into those below \$20 million, between \$20 million and \$100 million, between \$100 million and \$200 million and those greater than \$200 million.

Transaction evidence – 2006 to 2014 ⁽¹⁾				
Transaction value range	Number of transactions ⁽²⁾	Average ⁽³⁾ x	Median ⁽³⁾ x	Range ⁽³⁾ x
EBITDA				
Less than \$20 million	7	4.1	4.2	3.0 – 5.8
\$20 million to \$100 million	14	4.8	4.6	1.9 – 9.3
\$100 million to \$200 million	7	6.0	5.7	3.3 – 9.8
Greater than \$200 million	8	7.7	7.7	5.3 – 11.8
	33	5.5	4.8	1.9 – 11.8
EBITA				
Less than \$20 million	12	3.8	3.6	2.3 – 6.0
\$20 million to \$100 million	12	6.5	5.1	3.2 – 11.8
\$100 million to \$200 million	6	8.9	9.5	4.3 – 11.2
Greater than \$200 million	4	11.8	11.9	8.5 – 14.9
	34	6.6	5.1	2.3 – 14.9

Note:

- 1 Refer to Appendix E for further financial details on each of the transactions.
- 2 Covers 52 transactions over this period, with the limited information in some instances meaning that only EBITDA or EBIT multiples are available for some transactions. Note there have not been any transactions in the two months to February 2015.
- 3 Where both implied historical and forecast multiples are present, LEA have assessed and included in the above the most reasonable of the implied multiples (i.e. either historical or forecast).

Source: Company announcements, Bloomberg, analyst reports, press commentary and LEA analysis.

99 In relation to the transaction evidence, it should be noted that:

- (a) the transactions generally relate to the acquisition of a 100% or controlling interest in the businesses and therefore implicitly incorporate a premium for control

- (b) none of the businesses (other than the pump equipment hire transactions discussed below) are directly comparable to Resource Equipment
- (c) the companies acquired differ materially in terms of their size and nature of operations. In our view, the median or average multiples implied by those transactions in the \$100 million to \$200 million category are the most relevant (when considering size alone)
- (d) the transaction multiples are generally calculated based on the most recent actual earnings (historical multiples) or expected future earnings for the current year at the date of the transaction (forecast multiples). The multiples are therefore not necessarily reflective of the multiple which would be derived from an assessment of each target company's "maintainable" earnings
- (e) the majority of the transactions took place before the onset of the current challenging mining services industry conditions, and accordingly the EBITDA and EBITA transaction multiples are likely to reflect a much more optimistic business outlook than that which would prevail today
- (f) while there are a number of equipment hire business transactions set out in Appendix E, we note that these businesses (at the date of acquisition) were not generally exposed to the mining industry and also did not provide ancillary services to support their rental equipment fleet. Therefore, we have not placed significant reliance on these transactions.

100 As detailed in Section III, Resource Equipment has made a number of recent acquisitions. There have also been a number of pump equipment hire transactions. The EBITDA and EBITA multiples implied by these transactions are listed below:

Transaction evidence – pump equipment hire ⁽¹⁾							
Date ⁽²⁾	Target	Acquirer	EV ⁽³⁾ 100% A\$m	EBITDA multiples		EBITA multiples	
				Historic	Forecast	Historic	Forecast
Sep 14	CMS	Resource Equipment	20.1	2.7	3.5	3.5	5.2
Mar 14	CMS ⁽⁴⁾	Mr Naymola	37.8	4.4	na	5.3	na
Mar 14	National Pump	United Rentals Inc	US\$842.5	8.2	na	na	na
Feb 11	DSA	Resource Equipment	13.0	4.2	3.7	na	na
Dec 09	Paramount Hire & Pump Hire Services	Tutt Bryant Group Ltd	50.7	5.7	na	na	na
Apr 08	Resource Equipment Rentals Pty Ltd	Repcol Ltd	29.4	5.4	3.3	7.3	4.8

Note:

1 Note that these transactions also form part of the data at paragraph 98.

2 Date of announcement.

3 Enterprise value (EV) calculated on a 100% basis.

4 Implied value for 100%, noting that Mr Naymola acquired a 33.3% interest in CMS.

Source: Company announcements, Bloomberg, analyst reports, press commentary and LEA analysis.

na = not available.

101 In respect of the above, we note that:

- (a) the consideration paid by Resource Equipment for CMS in September 2014³¹ was substantially lower than the implied consideration for 100% of CMS in March 2014,

³¹ Payment of which was by way of an issue of Resource Equipment shares.

when Mr Naymola purchased a 33.3% interest in CMS. This was due to, inter alia, a deterioration in CMS's earnings performance and expectations during the intervening period

- (b) Resource Equipment is essentially an amalgamation of the CMS, DSA and Resource Equipment Rentals Pty Ltd businesses and therefore Resource Equipment is larger and more diversified than each of these companies (with size and diversification generally translating to higher multiples³²)
- (c) National Pump, which was acquired by United Rentals Inc in March 2014, was a pump rental business located in the United States (US), with a primary exposure to the US oil and gas industry. However, National Pump was also significantly larger than Resource Equipment
- (d) while smaller than Resource Equipment, the Paramount Hire and Pump Hire Services businesses, which were acquired by Tutt Bryant in December 2009, provided both equipment hire of pumps as well as ancillary services. However, these companies were not predominantly focused on the mining industry.

Other factors considered

102 In addition to the factors set out above, we have also considered, inter-alia:

- (a) the change in the mining industry dynamics since late 2012 and the outlook for mining services companies generally
- (b) Resource Equipment's market position in the Australian dewatering and pumping industry
- (c) the Company's long standing relationships with major mining companies
- (d) the level of (delisting) synergies that are available to Continuing Shareholders, which have already been factored into our determination of earnings.

Conclusion on appropriate EBITDA and EBITA multiples

103 Based on the above, we have adopted the following (controlling interest) EBITDA and EBITA multiples:

Adopted multiple range		
	Low x	High x
EBITDA	5.0	5.5
EBITA	7.5	8.5

³² Given the challenging industry conditions this is not always true as evidenced by the contract mining service companies subset, with the implied multiples for some of these companies appearing to be implying contract losses or material reductions in contract rates paid.

Value of core business

- 104 On the basis of the above we have adopted a valuation range of \$125 million to \$135 million for Resource Equipment's core operating business (before debt) determined as follows:

Resource Equipment – valuation		
	Low \$m	High \$m
EBITDA adopted for valuation purposes	25.0	25.0
EBITDA multiple (times)	5.0	5.5
Enterprise value	125.0	137.5
EBITA adopted for valuation purposes	16.0	16.0
EBITA multiple (times)	7.5	8.5
Enterprise value	120.0	136.0
Valuation range adopted	125.0	135.0

Net debt

- 105 As at 31 December 2014 the net interest bearing debt of Resource Equipment (including CMS) was \$21.5 million.

Other liabilities

- 106 Redundancy costs associated with the cost saving initiatives and costs associated with the achievement of synergy benefits from the acquisition of CMS of \$1.0 million have either not been recognised in the half year to 31 December 2014 financial statements or otherwise not yet paid. We have made allowance for these liabilities in our valuation (on a tax affected basis).

Share capital

- 107 As at 2 March 2015, Resource Equipment had 455.9 million fully paid ordinary shares on issue. The Company also had 1.5 million options outstanding, which were out of the money and have been cancelled for no consideration.

