



2017

**NOTICE OF EXTRAORDINARY GENERAL
MEETING AND EXPLANATORY
MEMORANDUM**

Emeco Holdings Limited (ACN 112 188 815)

The Extraordinary General Meeting of Emeco Holdings Limited will be held at Baker McKenzie, Level 27, 50 Bridge Street, Sydney, NSW, 2000 on Monday, 13 March 2017 at 11.30am (Sydney time). Registrations will commence at 11.00am (Sydney time).

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The Explanatory Memorandum to the Notice of Extraordinary General Meeting provides additional information on matters to be considered at the meeting. The Explanatory Memorandum forms part of the Notice of Extraordinary General Meeting.

This is an important document and requires your immediate attention. You should read it in its entirety before deciding whether or not to vote in favour of the resolutions contained in this Notice of Extraordinary General Meeting and Explanatory Memorandum. If you are in any doubt about how to deal with this document, you should consult your financial, legal, taxation or other professional adviser.

The Directors unanimously recommend that you vote in favour of all resolutions contained in this document.

The Independent Expert has concluded that the Transaction is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

If you have any questions in relation to this document or the transactions set out in this document, you should contact Thao Pham on +61 8 9420 0222.

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EXPLANATORY MEMORANDUM

Important Information

Explanatory Memorandum

This Explanatory Memorandum has been prepared for Emeco Shareholders in connection with the Extraordinary General Meeting (**EGM**) to be held on Monday, 13 March 2017. The purpose of this Explanatory Memorandum is to provide Emeco Shareholders with important information material for the purposes of deciding whether or not to approve the resolutions set out in the Notice of Extraordinary General Meeting.

This Explanatory Memorandum forms part of the accompanying Notice of Extraordinary General Meeting (**Explanatory Materials**) and should be read in conjunction with it.

Action to be taken by Emeco Shareholders

The Directors recommend that Emeco Shareholders read the Explanatory Materials carefully and in full before deciding how to vote on the resolutions.

A Proxy Form is enclosed with the Explanatory Materials. This is to be used by Emeco Shareholders if they wish to appoint a representative (that is, a proxy) to vote in their place. All Emeco Shareholders are invited and encouraged to attend the EGM or, if they are unable to attend in person, to sign and return the Proxy Form to the Emeco Share Registry in accordance with the instructions provided. Lodgement of a Proxy Form will not preclude an Emeco Shareholder from attending and voting at the EGM in person.

The Chairman intends to exercise all available proxies in favour of all resolutions where possible.

Not an offer

The Explanatory Materials do not constitute an offer to acquire or sell or a solicitation of an offer to sell or purchase any securities in any jurisdiction. In particular, this document does not constitute an offer, solicitation or sale to any U.S. person or in the United States or any state or jurisdiction in which such an offer, tender offer, solicitation or sale would be unlawful. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (**Securities Act**), and neither such securities nor any interest or participation therein may not be offered, or sold, pledged or otherwise transferred, directly or indirectly, in the United States or to any U.S. person absent registration or an available exemption from, or a transaction not subject to, registration under the Securities Act.

Defined terms

Capitalised terms and abbreviations used in these Explanatory Materials are defined in the Glossary in Section 18 of the Explanatory Memorandum.

Letter from the Chairman

Dear Shareholder,

On behalf of the Directors of Emeco, I am pleased to invite you to attend the Extraordinary General Meeting (**EGM**) of Emeco Holdings Limited (**Company**) to consider and vote on the resolutions required to implement the components of the recapitalisation of Emeco and acquisitions of Orionstone and Andy's announced on 23 September 2016.

After gaining the support of Emeco Noteholders who had not initially supported the recapitalisation of Emeco and merger with Orionstone and Andy's, on 3 January 2017 Emeco announced that after a constructive period of collaborative negotiations, all parties to the initial restructuring support agreement dated 23 September 2016 had signed a binding amended and restated restructuring support agreement (**Amended RSA**) on 30 December 2016.

As outlined in the announcement lodged on ASX on 3 January 2017, the Amended RSA established a revised framework for the proposed recapitalisation of the Company, the merger with Orionstone and Andy's and a rights issue enabling existing Emeco Shareholders to further participate in the Company's future growth.

As I have previously outlined, the Transaction is an important step forward for Emeco and provides the Company with significantly improved credit metrics and puts in place a longer term sustainable capital structure. With significantly lower leverage, improved interest coverage and potential for greater cash generation post-Transaction, Emeco has the financial platform to grow the business whilst continuing to provide our customers a quality service. Furthermore, under the Amended RSA, the pro rata rights issue to be undertaken by the Company will be fully underwritten, which further strengthens Emeco's balance sheet and is a further endorsement of the strategic merits and value creation opportunity underpinning the Transaction.

The Transaction also substantially increases the size and quality of the Company's fleet and reduces the Company's capital expenditure requirements going forward.

You and other Emeco Shareholders will have the opportunity to consider and approve the relevant components of the Transaction. The proposed Transaction Resolutions are the primary business of the EGM that this Explanatory Memorandum invites you to consider.

With the assistance of the Company's advisers, a strategic review was undertaken to evaluate and consider all options available. In coming to our recommendation to endorse the Transaction and the associated Transaction Resolutions, the Emeco Board has considered the following factors:

- (a) The Emeco Board believes the Transaction is implementable and the best available option to maximise long term shareholder value
- (b) Emeco's current capital structure is not sustainable long term and a restructuring is required to manage through the current difficult operating conditions with uncertain timing of a market recovery
- (c) The Transaction is a comprehensive solution which materially reduces the Company's leverage and provides a sustainable capital structure to facilitate future growth
- (d) The Transaction de-risks the Company's balance sheet, including terming out maturity from FY19 to FY22 and enhancing the Company's liquidity
- (e) Through the acquisitions of Orionstone and Andy's, the Transaction provides significant potential for value creation through the realisation of synergies over time

- (f) The Transaction significantly improves Emeco fleet configuration and age profile
- (g) Through the Rights Offer, the Transaction provides Emeco Shareholders with the opportunity to further participate in the future upside of the Company and gain a share of the potential value creation opportunity

A list of reasons why you may consider voting for or against the proposed Transaction Resolutions is contained in Sections 2.1 and 2.2 respectively.

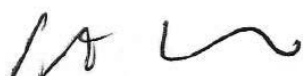
PPB Corporate Finance Pty Ltd has prepared an Independent Expert's Report in relation to the proposed Transaction Resolutions, which is set out in Annexure B and I encourage you to review it in its entirety. The Independent Expert has concluded that the Transaction is fair and reasonable and in the best interest of shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

This Explanatory Memorandum includes the Notice of Extraordinary General Meeting and the Independent Expert's Report. A Proxy Form also accompanies this Explanatory Memorandum. I encourage you to read this Explanatory Memorandum carefully and in full, as it contains information to assist you in making an informed decision about the proposed Transaction. This Explanatory Memorandum is also available on the Company's website, <http://www.emeco.com.au/view/investors/>. The Company's website also will allow you to access other materials that may be relevant to your consideration of the Transaction.

Together with my fellow Emeco Directors, we unanimously recommend that you vote in favour of all Transaction Resolutions. Each Director intends to vote any Emeco Shares that they own in favour of these resolutions to the extent they are entitled to vote on those resolutions. The recommendation of the Emeco Board is subject to no superior proposal emerging.

We look forward to seeing you at the EGM and on behalf of the Emeco Directors, I thank you for your continued support.

Yours faithfully,



Peter Richards
Chairman
Emeco Holdings Limited

The Transaction

1. The Transaction

1.1 Overview

On 23 September 2016, Emeco entered into the Original RSA. The Original RSA established a framework for the transactions contemplated in the Original RSA (including the prior Emeco Noteholders' Scheme (**Original Scheme**)).

On 14 December 2016, Emeco held a scheme meeting (**December Scheme Meeting**), convened pursuant to orders of the Federal Court of Australia, at which Emeco Noteholders considered a resolution to approve a creditors' scheme (**Prior Scheme Resolution**). At the December Scheme Meeting, Black Diamond voted against the Prior Scheme Resolution. As a result, the requisite voting threshold required to approve the Prior Scheme Resolution was not achieved.

As a result of the Original Scheme not being approved at the December Scheme Meeting, the transactions contemplated in the Original RSA could not proceed.

