RESOURCE EQUIPMENT LTD

14 June 2012

ACTIVITY UPDATE

Dear Shareholder

Around this time each year we write to Shareholders to provide an update on the Company's activities during the intervening period between the half-year and full-year results.

In this Activity Update you will note that the Company's balance sheet is in excellent shape and that we are seeing some very positive developments that should lead to a strong start to the 2013 fiscal year after a slower than anticipated finish to the 2012 fiscal year.

Trading Conditions

2nd Half Results Update:

In the first half of this year we reported a pleasing set of results with an EBITDA of $10.7 million and a Net Profit of $6.5 million on revenues of $35 million. This was notwithstanding lower than expected utilisation due mainly to delayed and slow decision making in the mining sector on new contract awards.

It was stated in our half-year commentary that a record amount of work had been bid and that the extent of growth in the second half would depend on the success and timing of expected contract awards.

However, in the three months or so since these comments were made, very little has changed - at least until quite recently. We have continued to bid more work but have seen ongoing delays in decision making. As a result, there has been a void in major new project work commencing.

It is difficult to identify any single reason for the various delays, but it is worth noting that many other mining service companies are experiencing the same situation. On a more pleasing note, and as more fully described in this update, we are now finally beginning to see signs of things improving in this regard.

In the short-term, the impact of having virtually no large projects commence is that our impressive growth record of increasing monthly revenues over recent years has been impacted. Monthly revenues in REL's core pumping business have remained around the same level - $4.6 million to $4.8 million - since November 2011 and the Company's specialist pipeline installation subsidiary, DSA, has been on the recovery path after a difficult first half.

The second half result is now expected to be about the same as the first half result. This implies full year EBITDA of around $21 million and pre-tax profit of around $13 million.

Recent Developments:

Whilst it has been a frustrating time waiting for news on new contracts, we have recently begun to see some progress. Decisions have been made on a number of proposals that we have worked on - some for up to nine months - and I am pleased to say that they have all gone in our favour.

New contracts and Notices of Award have been received over the past two weeks or so amounting to an estimated $24 million. When added to the recently announced $11 million of new work secured by DSA, this amounts to a total of approximately $35 million in new work, of which all but around $2 million will commence in the new financial year.

Customers include companies such as BHP, AngloGold Ashanti, Barrick, Atlas Iron, Leighton, FMG, Peabody Energy, Goldfields and Wesfarmers. Set out below is a listing of some of the major work secured.

- Pumping system and pipelines to dewater a previously inactive pit to allow mining to recommence – Notice of Award stage, commencing July;
- Installation and provision of bore field pumps and pipelines – Notice of Award stage, commencing July;
- Installation of a pipeline system – contract signed, commencing August;
- Sale of pipeline components and fittings – order received , commencing July;
- Installation and provision of a pumping system – contract signed, underway;
- Installation and provision of an evaporation system – order received, underway;
- Hydromining of a tailings dam – contract signed, commencing July;
- Sale of pumps – order received, delivery in July;
- Installation of a pipeline system – contract signed, underway;
- Installation and provision of a dewatering system – order received, underway; and
- Emergency pumping systems at the flooded Yallourn coal mine in Victoria – order received, commencing now.

This recent stream of good news gives us confidence that your company will get off to a strong start to the 2012/13 financial year. Planning and preparation is currently underway in advance of the increased activity levels that we will soon see.

Providing further encouragement is that there remains a broad range of other proposals and tenders that are pending or in progress, including some quite significant opportunities with major international mining companies.

Dewatering Services Australia Pty Ltd ("DSA")

Following a strong first four months of trading after the March 2011 acquisition, DSA experienced a difficult trading period in the first half of FY'12, principally due to the unexpected non-renewal of a contract which accounted for around 30% of revenues.

Since then the business has been rebuilding and expanding. Results have progressively improved during the second half and there is currently a record amount of work on hand. Of the $24 million in recently secured work, $13 million relates to DSA's pipeline services.

This is a most pleasing development and one which has come from much hard work and a focussed marketing effort from our team. The business now has greater reach into the broader Australian market compared to where it was a year or so ago and the management team is highly motivated to deliver a strong result from the new work secured.

With DSA's pipeline installation services being a highly complementary extension of REL's existing pumping operations, we have decided to integrate DSA's operations into REL from 1 July. This will facilitate ease of marketing - as one fully integrated service offering instead of two separate businesses - and result in a more streamlined and integrated operational approach to project work, as well as providing multiskilling opportunities for staff.

Balance Sheet Capacity

The Company has always maintained a conservative approach to debt, with gearing targeted to be less than 30% of net assets. We believe that a conservative approach is important to both the stability of the Company and its ability to capitalise on opportunities that may arise.

Currently we have net borrowings of $13 million and our gearing ratio (net debt/net assets) is only 17%. Our debt consists of hire purchase contracts with a spread of lenders, fully amortising over three and four years with no residual (balloon) payment on maturity. In addition we have a bank facility of $9.5 million which is currently unused.

Together with operating cash flow before capital expenditure of an estimated $18 million this year, we are in a strong financial position with plenty of capacity and a high confidence level in our ability to weather any storm that might be thrown up from the current global financial uncertainty.

Costs

Shareholders will no doubt be aware that there has been labour cost pressure in WA and Queensland. REL, like many companies operating in these states, has been subject to higher than normal wage increases in order to remunerate competitively and retain our highly skilled workforce. Whilst this has resulted in some margin pressure in the short term, the expected future growth of the business should negate the impact in the medium term.

Staff

The Company's greatest asset is its people and REL is fortunate to have built an excellent personnel base over recent years. A key objective of the Board is to ensure that we are retaining, rewarding and educating our people at all levels. In this regard we believe that we are performing well as evidenced by our very low staff turnover rate.

Recently we have recruited a number of excellent new staff members, strengthening our team and capacity ahead of the increased work volumes that we see coming in FY'13.

In Conclusion

Largely due to delays in decision making in the mining sector and DSA's difficult first half, our forecast FY'12 result will be lower than originally expected but still ahead of last year.

We have recently seen a number of decisions finally made across a range of proposals. These have all gone in our favour and now give us the ability to recommence the growth momentum that has been recorded over recent years.

One of the strengths of the REL business is that it has low exposure to, and reliance on exploration and construction activity. We mainly operate in the production phase of resource projects, with the majority of our clients being large, mature operating miners or oil & gas operators. In uncertain times, production still continues at these clients' sites and the level of our work is largely unaffected, even if there are production cutbacks.

We believe that we are operating in a strong long-term market in which we occupy a niche space, critical to our clients' production capabilities. With respect to open-cut mining, as daily production continues, pits become deeper and water management issues become more complex, increasingly pointing towards an outsourced solution of the kind that REL specialises in.

This facet of our business gives us great resilience and long-term confidence in our ability to achieve sustainable growth for the Company, both in Australia and internationally.

Backed by our stable and low debt balance sheet, a rising level of work in hand and a range of new opportunities, your Board is confident that REL will continue to strengthen and provide a rewarding investment to Shareholders.

I look forward to sending Shareholders the full year financial results around the end of August and updating you further on activities and our outlook at that time.

Yours sincerely,

James Cullen
Chief Executive Officer