Value of Resource Equipment

- 108 Given the above, the value of 100% of the equity in Resource Equipment on a controlling interest basis is as follows:

Resource Equipment – valuation summary		
	Low \$m	High \$m
Enterprise value	125.0	135.0
Net debt	(21.5)	(21.5)
Other liabilities (tax affected)	(0.9)	(0.9)
Value of equity on a 100% controlling interest basis	102.6	112.6
Resource Equipment shares outstanding	455.9	455.9
Value per Resource Equipment share (cents)	22.5	24.7

Valuation cross checks

Goodwill cross-check

- 109 We have cross-checked our valuation by assessing the level of implied goodwill for reasonableness. Our calculations are as follows:

Resource Equipment – implied goodwill and associated multiples		
	Low \$m	High \$m
Enterprise value	125.0	135.0
Net tangible operating assets (NTOA) as at 31 December 2014	(123.9)	(123.9)
Implied goodwill and intangible assets	1.1	11.1
Implied multiples / metrics (times)		
Enterprise value / NTOA	1.0	1.1
EBITDA / goodwill & intangible assets	-	0.4
EBITA / goodwill & intangible assets	0.1	0.7
Intangibles as a % of enterprise value (%)	0.9%	8.2%

- 110 In respect of the above, we note that the implied level of goodwill / other intangible assets is modest relative to our assessed enterprise value. In addition, the implied intangible asset multiples from our valuation are:
- (a) generally consistent with the listed mining equipment and service companies set out in Appendix C, after allowance for a theoretical control premium
 - (b) higher than the majority of the contract mining companies given:
 - (i) the level of specialisation and need for consistency in performance of dewatering services sets Resource Equipment apart from the contract mining companies (who generally provide services that are more easily replaced)
 - (ii) Resource Equipment is a leading specialist external dewatering services company operating in Australia and hence the level of direct competition in the industry is low (whilst mining companies can perform this work in-house, high staff turnover in mining companies can lead to the loss of technical water management skills and potentially impacts the miner's ability to undertake these services in-house).

Comparison with listed market price

- 111 Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover).
- 112 In the one month and three months prior to the announcement of the Pump Services Offer on 18 December 2014³³, the volume weighted average price (VWAP) of Resource Equipment shares was 15.6 and 15.4 cents respectively. Adjusting these share prices for a 30% to 35% control premium would therefore result in a “theoretical” control value of 20.0 to 21.1 cents per share respectively.

³³ The Resource Equipment share price post this period was impacted by the Pump Services Offer

113 Whilst our valuation range is higher than these implied values, we note that:

- (a) Resource Equipment is not widely researched by investment analysts³⁴
- (b) historically the Company's shares have been relatively illiquid
- (c) although the CMS acquisition had occurred (prior to 18 December 2014), the extent of the potential synergy benefits was still being determined by the Company and therefore had not been announced
- (d) subsequent to 18 December 2014 Resource Equipment has announced the implementation of \$4.5 million of annualised cost savings.

Conclusion

114 Having regard to the implied goodwill multiples and the one and three month VWAP of Resource Equipment shares prior to the Pump Services Offer, we consider that our valuation range is reasonable and appropriate.

Other matters

- 115 We note that Resource Equipment has recently been approached by a third party interested in potentially acquiring its Indonesian business. Due to the commercial sensitivity of the on-going discussions / negotiations we are unable to disclose details of the non-binding indicative consideration. There is no certainty that any transaction will proceed.
- 116 Based on the indicative consideration we note that the value implied by the approach is broadly consistent with the value of the Indonesian business included in our overall valuation of Resource Equipment.

³⁴ Resource Equipment is researched by only one broker based on data provided by Bloomberg.

VI Evaluation of the Proposal

- 117 In our opinion, the Proposal is fair and reasonable to Resource Equipment shareholders as a whole, in the absence of a superior proposal. We have formed this opinion for the reasons set out below.

Position of Exiting Shareholders

Assessment of fairness pursuant to RG 111

- 118 As set out in Section V we have assessed the value of Resource Equipment at between 22.5 cents and 24.7 cents per share on a 100% controlling interest basis.
- 119 If the Proposal is approved and implemented, Exiting Shareholders will have their shares cancelled in return for a cash payment of 26.0 cents per Resource Equipment share.
- 120 Pursuant to RG 111 the Proposal is “fair” to the Exiting Shareholders if the value of the Proposed Consideration is equal to, or greater than the value of the securities which are the subject of the Proposal. This comparison is shown below:

Comparison of Proposed Consideration to value of Resource Equipment			
	Low	High	Mid-point
	cents per share	cents per share	cents per share
Value of Proposed Consideration	26.0	26.0	26.0
Value of 100% of Resource Equipment	22.5	24.7	23.6
Extent to which the Proposed Consideration exceeds the value of Resource Equipment	3.5	1.3	2.4

- 121 As the Proposed Consideration is above our assessed valuation range for Resource Equipment shares on a 100% controlling interest basis, in our opinion, the Proposal is fair to Exiting Shareholders when assessed based on the Guidelines set out in RG 111.

Other qualitative factors

- 122 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, in our opinion, the Proposal is also “reasonable” for Exiting Shareholders in the absence of a superior proposal. Notwithstanding this, we have also considered other factors to determine whether, on balance, the Proposal is fair and reasonable to Exiting Shareholders. These factors include:
- (a) the extent to which a control premium is being paid to the Exiting Shareholders
 - (b) the extent to which Exiting Shareholders are being paid a share of any synergies likely to be generated by the Continuing Shareholders
 - (c) the listed market price of the shares in Resource Equipment, both prior to and subsequent to the announcement of the Proposal
 - (d) the recent offer made for the Company’s shares by Pump Services and the level of acceptances received
 - (e) the likelihood of a higher alternative offer being made for Resource Equipment prior to the date of the General Meeting

- (f) the likely market price of Resource Equipment shares if the Proposal is not approved
- (g) the other advantages and disadvantages of the Proposal from the perspective of the Exiting Shareholders.

123 These issues are discussed in detail below.

Extent to which a control premium is being paid

124 Research undertaken by LEA indicates that average premiums paid in successful takeovers in Australia generally range between 30% and 35% above the listed market price of the target company's shares³⁵ three months prior to the announcement of the bid (assuming no speculation of the takeover is reflected in the pre-bid price). This premium range reflects the fact that:

- (a) the owner of 100% of the shares in a company obtains access to all the free cash flows of the company being acquired, which it would otherwise be unable to do as a minority shareholder
- (b) the controlling shareholder can direct the disposal of surplus assets and the redeployment of the proceeds
- (c) a controlling shareholder can control the appointment of directors, management policy and the strategic direction of the company
- (d) a controlling shareholder is often able to increase the value of the entity being acquired through synergies and/or rationalisation savings.

125 We have calculated the premium implied by the Proposed Consideration by reference to the market prices of Resource Equipment shares (as traded on the ASX) for periods up to and including 17 December 2014 (being the last trading day prior to the announcement of the Pump Services Offer) and from 4 February 2015 to 19 February 2015 inclusive (being the period between the expiration of the Pump Services Offer and the announcement of the Proposal).