After discussions, following the voting down of the Prior Scheme Resolution, Black Diamond committed to support a revised Emeco Noteholders' Scheme and entered into the Black Diamond Agreement with Emeco. The Black Diamond Agreement sets out the terms on which Black Diamond agrees to support the Emeco Noteholders' Scheme and Transaction, including the following:

- (a) the issue of Placement Shares to Black Diamond under the Black Diamond Placements (in addition to the Shares that Black Diamond will receive as a Scheme Noteholder) as described in Section 10.3;
- (b) the appointment of Black Diamond as an Underwriter to the Rights Offer for up to A\$10 million as described in Section 10.4; and
- (c) the appointment of a Director nominated by Black Diamond.

The material terms of the Black Diamond Agreement and Underwriting Agreement are summarised in Section 10.5 below.

In light of entry into the Black Diamond Agreement following the December Scheme Meeting, the parties to the Original RSA entered into the Amended RSA to provide for certain amendments to the transactions contemplated by the Original RSA. The terms of the Amended RSA are summarised in Annexure C.

Similar to the Original RSA, the Amended RSA establishes a framework for the proposed Transaction. The Transaction involves a number of elements, each of which are inter-conditional. The key elements are:

- (a) each Emeco Noteholder will assign the principal owing to them under their Emeco Notes to Emeco Finance Pty Ltd under a creditor's scheme of arrangement and will instead receive an option of cash or a beneficial interest in Tranche B Notes and New Shares depending on elections they make under the terms of the scheme;
- (b) the issue of Placement Shares to Black Diamond under the Black Diamond Placements;

- (c) the acquisition of two complementary businesses, Orionstone and Andy's; and
- (d) a Rights Offer for Emeco Shareholders fully underwritten by Black Diamond, First Samuel and Black Crane.

The Transaction remains structured in an attempt to fairly divide the post-Transaction equity among the stakeholders of Emeco, Orionstone and Andy's and participants of the Rights Offer. The creditor claims being contributed in exchange for equity receive an amount of New Shares which, at an agreed upon valuation of the Combined Group, are equivalent in value to the face amount of the debt claims being contributed. The remaining New Shares are divided among the shareholders of the three companies based preliminarily on an "equity allocation percentage", which allocates value to each shareholder group based on their company's respective contribution to (i) pro forma FY16 Adjusted EBITDA and (ii) fair market value of the combined fleet of assets. Additionally the Amended RSA provides for further closing-adjustments to allocate value to the respective shareholder groups based on any excess cash provided by each company, adjusted for any changes to targeted working capital amounts.

At the EGM, Emeco Shareholders will be asked to consider, and if thought fit, pass a series of resolutions to approve certain aspects of the Transaction. The passing of each of the resolutions 1 to 9 in this Notice of Extraordinary General Meeting and Explanatory Memorandum (**Transaction Resolutions**) is a condition of the Transaction. The Transaction Resolutions are also inter-conditional, meaning that if any of those resolutions are not passed, all of the resolutions are taken to have been rejected by Emeco Shareholders. In that event, the resolutions will not be implemented, regardless of whether any of the resolutions have passed.

There are a number of other conditions to the Transaction which are summarised in Annexure D.

This Explanatory Memorandum sets out important information relevant to each Emeco Shareholder's decision on the resolutions.

1.2 Rationale for Transaction

If the Transaction is implemented, the Combined Group will have approximately 800 machines in its rental fleet, offering services on an enhanced scale. As compared to the current Emeco Group, the Combined Group will have a stronger balance sheet, a younger fleet and a more diverse customer base. The Combined Group will also have a long term capital structure in place, removing the need for refinancing until FY22.

Additional benefits anticipated include the following:

- (a) The interest coverage ratio is expected to be 2.5x FY16 pro forma EBITDA (including cost synergies and certain adjustments for extraordinary items) for the Combined Group, up from 1.3x pre-Transaction for the Company.
- (b) The debt to EBITDA ratio for the Company is expected to decrease from 7.2x (on a standalone basis pre-Transaction) to 4.4x, based on FY16 pro forma EBITDA (including cost synergies and certain adjustments for extraordinary items) post-Transaction for the Combined Group on a consolidated basis, with further deleveraging over time targeted from capital expenditure savings.

- (c) Enhanced geographic and end market exposure with significant value creation potential.
- (d) Significant cost and capital expenditure synergies.

These financial and operational benefits of the Transaction provide a strong platform from which the Combined Group may pursue opportunities for growth and value creation for Emeco Shareholders.

In addition, the Directors consider that the entry into the Black Diamond Agreement (including with respect to the issue of Placement Shares to Black Diamond) was the best course of action available to the Company so as to secure Black Diamond's support for the Emeco Noteholders' Scheme and Transaction.

In deciding to pursue the Transaction and recommending that Emeco Shareholders vote in favour of the Transaction Resolutions, the Directors considered a variety of alternatives in order to stabilise the Company's balance sheet for long term value-maximisation. Those alternatives included:

- (a) Pursuing a standalone restructuring with Emeco Noteholders. To guarantee the continued viability of the Emeco Group, such a transaction would necessarily have involved (among other things) a significant reduction in the principal amount owing under the Emeco Notes, being an amount materially in excess of the compromise proposed under the Emeco Noteholders' Scheme.
- (b) A potential refinancing of the Company. However, due to a combination of factors, including significant challenges which the Company faces (due to factors such as its high debt to EBITDA ratio and the challenged nature of the industry in which the Emeco Group operates in), the Company has to date been unable to obtain a commitment to refinance the Company on terms acceptable to the Company.
- (c) A potential capital raising for the funds required to repair the Company's balance sheet (as well as to operate the business, pay its financing costs and maintain the Company's fleet of rental equipment generally). Structuring alternatives explored included raising additional secured debt, unsecured debt, and equity. However, such capital raisings would not be possible due to the terms of the Company's existing finance documents, the amount of secured debt currently in place, and a lack of financier and investor support with the Company's present leverage.

If the Transaction does not proceed, the Company would have to pursue another method of addressing its debt and cash flow challenges without the benefit of the significant cost and capital expenditure synergies that are projected to be achieved through the Transaction. Absent a transaction, the Company would have concern with its ability to generate sufficient cash flows to meet its debt service and maturity requirements.

1.3 Restructured Emeco Board

Following completion of the Transaction, the Emeco Board will be restructured to include Ian Testrow, Peter Richards, and three new directors, one director to be nominated by each of:

- (a) the Ad-Hoc Committee;
- (b) Black Diamond; and
- (c) the Orionstone Creditors.

1.4 Summary of Resolutions

To facilitate implementation of the Transaction, Emeco Shareholders are being asked to consider and if thought fit, pass resolutions on the following matters:

- (a) The issue of New Shares as partial consideration in connection with the recapitalisation under the terms of the Emeco Noteholders' Scheme and merger with Orionstone and Andy's.
- (b) The issue of New Shares to Black Diamond pursuant to the Black Diamond Placements and underwriting of the Rights Offer (including the issue of Underwriting Fee Shares). Black Diamond may potentially have Voting Power of up to a maximum of 22.5% in Emeco following implementation of the Transaction, prior to the Management Incentive Plan.
- (c) The provision of financial assistance in connection with the Andy's Acquisition and the Orionstone Acquisition.
- (d) The establishment of a new incentive plan for the Company's managers and the issue of Shares to Mr Ian Testrow, a director, pursuant to this plan.
- (e) The escrow of New Shares issued to parties to the Amended RSA.
- (f) The election of Peter Frank, Black Diamond's nominee director, as a member of the Emeco Board.

The resolutions are set out in full in the Notice of Extraordinary General Meeting set out in Annexure A.

1.5 Indicative timetable

Event	Date
First court hearing for Emeco Noteholders' Scheme	3 February 2017
Deadline for receipt of voting direction forms	11.30am (Sydney time) on 10 March 2017
Deadline for receipt of proxy forms for voting at EGM	11.30am (Sydney time) on 11 March 2017
Record date for voting entitlement for EGM	11.30am (Sydney time) 11 March 2017
EGM to consider resolutions	13 March 2017
Emeco Noteholders' meeting to consider Emeco Noteholders' Scheme resolution	13 March 2017
Second court hearing for Emeco Noteholders' Scheme	15 March 2017
Scheme Effective Date	16 March 2017
Rights Offer commences	20 March 2017
Completion Date –Transaction (other than the Rights Offer) effected	31 March 2017
New Shares issued on Completion Date to commence trading on the ASX on a normal (T+2) basis	3 April 2017

Note: All dates and times are references to the time in Sydney, Australia, unless otherwise stated. This timetable is indicative only. The Company has the right to vary the timetable set out above subject to the approval of such variation by the Court, ASIC and the ASX where required. Any variation will be announced to the ASX and notified on the Company's website: www.emecogroup.com.

