

## AMMTEC LIMITED

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# AMMTEC

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1 June 2010

Dear Shareholder

### RECOMMENDATION TO REJECT UNSOLICITED OFFER FROM CAMPBELL BROTHERS

As you may be aware, your Board of Directors recently announced our intention to **unanimously** recommend that you **reject** the unsolicited takeover offer announced by Campbell Brothers Limited (**Campbell Brothers**) on 18 May 2010 (**Offer**), when it is received.

This letter explains the key reasons why your Board has formed this view and details our positive expectations for the financial year ending 30 June 2011. Further information will be set out in Ammtec's target statement that will be sent to you in due course.

Campbell Brothers has announced plans to offer Ammtec shareholders \$3.35 cash for each of their shares or two Campbell Brothers shares for every 17 Ammtec shares held. The Offer is **unsolicited**. We firmly believe the **Offer is inadequate** for the following reasons:

- The Offer materially undervalues your Ammtec shares:
  - Ammtec has made significant investments in recent years and is expecting strong earnings growth in the next financial year. We do not believe the Offer adequately reflects this;
  - The Offer does not compensate Ammtec shareholders for the strategic value Ammtec would deliver to Campbell Brothers through synergies and new capabilities. Nor does the Offer reflect the higher earnings multiple on which Campbell Brothers trades;
- If shareholders accept Campbell Brothers' scrip offer, your dividend income is likely to drop. Over the past four years, Ammtec has paid an average of 85% of its earnings in dividends whereas Campbell Brothers' has paid an average of 65%. Ammtec dividends have been 100% franked compared to 50% for Campbell Brothers. Campbell Brothers also trades on a higher multiple. As a result, Ammtec has a grossed up dividend yield of 7.0% compared to Campbell Brothers' 4.3%.<sup>1</sup>

### Forecasts for 2010/11 Financial Year

Like many others, Ammtec was impacted by the global financial crisis. However, during this period, we continued to invest for growth. Your Board is of the view that Ammtec is on the verge of a significant upturn in revenue and earnings. Accordingly, we are forecasting a strong future for the Company.

Ammtec's recently released guidance for the 09/10 and 10/11 financial years includes:

- Growth in revenue from \$52 million in 09/10 to \$73 – \$79 million in 10/11;
- EBITDA from \$12 million in 09/10 to \$19.6 – \$22.2 million in 10/11; and
- Increase in net profit after tax from \$7 million in 09/10 to \$11.1 – \$12.9 million in 10/11.

### Turnaround in Marc Technologies Specialist Engineering Division

The Marc specialist engineering division designs and builds laboratories, air extraction systems and robotic sampling equipment. It also provides custom engineering solutions.

<sup>1</sup> This calculation is based on last 12 month dividends for Ammtec and FY10 dividends for Campbell Brothers, grossed up for average recent franking credits, as a percentage of the closing share price of each company on Monday, 31 May 2010.

The business was significantly affected by the contraction in capital expenditure in the mining industry following the severe falls in commodity prices and export volumes in the second half of 2008.

Marc now has a strong and growing order book. Revenues in 2010/11 are expected to increase to \$25 million, with 52% contracted and 26% under negotiation. We expect Marc will benefit from expanded facilities and will return to profit margins experienced at the time of acquisition in early 2008.

#### Strong order book for Metallurgical Testing Division

Ammtec's Metallurgical Testing division is experiencing strong demand for its services as new resources projects are planned in Australia and internationally.

Ammtec has made a number of significant recent investments including:

- Completion of the new purpose-built assay laboratory enabling faster turnarounds on test work;
- Expansion of Ammtec's pilot plant facilities to allow multiple simultaneous pilot projects;
- Introduction of mineralogy capabilities, including mobile mineralogy for the oil and gas industry;
- The new hydromet facility will be completed this year and will expand our capability to conduct pilot scale testing of nickel, iron ore, uranium and other metals; and
- Adoption of new, labour saving, automated sample preparation equipment by December 2010.

In addition to driving cost savings thereby returning profit margins to pre-GFC levels, these investments have given Ammtec additional capabilities, enabling us to enter new markets (such as oil and gas) and giving us a substantial edge over our competitors.

We have taken the potential impact of the Resource Super Profits Tax (**RSPT**) into account in formulating the 2010/11 guidance. Whilst the RSPT may slow development of new projects in Australia, nearly 50% of Ammtec's metallurgical test work is for established operations that should continue to operate. Further, approximately 30% of Ammtec's test work revenue is derived from clients with overseas-based assets. Ammtec is well positioned to capture a share of any increased activity overseas due to the RSPT.

#### Positive contract pipeline for Purity Systems Inc (**PSI**)

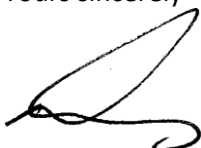
Since acquisition in 2004, we have invested heavily to advance PSI's resin technology. Recent marketing has led to increased levels of interest in this technology and we are currently negotiating our first major commercial sales. The Board expects PSI to be cost neutral in 2010/11 and profitable by 2011/12.

#### **Looking forward**

An independent Ammtec has strong growth prospects. Your Board is committed to realising the full value of Ammtec for all shareholders. We do not believe that the proposed Offer fairly compensates you for the quality of the business and for its future growth prospects.

On behalf of the Board, I recommend you **reject** the offer from Campbell Brothers when you receive the Bidders' Statement.

Yours sincerely



David Macoboy  
Chairman