126 The implied offer premium relative to Resource Equipment share prices is shown below:

Implied offer premium relative to recent Resource Equipment share prices		
	Resource Equipment share price cents	Implied offer premium
Proposed Consideration	26.0	
Volume weighted average price (VWAP):		
4 February 2015 to 19 February 2015 ⁽¹⁾ (inclusive)	19.0	36.8%
1 month to 17 December 2014 ⁽²⁾	15.6	66.7%
3 months to 17 December 2014 ^{(2) (3)}	15.4	68.8%

³⁵ After adjusting the pre-bid market prices for the movement in share market indices between the date of the pre-bid market price and the announcement of the takeover.

Note:

- 1 The Proposal was announced to the market subsequent to the close of trading on this day.
 - 2 The Company entered a trading halt subsequent to the commencement of trading on this day. The Pump Services Offer was announced the following day.
 - 3 We note that the CMS acquisition was announced on 25 September 2014, just after the start date of the 3 month period.
-

- 127 Having regard to the above, in our opinion, the Proposed Consideration provides Exiting Shareholders with a premium that is greater than observed premiums generally paid in comparable circumstances (e.g. takeovers).

Extent to which Exiting Shareholders are being paid a share of synergies

- 128 The Continuing Shareholders do not have any Australian operations independent of their existing interests in Resource Equipment. Accordingly, any synergies associated with the Proposal are likely to be confined to cost savings resulting from the potential delisting of the Company from the ASX and related regulatory matters no longer required. The Company has estimated the annual (pre-tax) savings to be approximately \$600,000.
- 129 Synergy benefits are, in part, a reason why control premiums are paid. We note that the control premiums implied by the Proposed Consideration are higher than observed premiums generally paid in comparable circumstances. We further note that our assessed valuation range incorporates an allowance for estimated (delisting) synergies and that the value of the Proposed Consideration is marginally above that range.
- 130 Given the above, it would appear that a proportion of the synergy benefits to be realised by the Continuing Shareholders is being reflected in the Proposed Consideration.

Recent share prices subsequent to the announcement of the Proposal

- 131 Exiting Shareholders should note that Resource Equipment shares have traded on the ASX in the range of 23.0 to 24.5 cents per share in the period since the Proposal was announced up to 4 March 2015. These share prices are lower than the Proposed Consideration and suggest that the market consensus view is that a superior offer or proposal is unlikely to emerge, given that Mr Naymola (and associates) has recently acquired a relevant interest in 80.15% of the issued capital and Mr Campbell (and associates) and Mr Hayes (and associates) each hold a relevant interest of 9.75% and 8.36% respectively in the issued capital.

The Pump Services Offer

- 132 On 18 December 2014, Pump Services, an entity controlled by Mr Naymola, announced an on-market takeover offer to acquire 100% of the shares in Resource Equipment, at a price of 26.0 cents per Resource Equipment share.
- 133 At the date of the announcement of the Pump Services Offer, Mr Naymola had a relevant interest in 56.5 million shares in Resource Equipment. This increased to 365.4 million by the end of the offer period. Excluding the two remaining members of the Continuing Shareholders (i.e. Mr Campbell and Mr Hayes and their respective associates), who held a relevant interest in 44.4 million and 44.7 million shares respectively prior to the Pump Services Offer, this implies a 97.4% level of acceptances as shown below:

Pump Services Offer – level of acceptances	
	000s
Total shares on issue as at 18 December 2014	444,392.3
Add shares issued during the offer period (i.e. on 24 December 2014)	11,458.9
Less: Mr Naymola's (starting) interest	(56,468.7)
Number of shares subject to the offer	399,382.5
Less: Mr Campbell's interest prior to the offer	(44,439.2)
Less: Mr Hayes' interest prior to the offer	(44,659.1)
Shares subject to the offer (other than those held by Continuing Shareholders)	310,284.2
 Shares acquired by Mr Naymola (either through acceptances or on-market purchases)	 308,901.7
Shares acquired by Mr Naymola from Mr Hayes (during the offer)	(6,568.4)
Shares acquired by Mr Naymola from those other than the Continuing Shareholders	302,333.3
 Percentage of acceptances (%)	 97.4

- 134 In our opinion, the high level of acceptances at the offer price of 26.0 cents per share is consistent with our opinion that the Proposed Consideration offered under the Proposal is fair.

Likely price of Resource Equipment shares if the Proposal is not implemented

Delisting approved

- 135 The resolution relating to the Delisting, is not conditional on the Proposal proceeding.
- 136 If Resource Equipment shares are delisted, all share transfers subsequent to the delisting will have to be effected off-market (i.e. by way of private negotiation). Due to the unlisted nature of the shares, in our view, it is likely that such sales would occur at a discount to the Proposed Consideration. Further, the ability to monetise the shares on a timely basis may not be possible.

Delisting not approved

- 137 If neither the Proposal or the Delisting is approved we expect that, at least in the short-term, Resource Equipment shares will trade at a significant discount to our valuation and the Proposed Consideration due to the difference between the value of Resource Equipment shares on a portfolio basis and their value on a 100% takeover basis.
- 138 If the Proposal is not implemented those Exiting Shareholders who wish to sell their Resource Equipment shares are therefore likely, at least in the short-term, to realise a significantly lower price for their shares than will be payable under the Proposal. Exiting Shareholders should also note that, consistent with historical trading performance, share market trading in the Company is also likely to be relatively illiquid.

Likelihood of an alternative offer

- 139 In our opinion, there is no realistic likelihood of a higher or superior offer to the Proposal being received prior to the General Meeting. This is because:
- (a) Mr Naymola holds an interest in Resource Equipment shares of 80.15% (as a result of the CMS transaction and the Pump Services Offer)

- (b) any alternative offer by another party for 100% of Resource Equipment could not succeed unless Mr Naymola agreed to sell his shareholding
- (c) Resource Equipment has recently been the subject of an on-market takeover offer by Mr Naymola (via his controlled entity Pump Services) at a price of 26.0 cents per share. No competing bids (or approaches) were received during the offer period
- (d) we have been advised by the Independent Directors of Resource Equipment that no formal alternative offers have been received subsequent to the announcement of the Proposal on 19 February 2015.

Summary of position for Exiting Shareholders

- 140 We summarise below the likely advantages and disadvantages for Exiting Shareholders if the Proposal proceeds.

Advantages

- (a) the Proposed Consideration of 26.0 cents per share is 2.4 cents per share above the mid-point of our assessed value range for Resource Equipment shares on a 100% controlling interest basis
- (b) the Proposed Consideration represents a significant premium to the recent market prices of the Company's shares prior to the announcement of the Pump Services Offer on 18 December 2014. Furthermore, the premium is higher than observed premiums generally paid to target company shareholders in comparable circumstances
- (c) if the Proposal does not proceed, and in the absence of an alternative offer or proposal, the price of Resource Equipment shares is likely to trade at a significant discount to our valuation and the Proposed Consideration due to the portfolio nature of individual shareholdings. Share market trading is also likely to be relatively illiquid, in addition to which it is also likely that Resource Equipment shares will be delisted from the ASX
- (d) given that the Mr Naymola (and associates) has recently acquired a relevant interest in 80.15% of the issued capital and Mr Campbell (and associates) and Mr Hayes (and associates) each hold a relevant interest of 9.75% and 8.36% respectively in the issued capital, there is no realistic likelihood of a superior offer being received prior to the General Meeting and Special Meeting

Disadvantages

- (e) if the Proposal is implemented, Exiting Shareholders will no longer hold an interest in Resource Equipment and will therefore not participate in any future value created by the Company over and above that reflected in the Proposed Consideration. However, as our assessed value of the Company's shares is lower than the Proposed Consideration, in our opinion, the present value of Resource Equipment's future potential is fully reflected in the Proposed Consideration.