2. Reasons to vote on the Transaction Resolutions

2.1 Reasons to vote in favour of the Transaction Resolutions

The reasons why the Emeco Shareholders may consider voting in favour of the Transaction Resolutions include:

(a) Comprehensive recapitalisation plan providing a sustainable capital structure

The Transaction will provide Emeco with a sustainable capital structure for the long term with reduced leverage, improved interest coverage, extended maturity to FY22 and increased liquidity as follows:

- De-risks the Company's capital structure by meaningfully reducing leverage, which is expected to be 4.4x FY16PF EBITDA (including cost synergies and certain adjustments for extraordinary items)
- Interest coverage ratio expected to be 2.5x FY16PF EBITDA (including cost synergies and certain adjustments for extraordinary items), up from 1.3x pre-Transaction
- Covenant lite senior secured note structure with extended maturity to FY22 replacing existing 144A notes maturing in March 2019
- Funds from the A\$20m Rights Offer, fully underwritten by Black Diamond, First Samuel and Black Crane
- The stable liquidity supports the merger transition and implementation of strategic initiatives across the Combined Group.

(b) Preserves shareholder upside and provides all Emeco Shareholders with the opportunity to participate

Emeco Shareholders can further participate in the continued growth and success of the Company through the Rights Offer. The Transaction represents the best available and least dilutive option to maximise long term value for Emeco Shareholders over time while achieving Emeco's strategic objectives.

(c) Compelling strategic rationale underpinning the acquisition of Orionstone and Andy's

The increased scale, expanded equipment portfolio and operating efficiencies resulting from the acquisitions of Orionstone and Andy's leaves the Company well placed to continue providing customers with innovative equipment rental and technology solutions. The acquisitions are expected to generate significant cost synergies and substantially reduce Emeco's capital expenditure requirements going forward.

The acquisition of Andy's and Orionstone is compelling due to the following:

- Increased fleet capabilities and refreshed fleet age, improving the Combined Group's capability to create project opportunities
- Both Orionstone and Andy's have valuable expertise in the rental space and deep customer relationships
- The Combined Group is expected to generate significant cost synergies and capital expenditure saving.

(d) **Well positioned for long term growth**

The acquisition of Andy's and Orionstone provides:

- diversified geographic and end market exposure;
- the potential for significant value creation potential;
- significant cost and capital expenditure synergies;
- improved financial capacity to achieve growth and capitalise on any market recovery; and
- cash generation expected to continue to de-lever balance sheet with approximately A\$37.2m cash flow after financing costs forecast for FY18.

(e) **The Directors unanimously recommend that you vote in favour of the Transaction Resolutions, in the absence of a superior proposal**

The Directors acknowledge the merits of the Transaction which has the potential to create significant value for Emeco Shareholders and also to provide benefits for customers of the Combined Group, such as access to additional products and services. For the reasons set out in this Explanatory Memorandum, the Directors unanimously recommend that Emeco Shareholders vote in favour of the Transaction Resolutions.

While the Directors acknowledge that there may be reasons to vote against the Transaction Resolutions, they believe the advantages of the Transaction outweigh the disadvantages. In reaching their recommendation, the Directors have, among other things:

- assessed the Transaction having regard to Emeco's prospects if the Transaction does not proceed;
- assessed the strategic fit between the Company, Andy's and Orionstone;
- obtained advice from Emeco's financial advisers; and
- considered the Independent Expert's conclusion.

The Directors intend to cause any Shares in which they have a Relevant Interest to be voted in favour of the Transaction Resolutions in the absence of a superior proposal.

- (f) **The Independent Expert has concluded that the Transaction is fair and reasonable and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer**

PPB Corporate Finance Pty Ltd was engaged by the independent directors to prepare an independent expert's report for the Emeco Shareholders in respect of the proposed Transaction.

The Independent Expert reached the following conclusions:

- In the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer, the Transaction is fair and reasonable.
- The Proposed Transaction is in the best interests of shareholders.
- There are compelling reasons for shareholders to approve the Transaction.

The Independent Expert's Report is set out in full in Annexure B of this Explanatory Memorandum. You should read the Independent Expert's Report in its entirety as part of your assessment of the Transaction and before casting your vote in relation to the Transaction Resolutions.

- (g) **No superior proposal has emerged since Emeco has entered into the Amended RSA**

No superior proposal for Emeco has emerged since Emeco announced that it had entered into the Amended RSA on 30 December 2016.

These potential advantages must be considered in light of the potential disadvantages of the Transaction, which are discussed in Section 2.2 below.

Emeco Shareholders are encouraged to obtain independent legal, financial and taxation advice in relation to their own individual circumstances. Emeco Shareholders are not obliged to follow the recommendation of the Directors and may decide to vote against the Transaction Resolutions.

2.2 Reasons not to vote in favour of the Transaction Resolutions

Reasons why Emeco Shareholders may consider voting against the Transaction Resolutions include:

- (a) **You may disagree with the Directors' recommendation or the Independent Expert's conclusion**

Notwithstanding the unanimous recommendation of the Directors and the favourable conclusion of the Independent Expert, you may believe that the Transaction is not in your best interests.

Emeco Shareholders are not obliged to follow the unanimous recommendation of the Directors or agree with the Independent Expert's conclusion.

(b) **You may consider that there is the potential for a superior proposal to be made in relation to Emeco in the foreseeable future**

You may believe that there is a possibility that a superior proposal could emerge in the foreseeable future. However, the Directors note that, since the announcement of the Transaction (as revised) on 3 January 2017, the Directors have not received or become aware of any superior proposal.

If a superior proposal is received prior to the EGM, this will be considered by the Directors in accordance with their fiduciary duties and the Directors will review their recommendation in relation to the Transaction.

The Directors will keep Emeco Shareholders fully informed if any superior proposal emerges before the EGM and advise you of any decision via an announcement to the ASX and notification on Emeco's website.

(c) **Your proportional holding in the Company will be diluted**

As a result of the New Shares to be issued pursuant to the Transaction, existing Emeco Shareholders are likely to hold low percentages of the Shares immediately following implementation of the Transaction, compared to the estimated holdings of the largest Shareholders who will receive New Shares as consideration under the Transaction. In aggregate, existing Emeco Shareholders are expected to hold approximately 24% of the ordinary shares of the Combined Group after the Transaction, subject to dilution from the Management Incentive Plan.

Black Diamond, First Samuel and Black Crane, have agreed to fully underwrite the Rights Offer, which could potentially result in Black Diamond, First Samuel and Black Crane obtaining a higher proportion of Shares depending on the level of participation from existing Emeco Shareholders in the Rights Offer.

There are risks and protections associated with being a minority shareholder in an Australian public company.

(d) **The Transaction may trigger termination rights under contracts entered into for the Company's business**

There may be some counterparties to contracts with the Company or any of its subsidiaries who have rights to terminate those contracts as a result of the implementation of the Transaction. For example, the Company has 17 material customers who have a right to terminate their contract with the Company if the Emeco Noteholders' Scheme is implemented, as a result of the Emeco Noteholders' Scheme falling within the definition of "insolvency event" in the contract, or the customer having the right to terminate the contract for convenience. A similar risk extends to two of the Company's suppliers and one of its financiers. To the extent possible, the Company has discussed the rationale and impact of the Transaction with the relevant counterparty to mitigate this risk and sought confirmation where possible that they will not exercise their termination rights in respect of the contracts. To date, the Company has not received any indication that any counterparties will exercise such termination rights as a result of implementation of the Transaction.

These potential disadvantages must be considered in light of the potential advantages of the Transaction, which are discussed in Section 2.1 above.

3. Information on Orionstone

If the Transaction proceeds, then existing Emeco Shareholders will be shareholders in the Combined Group, which will include Orionstone as a wholly owned subsidiary of the Company. This Section provides information about Orionstone and its operations.

3.1 Overview

Orionstone, based in Mackay, Queensland, is a privately owned heavy earthmoving equipment supplier in Australia, with a fleet of over 300 assets located across the country. Orionstone has operations in Queensland, Western Australia and New South Wales.

Orionstone's customers produce commodities, including copper, gold, metallurgical coal, thermal coal, manganese and aluminium. Customers are primarily miners and contractors to the mining industry, including Rio Tinto, Glencore Xstrata, Chinova Resources, BHP Mitsubishi Alliance, HSE Group and Downer EDI. Orionstone also services the infrastructure and oil and gas industries.

Orionstone provides a variety of key services to its customers from whom it generates revenue and earnings, including rental hire, mining project services and maintenance/operational support services. It also periodically generates revenue from the sale of equipment. Orionstone's cost base principally comprises parts, labour and tooling associated with maintaining earthmoving equipment and providing Orionstone's services. Its capital expenditure primarily consists of the purchase of equipment and replacement of major components over the life cycle of assets owned by Orionstone.

The business operates a fleet base of dump trucks, dozers, loaders, water carts, graders, excavators and other pieces of equipment with an average age of less than 16,500 hours and an approximate fair market value of A\$94 million. The fleet is primarily comprised of several respected brands including Caterpillar, Hitachi and Komatsu and is deployed across customers, regions and industries to align with demand.

3.2 Business operations

Orionstone has several key service offerings, described below.

(a) Rental

Orionstone's core business is the rental of new and used heavy earthmoving equipment. The company provides customers with individual machines or equipment packages to service short, medium or long term needs on a "dry hire basis" where the customer provides the equipment operator, fuel, tyres and other items subject to wear. The rental business has been a service offered by Orionstone since its establishment. Equipment rental is relevant across the mining cycle, including in an environment where customers are seeking to manage costs, enabling customers with a means to better manage their cash flow, capital expenditure and balance sheets.

(b) Maintenance and operational support services

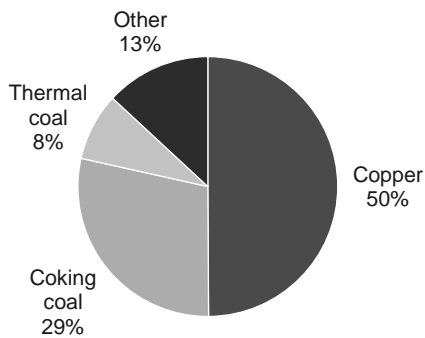
Orionstone also provides maintenance and operational support services. Maintenance services includes the provision of repair, equipment refurbishment and maintenance services to support the Orionstone rental fleet in addition to performing major maintenance on customer machines. Operational support services relate to the mobilisation and demobilisation of equipment (i.e. the

transportation and lifting of equipment and components). Both these support services are usually provided in conjunction with dry hire rental services to customers.

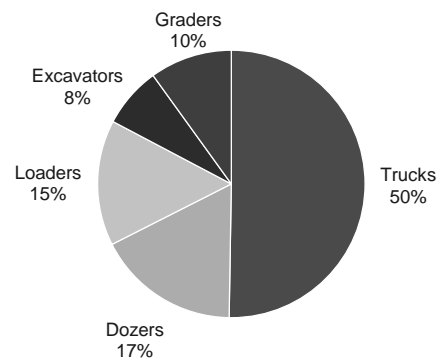
(c) **Equipment sales**

Orionstone routinely sells equipment as part of its ongoing fleet management efforts, which are designed to adjust the size and composition of the rental fleet to adapt to changing customer demands. Orionstone seeks to optimise the timing of equipment sales by taking into consideration future maintenance costs, rental demand patterns and re-sale prices.

Estimated revenue by commodity (FY16)

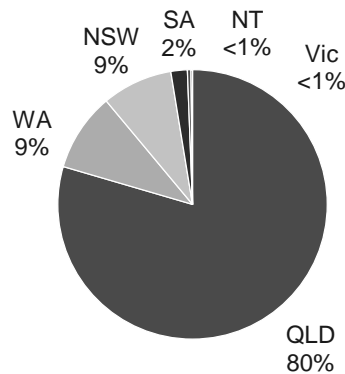


Fleet composition by asset class (FY16)



Note: Excludes other equipment which is fully described below.

Revenue by geography (FY16) (excluding non-rental revenue)



(d) **Equipment fleet**

Orionstone has a fleet by type of equipment that serves the mining sector and is primarily located in Queensland. Orionstone's fleet is currently comprised of:

- (i) 97 trucks between 50 tonne and 240 tonne;
- (ii) 32 dozers between 35 tonne and 150 tonne;
- (iii) 28 loaders between 150 kW and 1200 kW;
- (iv) 14 excavators between 20 tonne and 200 tonne; and
- (v) 19 graders between 120 kW and 200 kW.

In addition, Orionstone has other auxiliary equipment including water carts (10 machines), scrapers (three machines), vehicles (54 machines), service trucks (seven machines), light towers (22 machines) and trailers, material handling and compaction equipment (eight machines) and articulated dump trucks 20 – 40 tonnes (three machines).

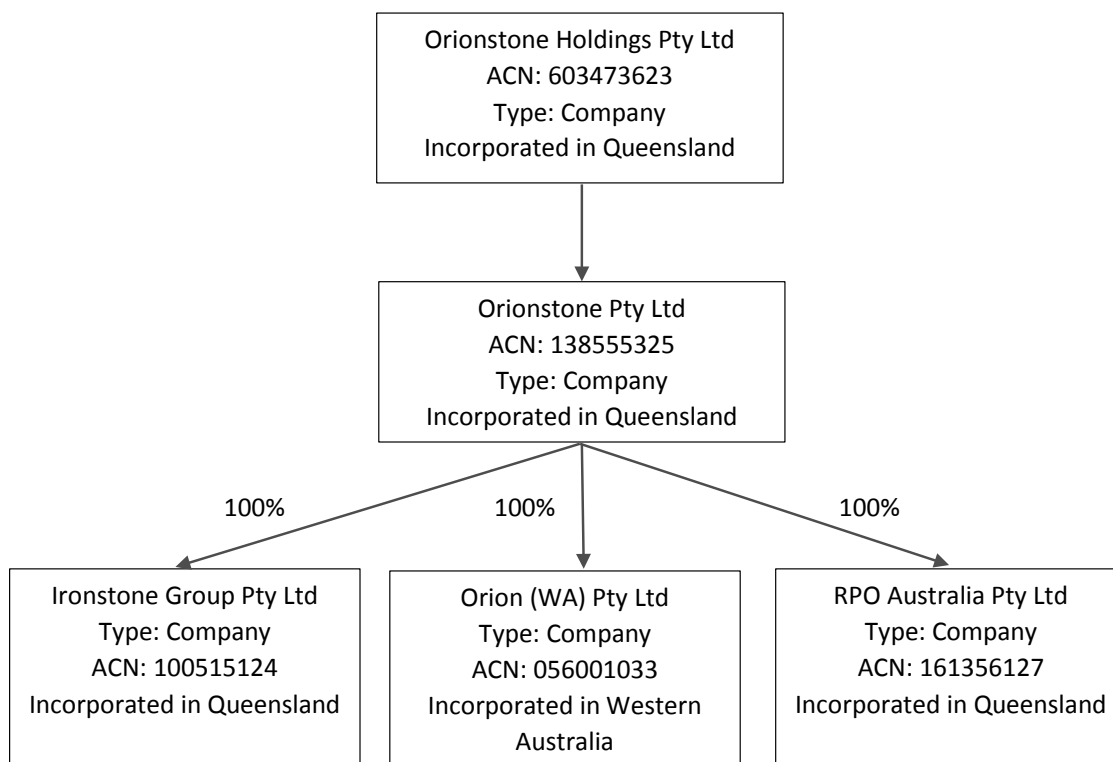
Orionstone's fleet is primarily located in Queensland where it has 156 machines with 20 machines, 55 machines and one machine in New South Wales, Western Australia and South Australia respectively. A number of machines (68) are moved between locations in different States. The fleet has an estimated fair market value of approximately \$93.4 million and has an average age of approximately 16,500 hours as at 30 June 2016.