- 141 Given the above, we consider the Proposal to be fair and reasonable to the Exiting Shareholders, in the absence of a superior proposal.

Position of Continuing Shareholders

- 142 In our opinion, the terms of the Proposal are fair and reasonable to the Continuing Shareholders (in the absence of a superior proposal) on the basis that:
- (a) the Proposal was formulated by the Board of Resource Equipment (which is controlled by Mr Naymola)
 - (b) the Continuing Shareholders have extensive industry knowledge and the factors impacting the market in which the Company operates
 - (c) the Continuing Shareholders have detailed knowledge of the operations and financial performance of both the Resource Equipment and CMS businesses
 - (d) if the Proposal is approved the Continuing Shareholders will no longer have to consider the interests of the Exiting Shareholders and incur associated costs.
- 143 In our opinion, whilst the position of the Continuing Shareholders is a relevant consideration, the primary focus of the report should be on the advantages and disadvantages to the Exiting Shareholders. We have therefore not undertaken any further analysis of the impact of the Proposed Transaction on the Continuing Shareholders.

Summary of opinion on the Proposal

- 144 Having regard to the advantages and disadvantages of the Proposal, we consider that, on balance, the Proposal is fair and reasonable to Resource Equipment shareholders as a whole, in the absence of a superior proposal.

Appendix A

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Notice of Meeting and Explanatory Memorandum to be sent to Resource Equipment shareholders.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$50,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Craig Edwards and Mr Nathan Toscan, who are each authorised representatives of LEA. Mr Edwards and Mr Toscan have over 20 years and 11 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Resource Equipment to accompany the Notice of Meeting and Explanatory Memorandum to be sent to the Company's shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether the Proposal is fair and reasonable to Resource Equipment's shareholders as a whole.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Toscan have any interest in the outcome of the Proposal. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 It should be noted that LEA recently prepared an independent report in connection with the bid by Pump Services for Resource Equipment in December 2014. In that report we provided our independent opinion on whether the price paid by Mr Naymola for Resource Equipment shares in the four months preceding Pump Services' bid for the Company was fair and reasonable³⁶. We do not consider our prior role to constitute a conflict of interest, or impair our ability to provide objective independent assistance in respect of this engagement.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Resource Equipment agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of the Company which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

³⁶ Pump Services was legally obligated to have the report prepared and include it within its Bidder's Statement. For the avoidance of doubt, our report did not provide any opinion on the fairness or reasonableness of the cash offer made by Pump Services.

Appendix B

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Memorandum.

Appendix C

Financial summary for CMS

- 1 The financial performance of CMS for the four years ended 30 June 2014 (FY14), is set out below³⁷:

CMS – statement of financial performance				
	FY11 Audited \$m	FY12 Audited \$m	FY13 Audited \$m	FY14 Audited \$m
Total revenue	26.5	35.1	34.8	30.8
Operating expenses	(22.0)	(25.9)	(26.4)	(24.1)
EBITDA	4.5	9.1	8.4	6.8
Depreciation	(0.7)	(1.3)	(1.6)	(1.8)
EBIT	3.8	7.9	6.8	4.9
Net financial income	(0.3)	(0.4)	0.0 ⁽¹⁾	0.3 ⁽¹⁾
Profit before tax	3.5	7.5	6.9	5.2
Income tax expense	(1.0)	(2.3)	(2.1)	(1.5)
Profit after tax	2.5	5.2	4.8	3.7
Earnings margins (%)				
EBITDA	17.1	26.1	24.2	22.0
EBIT	14.3	22.4	19.7	16.0
Profit after tax	9.5	14.9	13.8	11.9
Growth statistics (%)				
Revenue	na	32.4	(0.8)	(11.4)
EBITDA	na	101.6	(7.7)	(19.5)
EBIT	na	107.6	(13.1)	(27.8)
Profit after tax	na	106.9	(8.3)	(23.6)

Note:

- 1 In FY13 and FY14 CMS received interest income of \$292,490 and \$469,512 respectively from a debtor that had failed to pay its fees on a timely manner. This debt has since been repaid.
na – not available.

- 2 As shown above, revenue and EBITDA for CMS peaked in FY12, due to favourable industry conditions and relatively high commodity prices (which increased the level of mining activity and hence water management activity). However, since September 2012 lower commodity prices have led to more challenging mining conditions and an increased focus by mining companies to increase productivity and reduce input costs (consistent with the experience of Resource Equipment). This has been reflected in CMS's more recent operating results, which show EBITDA margins reducing from 26.1% in FY12 to 22% in FY14 as revenue reduced by some \$4 million over this period. The FY14 operating performance was also partially

³⁷ Further information on the CMS business is set out in the Bidder's Statement relating to the Pump Services Offer, announced on 18 December 2014.

Appendix C

impacted by management distraction from the sale of a one-third interest in CMS to Mr Naymola.

- 3 Prior to the acquisition of CMS by Resource Equipment, due to the general downturn in the mining services sector, CMS had been forced to provide its clients with a revised (lower) fee structure. As a result both revenue and profitability in the period up to the date of acquisition were down materially on previous comparable periods.
- 4 In a mature business we would expect the capital expenditure and depreciation amounts to be fairly consistent over a given period. However, over the four years to 30 June 2014, CMS's plant and equipment expenditure has been materially higher than its depreciation expenses over the same period. We understand that this was a one-off investment phase attributable to a period of past under investment and the opening of a new branch in Brisbane. Accordingly, we have viewed this as one-off (catch up) spending, as opposed to ongoing (or maintainable) capital expenditure.

Appendix D

Listed company multiples and descriptions

- The listed company multiples and other metrics for a range of Australian mining service and equipment hire companies are set out below, with a brief description of company activities following:

Listed multiples summary																			
	Enterprise value ⁽¹⁾⁽²⁾ (\$m)	Market cap (\$m)	Gearing ⁽³⁾ %	Enterprise value / NTOA (\$m)	Intangibles as % of EV	EBITDA Multiple			EBITDA Multiple			Intangibles / EBITDA multiple			Intangibles / EBITDA multiple			FY16 / FY14 CAGR %	
						Historical ⁽⁴⁾	FY14	FY15	FY16	Historical ⁽⁴⁾	FY14	FY15	FY16	Historical ⁽⁴⁾	FY14	FY15	FY16		Historical ⁽⁴⁾
Mining equipment and services																			
Bradken Ltd	816.3	390.8	52.1%	1.1	8.8%	4.7	5.3	4.9	6.8	7.6	7.0	0.4	0.4	0.5	0.4	0.6	0.7	0.6	(0.3%)
Austin Engineering Ltd	151.9	61.5	59.5%	0.9	(8.2%)	9.8	5.7	4.1	30.7	9.8	6.1	(0.8)	(0.8)	(0.5)	(0.3)	(2.5)	(0.8)	(0.5)	35.9%
Index Ltd	118.8	69.2	41.8%	0.7	(49.0%)	14.7	6.9	5.2	nm	12.6	7.8	(7.2)	(7.2)	(3.4)	(2.5)	nm	(6.2)	(3.8)	54.7%
Saunders International Ltd	40.7	58.9	(44.8%)	nm	97.6%	4.5	4.5	4.3	4.8	4.8	4.5	4.4	4.4	4.4	4.2	4.7	4.7	4.4	na
Specialist drilling																			
Boart Longyear Ltd	847.1	267.6	68.4%	1.0	(4.0%)	6.2	17.3	10.9	nm	nm	nm	(0.2)	(0.2)	(0.7)	(0.4)	nm	nm	nm	(4.5%)
Ausdrill Ltd	510.1	123.3	75.8%	0.5	(121.2%)	2.9	3.5	3.0	6.8	10.7	7.7	(3.6)	(3.6)	(4.2)	(3.7)	(8.2)	(13.0)	(9.3)	2.2%
Swick Mining Services Ltd	54.9	39.2	28.6%	0.5	(108.7%)	3.4	2.6	2.2	17.3	5.8	4.7	(3.7)	(3.7)	(2.8)	(2.4)	(18.8)	(6.3)	(5.1)	na
Contract mining services																			
MACA Ltd	207.5	218.7	(5.4%)	0.9	(9.6%)	1.5	1.4	1.6	2.4	2.2	2.7	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	(0.3)	(2.5%)
Macmahon Holdings Ltd	127.2	69.4	45.4%	0.3	(270.8%)	0.7	1.0	1.0	1.8	3.4	3.2	(2.0)	(2.0)	(2.8)	(2.8)	(4.8)	(9.2)	(8.8)	(10.3%)
NRW Holdings Ltd	111.4	77.4	30.5%	0.3	(235.4%)	0.9	1.2	1.2	1.5	2.5	2.7	(2.1)	(2.1)	(2.8)	(2.9)	(3.5)	(5.9)	(6.3)	(11.5%)
Calibre Group Ltd	97.4	105.2	(8.2%)	0.7	(34.7%)	2.2	2.5	2.5	3.1	3.4	3.2	(0.7)	(0.7)	(0.9)	(0.9)	(1.1)	(1.2)	(1.1)	(4.7%)
Sedgman Ltd	53.0	132.8	(150.4%)	1.2	16.5%	2.8	2.1	2.0	13.4	4.1	3.0	0.5	0.5	0.4	0.3	2.2	0.7	0.5	14.6%
Masternyne Group Ltd	30.0	27.3	7.5%	0.7	(44.3%)	2.5	3.5	2.7	5.7	7.6	3.9	(1.1)	(1.1)	(1.6)	(1.2)	(2.5)	(3.4)	(1.7)	2.1%
Equipment hire																			
Emeco Holdings Ltd	350.0	78.0	77.7%	0.6	(70.2%)	4.9	4.3	3.6	nm	nm	nm	(3.4)	(3.4)	(3.0)	(2.5)	40.3	(139.3)	(18.8)	14.5%
Boom Logistics Ltd	125.6	59.4	52.7%	0.4	(135.4%)	3.0	4.0	3.1	9.0	13.9	9.6	(4.0)	(4.0)	(5.4)	(4.2)	(12.1)	(18.9)	(13.0)	(4.1%)

Note:

- Enterprise value and earnings multiples calculated as at 18 February 2015.
 - Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buybacks, excludes surplus assets, and adjusts for the cash effect of special dividends.
 - Gearing equals net debt (cash adjusted for the effect of share placements and buybacks and material option dilution) divided by enterprise value. Where this value is negative it indicates a net cash position.
 - Historical earnings are based on latest statutory full year accounts and excludes non-recurring items, significant write downs, realised investment gains or losses, restructuring charges.
 - Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
- Source:** Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.
na - not available. nm - not meaningful.

Appendix D

Mining equipment and services companies

Bradken Ltd

- 2 Bradken is a supplier of consumable and capital products to the mining and construction, rail, energy and general industrial markets. It employs some 5,000 staff across over 50 manufacturing, sales and service facilities throughout Australia, New Zealand, the US, Asia, South Africa and the United Kingdom. The company supplies ferrous castings, fabrications and machining services and also designs, supplies and services wear components for the mining, mineral processing and quarry industries. It also offers freight rolling stock products and services.

Austin Engineering Ltd

- 3 Austin Engineering is an engineering company focusing on the mining and resources sector. The company has Australian manufacturing facilities in Brisbane, Perth, Mackay and Muswellbrook as well as overseas facilities in Wyoming (US), Antofagasta and Calama (Chile), Barranquilla (Colombia), Lima (Peru) and Batam Island (Indonesia). Each business division provides an array of manufacturing, repair and support services to the mining, oil and gas, aluminium and industrial sectors.

Imdex Ltd

- 4 Imdex is a provider of drilling fluid products, advance down hole instrumentation, data solutions and geo-analytics services to exploration, development and production companies in the minerals and oil and gas sectors worldwide. Imdex supports a diverse range of customers at all stages of the mining cycle, from junior explorers to major producers across a wide range of commodities. The company has operational centres in key mining regions of the world, including Asia-Pacific, Africa, Europe and the Americas.

Saunders International Ltd

- 5 Saunders International is a provider of engineering and construction services with a focus on the design, construction and maintenance of steel storage tanks and the project management of ancillary facilities. The company services a range of industries including oil and gas, mining and mineral processing, water and waste water infrastructure and fuel terminals. It also provides facilities and maintenance management to petroleum refineries and distributors and oil and gas producers.

Specialist drilling companies

Boart Longyear Ltd

- 6 Boart Longyear is a leading provider of drilling services, drilling equipment and performance tooling for mining and drilling companies globally. The company operates in two main divisions, which are drilling services and drilling products. Boart Longyear is headquartered in Salt Lake City, Utah, USA, operates in some 40 countries and has a customer base covering a wide range of commodities.

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Ausdrill Ltd

- 7 Ausdrill is a diversified mining and energy services company with key operations in Australia and Africa. The offered services include drill and blast, grade control, water well drilling and equipment sales, hire and parts. In addition, Ausdrill provides load and haul and crusher feed services as well as specialist underground mining services in Africa. The Australian operations are primarily based in Western Australia and the African operations are primarily located in Ghana.

Swick Mining Services Ltd

- 8 Swick Mining Services is a mineral drilling contractor, providing both underground and surface drilling services to the Australian resource and mining industry. The company is the market leader in the development of innovative rig designs and drilling practises that improve productivity, safety and versatility. Swick Mining Services has three divisions which include Underground Diamond, Surface Reverse Circulation and Underground Production. The company also operates in Canada, USA, and Europe.

Contract mining companies

Maca Ltd

- 9 Maca is a mining and civil construction company offering contract mining, civil earthworks, crushing and screening and material haulage solutions to the mining industry throughout Australia. The company has two major divisions, Mining Contracting and Civil Contracting and employs over 1,000 staff. The services offered by Mining Contracting are structured as load and haul, drill and blast, crush and screen and materials handling.

Macmahon Holdings Ltd

- 10 Macmahon Holdings is an Australian company providing mining services to clients throughout Australia, New Zealand, South East Asia, Mongolia and Africa. The company provides surface mining, underground mining, engineering, and plant and maintenance. Its specific services range from mine development to materials delivery, design, construction and on-site services for mining companies, across a variety of base and precious metals and commodities.

NRW Holdings Ltd

- 11 NRW Holdings is an Australian company providing diversified services to Australia's resource and infrastructure sectors. The Company operates three business divisions, which focus on civil construction and mining services, drill and blast services and the sale of heavy and ancillary equipment (as well as equipment maintenance and repair). NRW Holdings operates in Western Australia, the Northern Territory, Queensland and Guinea, West Africa.