3.3 Board

The Orionstone Board consists of the following people:

Rupert Harrington	Non-executive Chairman
Ashley Fraser	Executive Director
Symon Vegter	Non-executive Director
Richard Harding	Non-executive Director

3.4 Corporate and capital structure



The issued capital of each company is as follows:

- Orionstone Holdings Pty Ltd – 179,149,312 fully paid ordinary shares
- Orionstone Pty Ltd – 309,000 fully paid B Class shares and 179,322,112 fully paid ordinary shares
- Ironstone Group Pty Ltd – 10,000 fully paid ordinary shares
- Orion (WA) Pty Ltd – 2 fully paid ordinary shares
- RPO Australia Pty Ltd – 1 fully paid ordinary share

3.5 Historical financial information

The historical financial information in this Section has been derived from Orionstone's audited financial statements for the financial year ended 30 June 2016. The historical financial information in this Section is a summary only and does not contain all the disclosures provided in an annual report in accordance with the Corporations Act. A copy of Orionstone's audited financial statements for 30 June 2016 is attached in Annexure E.

(a) **Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016**

Orionstone's consolidated statement of profit and loss for FY16 and FY15 is set out below.

	2016 \$'000	2015 \$'000
Revenue from continuing operations		
Equipment rental	54,342	65,253
Project & maintenance services	25,890	4,315
Sale of rental equipment	6,313	13,914
Revenue from operating activities	86,545	83,482
Gain from sale of other non-current assets	-	59
Interest revenue	59	189
Other revenue	971	77
	87,575	83,807
Expenses		
Cost of rental equipment sold	(7,574)	(13,453)
Repairs & maintenance	(28,049)	(6,231)
Employee expenses	(15,258)	(14,420)
Hire of equipment and labour	(1,269)	(1,109)
Finance costs	(18,403)	(20,416)
Depreciation, amortisation & impairment charges	(103,433)	(39,116)
Other expenses	(9,130)	(8,760)
Loss before income tax	(95,541)	(19,698)
Income tax benefit	4,983	6,114
Loss attributable to the members of Orionstone Holdings Pty Ltd	(90,558)	(13,584)
Other comprehensive income		
Items that are or may be reclassified to profit or loss:		
Cash flow hedge - effective portion of changes in fair value	228	(1,658)
Related tax	99	498
Change in recognised deductible temporary differences	(498)	-
	(171)	(1,160)
Total comprehensive income attributable to the members of Orionstone Holdings Pty Ltd	(90,729)	(14,744)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the audited financial statements contained in Annexure E.

(b) **Consolidated statement of financial position as at 30 June 2016**

Orionstone's consolidated statement of financial position for FY16 and FY15 is set out below.

	2016 \$'000	2015 \$'000
Current Assets		
Cash and cash equivalents	4,283	8,051
Receivables	12,785	13,837
Inventories	2,902	3,681
Other assets	918	1,214
Current tax asset	30	342
Total Current Assets	20,918	27,125
Non-Current Assets		
Property, plant and equipment	171,040	260,837
Intangible assets	-	4,222
Deferred tax assets	-	26,571
Other assets	224	601
Total Non-Current Assets	171,264	292,231
Total Assets	192,182	319,356
Current Liabilities		
Payables	12,655	11,225
Borrowings	146,592	150,516
Provisions	694	599
Total Current Liabilities	159,941	162,340
Non-Current Liabilities		
Payables	322	826
Borrowings	12,089	14,588
Provisions	43	28
Deferred tax liabilities	-	31,058
Total Non-Current Liabilities	12,454	46,500
Total Liabilities	172,395	208,840
Net Assets	19,787	110,516
Equity		
Contributed equity	93,079	93,079
Reserves	(1,331)	(1,160)
(Accumulated losses)/Retained profits	(71,961)	18,597
Total Equity	19,787	110,516

The above consolidated statement of financial position should be read in conjunction with the audited financial statements contained in Annexure E.

(c) **Consolidated statement of cash flow for the year ended 30 June 2016**

Orionstone's consolidated cash flow statement for FY16 and FY15 is set out below.

	2016	2015
	\$'000	\$'000
Cash flow from Operating Activities		
Cash receipts in the course of operations	97,449	91,459
Cash payments in the course of operations	(64,955)	(52,771)
Interest received	59	189
Finance costs paid	(18,403)	(20,416)
Income taxes paid	311	(898)
Net cash provided by operating activities	14,461	17,563
Cash Flows from Investing Activities		
Payments for property, plant and equipment	(16,558)	(22,947)
Proceeds from disposal of property, plant and equipment	6,313	13,914
Proceeds from related party loans	-	14
Net cash (used in)/provided by investing activities	(10,245)	(9,019)
Cash Flows from Financing Activities		
Repayment of borrowings	(4,000)	(152,400)
Proceeds from borrowings, net of transaction costs	1,298	159,989
Payment of finance lease liabilities	(5,281)	(10,062)
Net cash used in financing activities	(7,984)	(2,473)
Net increase/(decrease) in cash and cash equivalents	(3,768)	6,071
Cash and cash equivalents at the beginning of the financial year	8,051	1,980
Cash and cash equivalents at the end of the financial year	4,283	8,051

The above consolidated statement of cash flows is to be read in conjunction with the audited financial statements contained in Annexure E.

4. Information on Andy's

If the Transaction proceeds, then existing Emeco Shareholders will be shareholders in the Combined Group, which will include Andy's as a wholly owned subsidiary of the Company. This Section provides information about Andy's and its operations.

4.1 Overview

Andy's is a privately owned equipment rental business based in Bendigo, Victoria. Andy's was established in 1989 and has since grown its operations to cover mining and civil customers located in South Australia, Victoria, New South Wales, Western Australia and the Northern Territory. Andy's has mining capabilities as well as a proven track record of delivering in large scale civil earthworks projects. The business of Andy's was owned by the Company from 2006 until 2010 when it was sold in order to release capital and refocus the Company on the core mining market.

Andy's young fleet of approximately 145 machines is complementary to the rental fleets of Orionstone and the Emeco Group and well suited to the continued roll out of the Company's EOS (Emeco Operating System) technology, which will assist with the effective deployment

of that fleet as part of the Combined Group's operations. In addition, the bringing together of Andy's and the Company will result in a broader customer base and will allow the Combined Group to avoid certain replacement capital expenditure over the medium term as some of the Company's machines reach end of life.

Andy's Managing Director and founder, Mr Andy Hoare, will remain with the Combined Group as General Manager – Business Development. Andy has 34 years of industry experience and has deep expertise in managing fully maintained mining operations and large scale earthmoving projects.

4.2 Business and operations

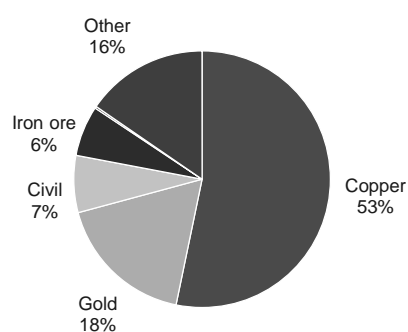
Andy's generates earnings from three primary revenue streams: equipment rental (which comprises the majority of Andy's revenue), maintenance services and equipment sales. Equipment rental includes both dry rental hire and wet rental hire, which includes the provision of a machine operator in addition to the equipment itself. Maintenance services involve Andy's charging rental customers for the servicing of its own fleet or the servicing of a customer's fleet. Equipment sales involve the sale of equipment when it is no longer required for the rental business or is being replaced by newer equipment.

Operating costs principally comprise parts, labour and tooling associated with maintaining earthmoving equipment. Capital expenditure principally comprises the purchase of equipment and replacement of major components over the asset's life cycle while owned by Andy's.

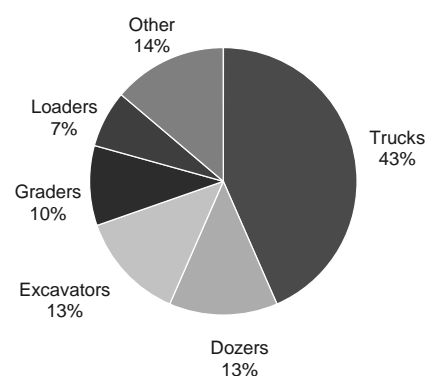
Andy's has approximately 101 employees, including nine in administration and business development, 52 in rental operations, 33 in maintenance and seven in transport operations.

Andy's operates in both the mining space, with significant copper, gold and iron ore customers as well as renting its fleet for civil projects.

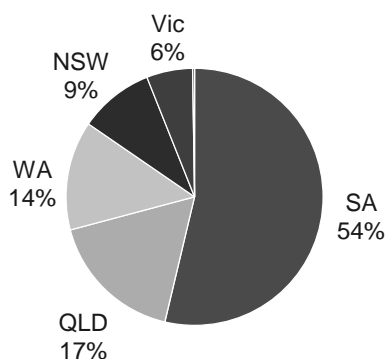
Estimated revenue by commodity (FY16)



Fleet composition by asset class (FY16)



Revenue by geography (FY16) (excluding maintenance, transport and sales revenue)



4.3 Equipment fleet

Historically, Andy’s fleet largely served the civil construction sector (i.e. its equipment is smaller in size). Since 2010, it has developed the capacity to provide earthmoving equipment to mining businesses by increasing the size of its equipment. Andy’s fleet is currently comprised of over approximately 145 machines located across the country including:

- 63 trucks between 50 tonnes and 150 tonnes;
- 19 dozers between 25 tonnes and 100 tonnes;
- 10 loaders between 150 kW and 500 kW;
- 19 excavators between 20 tonnes and 300 tonnes; and
- 14 graders between 120 kW and 200 kW.

The fleet has an estimated fair market value of approximately \$77 million and has an average age of approximately 10,269 hours.

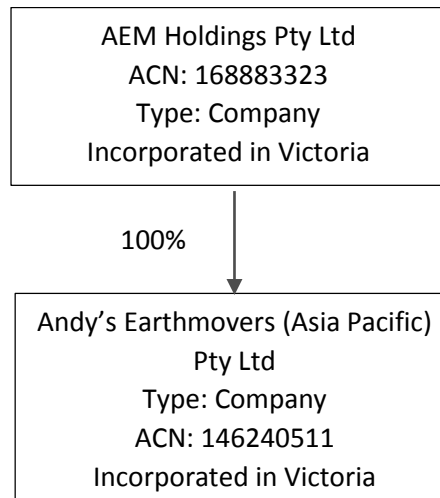
4.4 Board

The Andy’s Board consists of the following people:

Andy Hoare	Managing Director
Trevor Sauvarin	Executive Director, sales and procurement
Barry Cook	Executive Director, maintenance

4.5 Corporate and capital structure

As at the date of this Explanatory Memorandum, Andy's had 20 million ordinary shares on issue held by its shareholder AEM Holdings Pty Ltd.



AEM Holdings Pty Ltd is predominantly beneficially owned and controlled by current and former Andy's employees and management.

4.6 Historical financial information

The historical financial information in this Section has been derived from Andy's audited financial statements for the financial year ended 30 June 2016, a copy of which is included in Annexure F.

The historical financial information in this Section is a summary only and does not contain all the disclosures that are usually provided in an annual report in accordance with the Corporations Act.

(a) **Statement of profit and loss**

Andy's statement of profit or loss for FY16 and FY15 is set out below.

A\$'000	2016	2015
Rental Revenue	49,752	65,240
Equipment Sales	11,055	6,266
Maintenance Services	3,144	3,820
Total Revenue	63,951	75,326
Change in machinery and sales	(32,200)	(32,833)
Employee expenses	(5,290)	(6,428)
Gross profit	26,461	36,065
Other income	775	2,681
Other expenses	(18,387)	(10,736)
Impairment of property, plant & equipment	(5,523)	-
Depreciation & amortisation expense	(15,781)	(15,245)
Finance income	-	133
Finance expense	(6,736)	(6,956)
Profit before tax	(19,191)	5,941
Tax benefit/(expense)	5,733	(1,778)
Net profit after tax	(13,458)	4,163

The above statement of profit or loss is to be read in conjunction with the audited financial statements contained in Annexure F.

(b) **Statement of financial position**

Andy's statement of financial position for FY16 and FY15 is set out below.

A\$'000	2016	2015
Assets		
Current assets		
Cash and cash equivalents	392	1,962
Trade and other receivables	15,773	20,187
Inventories	5,085	5,747
Freehold land and buildings held for sale	1,241	1,241
Other current assets	1,169	1,040
Current tax asset	110	865
Total current assets	23,770	31,042
Non-current assets		
Trade and other receivables	93	177
Property, plant and equipment	92,982	116,459
Deferred tax assets	4,932	417
Total non-current assets	98,007	117,053
Total assets	121,777	148,095
Liabilities		
Current liabilities		
Trade and other payables	5,597	5,809
Borrowings	85,165	95,406
Provisions	978	1,126
Total current liabilities	91,741	102,341
Non-current liabilities		
Borrowings	4,933	5,929
Deferred tax liabilities	5,840	7,058
Provisions	101	147
Total non-current liabilities	10,874	13,134
Total liabilities	102,615	115,475
Net assets	19,162	32,620
Equity		
Issued capital	5,000	5,000
Retained earnings	14,162	27,620
Total equity	19,162	32,620

The above statement of financial position should be read in conjunction with the audited financial statements contained in Annexure F.

(c) **Statement of cash flow**

Andy's cash flow statement for FY16 and FY15 is set out below.

A\$'000	2016	2015
Cash flows from operating activities		
Receipts from customers	55,991	75,644
Payments to suppliers and employees	(43,729)	(52,331)
Interest received	60	133
Finance costs	(6,736)	(6,956)
Income tax paid	755	(690)
Net cash provided by operating activities	6,341	15,800
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	7,617	6,208
(Repayment)/advances from related parties	1,118	(627)
Purchase of property, plant and equipment	(5,409)	(10,721)
Net cash used in investing activities	3,326	(5,140)
Cash flows from financing activities		
Proceeds from borrowings	20,577	20,107
Repayment of borrowings	(31,815)	(30,425)
Dividends paid	-	-
Net cash provided by / (used in) financing activities	(11,238)	(10,318)
Net increase / (decrease) in cash held	(1,571)	341
Cash at beginning of financial year	1,962	1,621
Cash at end of financial year	392	1,962

The above cash flow statement should be read in conjunction with the audited financial statements contained in Annexure F.

4.7 **Strategy and outlook**

Andy's continues to service its key customers and has a successful strategy of understanding customer needs, assisting in the development of projects and assisting customer planning ahead of upcoming tenders that Andy's hopes to participate in.

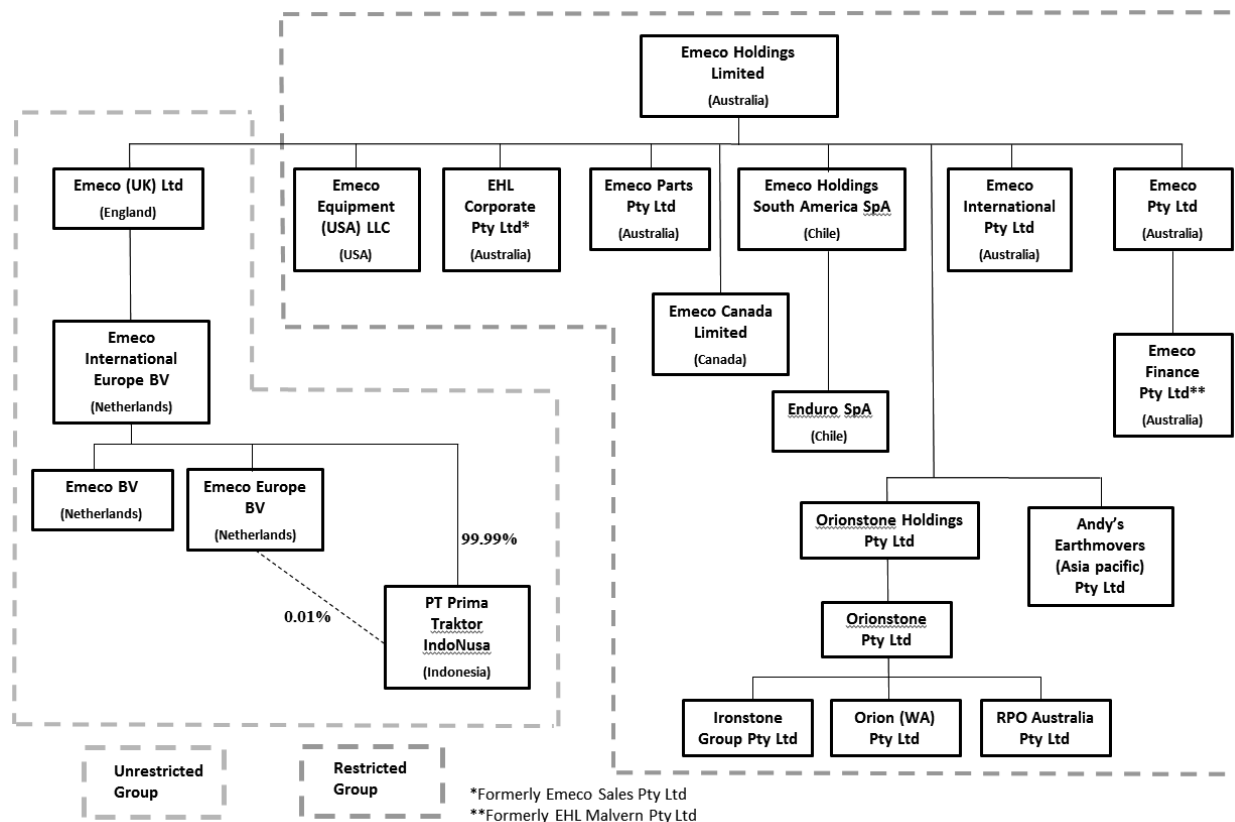
Andy's has generated significant business from government contracts on civil projects and continues to target land developments, road infrastructure and energy projects (particularly renewable energy projects such as wind farms).