Calibre Group Ltd

- 12 Calibre Group provides diversified engineering, project delivery and asset management services to the resources and infrastructure sectors. Its three brands are Calibre Global, Calibre Minerva and Xstract Mining Consultants. The services provided by Calibre Group include early-stage asset evaluation and project feasibility studies, design, construction

Appendix D

management, fabrication and commissioning, ongoing support, maintenance and optimisation of mine, rail and infrastructure assets.

Sedgman Ltd

- 13 Sedgman is a provider of mineral processing and associated infrastructure solutions to the global resources industry. Traditionally the company focused on the coal industry and the provision of wash plant construction and maintenance and associated services. However, in a bid to diversify, Sedgman has increased its engineering, project delivery and operations services capabilities across a range of commodities, including coal, iron ore, copper, gold and other base metals. As a result, the company's order book is now less than 50% related to coal.

Mastermyne Group Ltd

- 14 Mastermyne Group is a specialist provider of mining services to the Australian coal mining industry. The company provides an extensive range of outsourced services to existing and new coal mining operations. Mastermyne also has a comprehensive range of underground mining equipment which complements its contracting operations. Mastermyne Group has an established presence in all major coal producing regions on the east coast of Australia and is structured into three operating divisions being Underground Mining Services, Electrical & Mechanical Services and Engineering & Fabrication.

Equipment hire companies

Emeco Holdings Ltd

- 15 Emeco Holdings is an Australian based mining equipment rental business with major operations in Canada and Chile. The company owns a fleet of earth moving equipment including rear dump trucks, articulated trucks, excavators, loaders, graders, and dozers, as well as ancillary equipment comprising water carts, service trucks, compactors, integrated tool carriers and tire handlers.

Boom Logistics Ltd

- 16 Boom Logistics owns Australia's largest fleet of cranes, travel towers and access equipment and provides crane logistics and lifting solutions. The company offers crane and equipment hire, managed lifting solutions, engineering services, long-term maintenance contracts and projects and heavy haulage for customers in the mining and resources, energy, utilities and infrastructure sectors.

Appendix E

Transaction evidence

Summary of transaction multiples												
Date ⁽¹⁾	Target	Acquirer	Industry	Sub industry	Stake %	EV ⁽²⁾ 100% ICSm	EBITDA multiples		EBITDA multiples		EBITDA multiples	
							Historical	Forecast	Historical	Forecast	Historical	Forecast
							x	x	x	x	x	x
Sep 14	Diversified Mining Services Ltd	Mastermeye Group Ltd	Mining services	Mining equipment & services	100%	20.0	na	3.0	na	na	na	3.6
Sep 14	CMS	Resource Equipment	Engineering	Equipment hire & mining services	100%	20.1	2.7	3.5	na	3.5	na	5.2
Mar 14	National Pump	United Rentals Inc	Engineering	Equipment hire & mining services	100%	842.5	8.2	na	na	na	na	na
Mar 14	CMS	Mr Niyemola	Engineering	Equipment hire & mining services	33%	37.8	4.4	na	na	5.3	na	na
Oct 13	Mancala Holdings Ltd	Sapphire Corporation Ltd	Mining services	Mining equipment & services	100%	15.0	4.3	na	na	na	na	na
Oct 13	Servigut	Austin Engineering Ltd	Mining services	Mining equipment servicing & maintenance	100%	19.3	na	na	na	5.8	na	na
Apr 13	Eastcoast Development Engineering Pty Ltd	Decmil Group Ltd	Mining Services	Mining equipment & services	100%	24.3	1.9	na	na	na	na	na
Jan 13	e2o Pty Ltd	Clough Ltd	Mining services	Mining equipment & services	100%	11.5	na	na	na	na	2.3	na
Dec 12	Engenco Ltd	Elph Pty Ltd	Mining services	Mining equipment & services	100%	74.3	4.9	6.5	11.8	mm	mm	na
Oct 12	ioGlobal Ltd	Index Ltd	Mining services	Drilling services	100%	8.0	na	na	na	na	4.0	na
Oct 12	G&S Engineering Services Pty Ltd	Calibre Group Ltd	Mining services	Mining equipment servicing & maintenance	100%	93.9	na	5.5	na	na	na	na
Jul 12	Best Tractor Parts Group	Ausdrill Ltd	Mining services	Mining equipment & services	100%	165.0	3.3	na	4.3	na	na	na
May 12	Industrea Ltd	General Electric Company	Mining services	Mining equipment & services	100%	701.2	6.0	5.3	10.7	8.5	na	na
Jan 12	Ludowici Ltd	FLSmith & Co A/S	Mining services	Mining equipment & services	100%	388.9	12.5	11.8	15.9	14.9	na	na
Aug 11	Mesicape Industries	Ludowici Ltd	Mining services	Mining equipment & services	100%	11.5	na	5.8	na	na	na	na
Jul 11	Norcast Wear Solutions / Australian & Oversea Alloys	Bradken Ltd	Mining services	Mining equipment & services	100%	222.0	na	7.9	na	na	na	na
Mar 11	Underground Service Business of Al Lucas Group Ltd	Industrea Ltd	Mining services	Mining equipment & services	100%	25.5	na	4.8	na	na	na	na
Feb 11	DSA	Resource Equipment	Mining services	Equipment hire & mining services	100%	13.0	4.2	3.7	na	na	na	na
Feb 11	Connector Drilling Pty Ltd	Ausdrill Ltd	Mining services	Drilling services	100%	29.9	na	na	5.0	na	na	na
Dec 10	Rojan Advanced Ceramics Pty Ltd	Ludowici Ltd	Mining services	Mining equipment & services	100%	5.2	4.2	na	na	na	na	na
Dec 10	COR Cooling Group	Austin Engineering Ltd	Mining services	Mining equipment servicing & maintenance	100%	19.5	na	na	na	na	6.0	na
Dec 10	Easternwell Group Pty Ltd	Transfield Services Ltd	Mining services	Mining services	100%	570.4	11.4	7.5	na	na	na	na
Dec 10	Essa Australia Ltd	FLSmith Pty Ltd	Mining services	Mining equipment & services	100%	30.1	8.5	na	11.3	na	na	na
Jul 10	Tutt Bryant Group Pty Ltd	Tat Hong Holdings Limited	Equipment hire	Equipment hire	100%	177.4	4.6	na	11.2	na	na	na
Jul 10	Pilbara Hire Group Pty Ltd	Austin Engineering Ltd	Mining services	Mining equipment servicing & maintenance	100%	13.0	na	na	na	na	na	na
May 10	Almac Machine Works	Bradken Ltd	Mining services	Mining equipment & services	100%	56.2	4.1	na	na	na	na	na
May 10	Amntec Ltd	Campbell Brothers Ltd	Mining services	Mining services	100%	152.3	11.9	7.3	14.2	8.3	na	na
Mar 10	Coote Industrial Ltd (Engenco)	Elph Pty Ltd	Mining services	Mining equipment & services	100%	167.7	5.7	5.7	na	na	na	na
Dec 09	Ausmelt Ltd	Outotec Pty Ltd	Mining services	Mining equipment & services	100%	50.7	9.3	na	9.7	na	na	na
Dec 09	Paramount Hire Services & Pump Hire Services	Tutt Bryant Group Ltd	Equipment hire	Equipment hire	100%	50.7	5.7	na	na	na	na	na
Aug 09	Brandrill Ltd	Ausdrill Ltd	Mining services	Drilling services	100%	103.7	4.5	3.7	15.9	9.2	na	na
Aug 09	Conymet Ltd	Austin Engineering Ltd	Mining services	Mining equipment & services	100%	23.4	3.1	na	na	na	na	na
Jul 08	Americast Technologies Inc	Bradken Ltd	Mining services	Mining equipment & services	100%	268.5	5.4	na	na	na	na	na
Jul 08	SWG	Programmed Maintenance Services Ltd	Mining services	Mining equipment servicing & maintenance	100%	36.0	na	na	na	na	3.6	na
Apr 08	Resource Equipment Rentals Pty Ltd	Repol Ltd	Engineering	Equipment hire & mining services	100%	29.4	5.4	3.3	7.3	4.8	na	na