Andy's has a strong pipeline of potential projects, particularly in the civil space and on mining projects where Andy's has a strong relationship with the miner and has been involved in development of the mine plan

5. Profile of the Combined Group

5.1 Profile of the Combined Group

If the Transaction is implemented, Emeco will remain listed on the ASX and will become the ultimate holding company of Orionstone and Andy's. The following diagram reflects the proposed corporate structure of the Combined Group if the Transaction is implemented.



The vision for the Combined Group is to become a stronger, more efficient and more competitive equipment rental provider with a sustainable capital structure for the long term with reduced leverage, improved interest coverage and extended maturity.

The brand of the Combined Group is expected to be reviewed to reflect the strategy of the business, operational excellence and innovation in line with existing strategy which will be fast tracked through the merger.

Pro forma FY16 EBITDA generated by the Combined Group was A\$95.4 million, and pro forma FY16 Adjusted EBITDA generated by the Combined Group was approximately A\$110.4 million¹. The Combined Group will have approximately 800 machines in its rental fleet, with an estimated fair market value as at 30 June 2016 of approximately A\$429.3 million reflecting prevailing market conditions.

¹ Pro forma FY16 Adjusted EBITDA is calculated as (i) the actual FY16 Adjusted EBITDA for each company, adjusted for certain extraordinary items, of A\$95.4 million, plus (ii) an annualised run rate cost synergy of A\$15.0 million.

The Combined Group is expected to have approximately A\$483 million of gross debt on completion, significantly reducing the Company's leverage, which is expected to be 4.4x pro forma FY16 Adjusted EBITDA, down from 7.2x pre-Transaction, with further deleveraging expected over time assisted by significant capital expenditure savings.

5.2 Key benefits and rationale

The Combined Group is expected to be a stronger, lower cost and more competitive equipment rental company focused on reliably serving customers and developing innovative solutions.

Emeco believes that there are considerable potential strategic and financial benefits of the Transaction. Potential benefits of the Transaction include:

- increased fleet capabilities and refreshed fleet age, improving the Combined Group's capability to create project opportunities;
- both Orionstone and Andy's have valuable expertise in the rental space and deep customer relationships which can benefit the Combined Group as a whole;
- the Combined Group is expected to generate significant cost synergies and capital expenditure savings (see further information under "Company's post-combination intentions" in Section 5.6); and
- enhanced geographic and end market exposure.

5.3 Board and senior management

The Combined Group's executive team will be led by the Company's CEO and Managing Director, Ian Testrow. Orionstone's CEO, Ashley Fraser, and Andy's Managing Director, Andy Hoare, will be instrumental in the future of the Combined Group.

The Combined Group's board composition will reflect the Company's shareholder base upon completion of the Transaction and will consist of five directors:

- Peter Richards will continue as Chairman;
- Ian Testrow will continue as Chief Executive Officer and Managing Director; and
- three new directors, with (i) the Ad-Hoc Committee; (ii) Black Diamond; and (iii) the Orionstone Creditors to nominate one director each.

5.4 Ownership and capital structure of the Combined Group

As part of the Transaction, the Company will issue New Shares to:

- existing Shareholders (under the Rights Offer (including as Underwriter) or if that Shareholder is also an Emeco Noteholder who participates in the Emeco Noteholders' Scheme);
- Emeco Noteholders;
- Black Diamond (in addition to receiving New Shares as an Emeco Noteholder and as an Underwriter, Black Diamond will receive Placement Shares under the Black Diamond Placements as discussed in Section 10 of this Explanatory Memorandum)
- Orionstone Shareholders;

- Orionstone Creditors;
- the Andy's Shareholder; and
- Andy's Creditors.

Set out below is the indicative post-Transaction shareholdings before the Management Incentive Plan is provided below:

	<u>Shares (millions)</u>	<u>% of Total</u>
Existing Emeco Shareholders	600	24%
Participants in the Rights Offer	252	10%
Emeco Noteholders	777	31%
Orionstone Shareholders	179	7%
Orionstone Secured Creditors	318	13%
Andy's Shareholders	116	5%
Andy's Secured Creditors	144	6%
Black Diamond Placements - Initial	127	5%
Black Diamond Placements - Top Up	17	1%
Total	2,531	100%

The table above assumes no principal debt repayments between Commencement Date, and the Calculation Date, and assumes no Excess Cash is contributed by Orionstone and Andy's. The Company is assumed to have Excess Cash of A\$15.5 million on the Calculation Date.

5.5 Management Incentive Plan

The Company will establish a Management Incentive Plan effective on or around the Completion Date. 10% of the fully diluted equity of the Combined Group will be reserved for the Management Incentive Plan, up to 50% of this amount will be allocated to Ian Testrow (subject to shareholder approval and reductions pursuant to the Top-Up Placement (as defined in Section 10.3)).

Mr Testrow has agreed to reduce his entitlement to be issued Shares under the Management Incentive Plan by the corresponding number of Shares to be issued to Black Diamond under the Top-Up Placement.

5.6 Company's post-combination intentions

This Section sets out the present intentions of the Company in relation to Orionstone and Andy's business, assets, operations and employees, in each case if the Transaction is implemented.

The intentions set out in this Section have been formed on the basis of facts and information concerning the Combined Group, its business, and the general business environment, which are known to the Company as at the date of this Explanatory Memorandum.

Final decisions regarding the matters set out below will only be made by the Company, following implementation of the Transaction after gaining a better understanding of Orionstone and Andy's businesses and having regard to circumstances at the relevant time.

Accordingly, it is important to recognise that the statements set out in this Section are statements of current intentions only, which may change as new information becomes available or circumstances change.

(a) **General review of Orionstone's and Andy's businesses**

If the Transaction is implemented, the Company intends to work quickly to integrate the businesses of Orionstone and Andy's, whilst continuing to operate these businesses. The Company's ability to do so will be reliant on the Company first gaining a better understanding of Orionstone's and Andy's businesses and processes.

(b) **Business integration**

The Company has formed a joint integration committee with Orionstone and Andy's and is conducting a review of Orionstone's and Andy's operations and assets covering strategic, financial and operational matters.

That review will continue after implementation of the Transaction and will give the Company a better understanding of Orionstone and Andy's businesses and therefore assist in the integration process and enable the Company to identify areas in which the Combined Group's businesses may be enhanced.

While the Company does not have any specific intentions in relation to the outcomes of the review, it may identify areas to optimise savings and identify other opportunities to improve the Combined Group's business. In addition, the Company notes that the existing businesses of the Company, Orionstone and Andy's are complementary and share some common requirements in terms of operations. Accordingly, it is expected that the process of integrating the three businesses will result in some changes to the Company's, Orionstone's and Andy's businesses but the nature and extent of such changes will depend on the outcome of the review described above.

The Company anticipates that the review is likely to be substantially completed within approximately six months of the Transaction being implemented.