Appendix E

Summary of transaction multiples (continued)

Date ⁽¹⁾	Target	Acquirer	Industry	Sub industry	Stake %	EV ⁽²⁾ 100% HC\$ m	EBITDA multiples		EBITDA multiples	
							Historical	Forecast	Historical	Forecast
Dec 07	Central Exploration Drilling	Hughes Drilling Ltd	Mining services	Drilling services	100%	6.5	3.3	na	x	na
Dec 07	Western Technology Services International Inc	Austin Engineering Ltd	Mining services	Mining equipment & services	100%	21.5	na	na	na	3.2
Nov 07	Rocktec Contracting	VDM Group Ltd	Mining services	Drilling services	100%	15.0	na	na	na	4.0
Oct 07	Cast Metal Services Pty Ltd	Bradken Ltd	Mining services	Metal tooling & welding services	100%	14.1	3.7	na	na	na
Oct 07	PCH Group Ltd	Cape Australia Pty Ltd	Equipment hire	Equipment hire	100%	268.1	12.8	9.2	18.2	13.2
Oct 07	Coates Hire Ltd	NED Consortium	Equipment hire	Equipment hire	100%	2,217.1	6.9	6.2	12.6	10.5
Sep 07	Concept Hire Ltd	Cape Australia Pty Ltd	Equipment hire	Equipment hire	100%	128.7	12.0	9.8	12.6	9.8
Aug 07	Prime Industrial Rentals	Coates Hire Ltd	Equipment hire	Equipment hire	100%	39.7	na	na	5.0	4.5
Apr 07	Eagle Engineering Pty Ltd	RCR Tomlinson Ltd	Mining services	Mining equipment servicing & maintenance	100%	21.0	na	na	na	4.9
Apr 07	Aust Bore Pty Ltd	Austin Engineering Ltd	Mining services	Mining equipment & services	100%	10.6	na	na	3.6	3.3
Feb 07	Muswellbrook Cranes Services Pty Ltd	Tutt Bryant Group Ltd	Equipment hire	Equipment hire	100%	20.7	5.4	na	na	na
Dec 06	Applied Laser Group	RCR Tomlinson Ltd	Mining services	Metal tooling & welding services	100%	16.6	na	na	na	4.2
Nov 06	Alplant Services Pty Ltd	Coates Hire Ltd	Equipment hire	Equipment hire	100%	72.4	na	3.4	na	7.6
Aug 06	PJ Berriman	Industrea Ltd	Mining services	Mining equipment & services	100%	6.2	na	na	na	3.1
Jul 06	Hirepool Ltd	Next Capital	Equipment hire	Equipment hire	100%	172.0	7.9	na	10.4	na
Jun 06	Wadam Industries Pty Ltd	GPS Online Ltd (Industria Ltd)	Mining services	Mining equipment & services	100%	12.4	na	na	na	2.7
Jun 06	JG Engineering, VBRT & Australian Crusher Repairs	RCR Tomlinson Ltd	Mining services	Mining equipment & services	100%	14.1	na	na	3.5	na
						Average	6.3	6.0	9.2	6.1
						Median	5.4	5.7	9.7	4.9

Note:

1 Date of announcement

2 Enterprise value (EV) calculated on a 100% basis.

Source: analysis using data from ASX announcements, broker reports and company annual reports.

na = not available. nm = not meaningful.

Appendix F

Glossary

Term	Meaning
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
CMS	Campbell Mining Services Pty Ltd
Continuing Shareholders	Mr Naymola, Mr Campbell, Mr Hayes and each of their respective associates
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
DCF	Discounted cash flow
Delisting	The proposal to delist the Company from the ASX
DSA	Dewatering Services Australia Pty Ltd and DSA Plant Co Pty Ltd
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax depreciation and amortisation
EV	Enterprise value
Exiting Shareholders	Shareholders of the Company other than the Continuing Shareholders
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
IER	Independent expert's report
LEA	LonerGAN Edwards & Associates Limited
Mr Naymola	Mr Walter Naymola (and associates)
Mr Hayes	Mr Rod Hayes (and associates)
Mr Campbell	Mr David Campbell (and associates)
NPV	Net present value
PE	Price earnings
Proposal	The proposed selective capital reduction contemplated by the Company
Proposed Consideration	The cancellation of all shares in the Company other than those owned by the Continuing Shareholders in return for a cash payment of 26.0 cents per share
Pump Services	Pump Services LLC (being a company controlled by Mr Naymola)
Pump Services Offer	The on-market takeover offer by Pump Services to acquire 100% of the shares in Resource Equipment, at a price of 26.0 cents per Resource Equipment share
RAMPS	RAMPS Australia Pty Ltd
Resource Equipment or the Company	Resource Equipment Limited
RG 111	Regulatory Guide 111 – <i>Content of expert reports</i>
US	United States
VWAP	Volume weighted average price
WANOS	Weighted average number of shares outstanding

ANNEX 2

TAX ADVISER'S REPORT



The Directors
Resource Equipment Ltd
PO Box 328
WESLSHPOOL WA 6986

11 March 2015

Dear Sirs

Capital Reduction and Buy-back Australian Taxation Implications

We have been engaged by Resource Equipment Limited (**REL** or **Company**) to provide a general summary of the Australian tax consequences for Shareholders arising as a result of the Capital Reduction and Buy-back. This summary has been prepared for inclusion in an Explanatory Memorandum (**EM**) dated on or about 11 March 2015 to be issued by REL in respect of the Capital Reduction and Buy-back and should be read with the EM.

The information contained in this document does not constitute “financial product advice” within the meaning of the Corporations Act 2001 (Cth) (**Corporations Act**). The PricewaterhouseCoopers partnership which is providing this advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a “financial product” within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product.

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This summary is based on existing law and established interpretations as at the date of this letter. The relevant law is complex and subject to change periodically as is the interpretation by the courts and the Australian Taxation Office (**ATO**). We have not sought to have our opinion ruled upon by the ATO and therefore there is a risk that the ATO may not agree with our opinion or aspects of it.

This summary does not address the consequences that arise for Shareholders that hold their shares on revenue account or as trading stock. This summary also does not apply to Shareholders that are subject to the taxation of financial arrangement (**TOFA**) rules in Division 230 of the Income Tax Assessment Act 1997 in relation to gains and losses on their Shares.

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This summary assumes that the Capital Reduction will be wholly debited to the share capital account of REL and that the share capital account is not tainted for income tax purposes.

The terminology and definitions used in this letter are consistent with that of the EM containing this letter.

1. Proposed Capital Reduction and Buy-back Steps

The Capital Reduction will involve a selective capital reduction of the issued share capital of REL held by Small Shareholders. Under the Capital Reduction, it is proposed that all Shares which are not owned by the Continuing Shareholders will be cancelled in return for a payment of A\$0.26 per Share. After the Capital Reduction is completed, all Shares on issue will be held by the Continuing Shareholders.

If the Capital Reduction is approved by Shareholders at the General Meeting and Special Meeting, REL will also conduct an on-market buy-back of its Shares for 3 trading days following the Special Meeting (**Buy-back**). The Buy-back will allow Small Shareholders to elect to sell their Shares during that period, rather than their Shares being cancelled under the Capital Reduction. The proceeds to be paid to Small Shareholders under the Buy-back will be equal to A\$0.26 per Share.

2. Buy-back

Capital Gains Tax

The Buy-back will be treated as a capital gains tax (CGT) Event to Shareholders.

Australian tax resident Shareholders

A Shareholder will derive a capital gain on the disposal of Shares under the Buy-back to the extent that the capital proceeds on disposal exceeds the CGT cost base of the Shares disposed of. A Shareholder will incur a capital loss on the disposal of Shares under the Buy-back to the extent that the capital proceeds are less than the CGT reduced cost base.

Any capital gain or capital loss will be disregarded if the relevant Share was acquired on or before 19 September 1985.

All capital gains and capital losses arising in a year are added together to determine whether a Shareholder has derived a net capital gain or incurred a net capital loss in that year. If a Shareholder derives a net capital gain in a year, this amount is, subject to the comments below, included in the Shareholder's assessable income. If a Shareholder incurs a net capital loss in a year, this amount is carried forward and is available to offset capital gains derived in subsequent years, subject to certain tests where relevant.

If the Shareholder is an Australian tax resident individual or trustee and has held a Share for more than 12 months at the time of disposal and there is a net capital gain on disposal (after offsetting any current year capital losses or carry forward net capital losses from previous years), a discount factor of



50% may be available to that individual or trustee. If the Shareholder is a complying superannuation entity the discount factor that may be available is 33^{1/3}%. Shareholders that are companies are not able to access the CGT discount.

Non-Australian tax resident Shareholders

A Shareholder will derive a capital gain on the disposal of Shares under the Buy-back to the extent that the capital proceeds on disposal exceeds the CGT cost base. A Shareholder will incur a capital loss on the disposal of Shares under the Buy-back to the extent that the capital proceeds are less than the CGT reduced cost base.

Any capital gain or capital loss will be disregarded if the relevant Share was acquired on or before 19 September 1985, or if the Share is not Taxable Australian Property (**TAP**). A Share should be TAP if:

- The Shareholder has held more than 10% of the Company's issued capital at the date of disposal or throughout a 12 month period that began no earlier than 24 months before the date of disposal and ended no later than the date of disposal; and
- More than 50% of the market value of the Share consists of taxable Australian real property (direct and indirect interests in Australian real property, included leases of Australian land).

Based on the register of Small Shareholders as at 11 March 2015, no non-resident Small Shareholder meets these requirements. Accordingly, there should be no CGT implications for any non-resident Small Shareholders in relation to the Buy-back.

Different outcomes may arise if a Share is held at or through an Australian permanent establishment.

Anti-Avoidance Rules

On balance, we do not consider that section 45B of the Income Tax Assessment Act 1936 should apply to reclassify all or part of the capital proceeds to be received by Small Shareholders under the Buy-back as the payment of an unfranked dividend.



3. Capital Reduction

Capital Gains Tax

The Capital Reduction will be treated as a CGT Event to Shareholders.

Australian tax resident Shareholders

A Shareholder will derive a capital gain on the disposal of Shares under the Capital Reduction to the extent that the capital proceeds on disposal exceeds the CGT cost base of the Shares disposed of. A Shareholder will incur a capital loss on the disposal of Shares under the Capital Reduction to the extent that the capital proceeds are less than the CGT reduced cost base.

Any capital gain or capital loss will be disregarded if the relevant Share was acquired on or before 19 September 1985.

All capital gains and capital losses arising in a year are added together to determine whether a Shareholder has derived a net capital gain or incurred a net capital loss in that year. If a Shareholder derives a net capital gain in a year, this amount is, subject to the comments below, included in the Shareholder's assessable income. If a Shareholder incurs a net capital loss in a year, this amount is carried forward and is available to offset capital gains derived in subsequent years, subject to certain tests where relevant.

If the Shareholder is an Australian tax resident individual or trustee and has held a Share for more than 12 months at the time of disposal and there is a net capital gain on disposal (after offsetting any current year capital losses or carry forward net capital losses from previous years), a discount factor of 50% may be available to that individual or trustee. If the Shareholder is a complying superannuation entity the discount factor that may be available is 33¹/₃%. Shareholders that are companies are not able to access the CGT discount.

Non-Australian tax resident Shareholders

A Shareholder will derive a capital gain on the disposal of Shares under the Capital Reduction to the extent that the capital proceeds on disposal exceeds the CGT cost base. A Shareholder will incur a capital loss on the disposal of Shares under the Capital Reduction to the extent that the capital proceeds are less than the CGT reduced cost base.

Any capital gain or capital loss will be disregarded if the relevant Share was acquired on or before 19 September 1985, or if the Share is not Taxable Australian Property (**TAP**). As outlined above, based on the register of Small Shareholders as at 11 March 2015, no Shares held by non-resident Small Shareholder meets the requirements to be considered TAP. Accordingly, there should be no CGT implications for any non-resident Small Shareholders on disposal of their Shares under the Capital Reduction.



Anti-Avoidance Rules

There is a risk that the Commissioner may issue a determination under section 45B of the Income Tax Assessment Act 1936 to reclassify all or part of the capital proceeds to be received by Small Shareholders under the Capital Reduction as the payment of an unfranked dividend.

For Australian tax resident Small Shareholders, any part of the Capital Reduction deemed to be the payment of an unfranked dividend under section 45B will form part of the Shareholder's assessable income and will be subject to income tax at the Shareholder's marginal rates of tax.

For tax non-resident Small Shareholders, any part of the Capital Reduction deemed to be the payment of an unfranked dividend under section 45B will be subject to Australian dividend withholding tax.

Any amount of the Capital Reduction that is treated as the payment of an unfranked dividend under section 45B will reduce the capital proceeds received by the Small Shareholder for CGT purposes.

4. Other Matters

Tax File Number Withholding

Broadly, if an Australian tax resident Shareholder has provided REL with their tax file number, no amount of any deemed unfranked dividend taken to be paid to a Small Shareholder under section 45B should be withheld.

If an Australian tax resident Shareholder has not provided REL their tax file number details, 49% of any deemed unfranked dividend taken to be paid to a Small Shareholder under section 45B may be required to be remitted to the ATO by REL. Any amounts withheld by REL should be refundable tax offsets for a Small Shareholder.

Tax file number withholding should not apply to any deemed unfranked dividend taken to be paid to tax non-resident Small Shareholders under section 45B.

GST

No GST should be payable by Small Shareholders in respect of the Buy-back or Capital Reduction.

Stamp Duty

Based on the register of Small Shareholders as at 11 March 2015, no stamp duty should be payable by Small Shareholders in respect of the Buy-back or Capital Reduction.



* * * * *

Yours faithfully

A handwritten signature in black ink, appearing to read 'Scott James'.

Scott James
Partner

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