Other than as set out above, the Company has no current intention to make major changes to the Orionstone and Andy's businesses. However, any final decisions in this regard will be made as part of the review referred to above.

(c) **Synergies**

In addition to revenue opportunities and capital expenditure synergies, the Combined Group is expected to generate gross cost synergies of A\$15 million on a pro forma annualised basis in FY18 excluding one-off integration costs. An overview of synergies is provided below.

(i) Revenue opportunities

- (A) Enhanced fleet capability better placed to serve customers positioned capture benefits of any market recovery.
- (B) Significant opportunity to roll out the Company's EOS technology across the Combined Group's fleet and broader customer base.
- (C) Enhanced management expertise and innovative product offering to widen customer value proposition and create new projects.

- (ii) **Overhead and cost reductions**
 - (A) Focus on operational excellence to further reduce operating costs by standardising best practices across the Combined Group.
 - (B) Synergies are expected to be generated by:
 - (1) Removal of duplicate sites and operational overlap.
 - (2) Consolidating the Combined Group's employee base.
 - (3) Head office and shared services savings.
 - (4) Reduced repairs and maintenance expense through operational excellence initiatives.

- (iii) **Capital expenditure savings**

Combined Group capital expenditure is expected to be materially reduced through:

- (A) disposals of underutilised or idle fleet (fleet rationalisation); and
- (B) savings of replacement capital expenditure (fleet optimisation) by using machines in the fleet to reduce the need for replacement machine purchases in the future.

There is a risk that synergies may not be realised at all or not realised to their full extent, or that they may be realised over a longer period of time than anticipated. Further detail regarding these risks is in Section 6.

- (d) **Employees**

The Company will evaluate the future staffing requirements of the Combined Group as part of the integration process.

Subject to the outcomes of that process and review, some staffing requirements in Orionstone, Andy's and the Company may change, be reduced or be increased, however the Company will endeavour to minimise any disruption to Orionstone, Andy's and its employees.

The Company believes that the Transaction should offer benefits for Orionstone and Andy's employees by bringing together the businesses of three companies with the potential to create growth opportunities across the Combined Group.

5.7 Pro forma historical financial information

The pro forma historical financial information included in this Explanatory Memorandum is provided for illustrative purposes and, with the exception of matters noted in pro forma adjustments, has been prepared in accordance with the recognition and measurement principles contained in the Australian Accounting Standards. The pro forma historical financial information is presented in an abbreviated form and does not include all of the disclosures, statements and comparative information required by the Australian Accounting Standards as they are applicable to annual financial reports prepared in accordance with the Corporations Act.

Due to the nature of pro forma information, the pro forma historical financial information is not represented as being indicative of the future financial performance or future financial position.

Forecast financial information

The Directors have given careful consideration as to whether or not a reasonable basis exists to prepare reliable and meaningful forecast financial information in relation to the Combined Group, other than the information about the Combined Group set out in this Explanatory Memorandum. The Emeco Board concluded that a reasonable basis does not exist for producing forecasts that would be sufficiently meaningful and reliable to be of value to the Shareholders.

Historical and pro forma historical financial information

The pro forma historical financial information set out in this Section has been prepared from the following sources:

- (a) for the Company, figures derived from the audited consolidated statement of profit or loss for the twelve month period ended 30 June 2016;
- (b) for Orionstone, figures derived from the audited consolidated statement of profit or loss for the twelve month period ended 30 June 2016; and
- (c) for Andy's, figures derived from the audited consolidated statement of profit or loss for the twelve month period ended 30 June 2016;

(together the **Combined Group unaudited pro forma statement of profit or loss**), and

- (d) for the Company, figures derived from the audited consolidated statement of financial position as at 30 June 2016;
- (e) for Orionstone, figures derived from the audited consolidated statement of financial position as at 30 June 2016;
- (f) for Andy's, figures derived from the audited consolidated statement of financial position as at 30 June 2016 and
- (g) other supplementary information as was considered necessary to reflect the pro forma adjustments (discussed below),

(together the **Combined Group unaudited pro forma statement of financial position**), (being collectively, the **Combined Group unaudited pro forma historical financial information**).

The Directors are responsible for the preparation and presentation of the Combined Group unaudited pro forma historical financial information.

The Combined Group unaudited pro forma historical financial information in this Section should also be read in conjunction with the risks set out in Section 6, the other information included in this Explanatory Memorandum, and also the accounting policies of Emeco as disclosed in its most recent annual financial report for the year ended 30 June 2016.

Emeco management has accounted for the acquisition of Orionstone and Andy's on a preliminary basis and has not had an opportunity to fully assess the fair value of the identifiable assets and liabilities of Orionstone and Andy's, and therefore the final purchase

price allocations may change when the accounting has been finalised in accordance with AASB3 “Business Combinations” (**AASB 3**).

Given the nature of businesses acquired, the Directors do not expect any material goodwill and or intangibles will be recognised and believe any difference between the net assets and the consideration paid is likely to be attributable to the fair market value of the property, plant and equipment purchased.

Deloitte Corporate Finance Pty Ltd has prepared and takes responsibility for the investigating accountant’s report in relation to the Combined Group unaudited pro forma historical financial information which has been included at Annexure H and all references to that information. Emeco Shareholders should consider the comments made in relation to the scope and limitations of that report.

The Combined Group unaudited pro forma historical financial information has been derived to provide Emeco Shareholders with an illustrative historical statement of profit or loss and historical statement of financial position of the Combined Group if the Emeco Noteholders' Scheme was implemented at 30 June 2016.

The Combined Group unaudited pro forma historical financial information is not intended to reflect the financial performance or the financial position that would have actually resulted had the Emeco Noteholders' Scheme been completed on the dates indicated, or the results that may be obtained in the future.

If the Transaction had occurred in the past, the Combined Group’s financial performance and financial position would likely have been different from that presented in the Combined Group unaudited pro forma historical financial information.

Due to the nature of pro forma information, it may not give a true picture of the Combined Group’s historical financial performance and financial position. The Combined Group unaudited pro forma historical financial information is not represented as being indicative of Emeco’s view on its future financial performance or future financial position.

(a) **Basis of preparation**

The Combined Group unaudited pro forma historical financial information is provided for illustrative purposes and, with the exception of matters noted in Pro forma adjustments below, has been prepared in accordance with the recognition and measurement principles contained in the Australian Accounting Standards.

The Combined Group unaudited pro forma historical financial information is presented in an abbreviated form and does not include all of the disclosures, statements and comparative information required by the Australian Accounting Standards as they are applicable to annual financial reports prepared in accordance with the Corporations Act.

The Combined Group unaudited pro forma statement of profit or loss and the Combined Group unaudited pro forma statement of financial position have been compiled by Emeco to illustrate the impact of the Emeco Noteholders' Scheme on Emeco’s financial performance and financial position for the Illustrative year ended 30 June 2016 as if the Emeco Noteholders' Scheme had taken place on 1 July 2015 for the purposes of the statement of profit or loss and 30 June 2016 for the purposes of the statement of financial position.

(b) **Pro forma adjustments**

The Combined Group unaudited pro forma historical financial information has been prepared for illustrative purposes only, to show the impact of the following:

- (i) acquisition of 100% of the shares of Orionstone and Andy's by Emeco and preliminary assessment of purchase price accounting;
- (ii) the extinguishment and refinancing of the debt outstanding under the Emeco Notes and Orionstone and Andy's finance documents;
- (iii) new equity of A\$20 million and associated capital raising costs by Emeco; and
- (iv) reversal of the close out of swap hedge instruments and the repurchase of debt.

(c) **Consistency of accounting policies**

In preparing the Combined Group unaudited pro forma historical financial information, the Company has undertaken a review to identify accounting policy differences where the impact was potentially material to the Combined Group and could be reliably estimated. No such material differences have been identified by the Company, however further accounting policy differences may be identified after the Implementation of the Transaction.

(d) **Combined Group unaudited pro forma statement of profit or loss**

Set out below is the Combined Group's unaudited pro forma profit and loss for the year ended 30 June 2016.

	Emeco \$'000	Orionstone \$'000	Andy's \$'000	Combined unaudited pro forma \$'000	Pro forma adjustments \$'000	Total \$'000
Rental Revenue	177,744	54,342	49,752	281,838	-	281,838
Equipment sales	5,472	6,313	11,055	22,840	-	22,840
Maintenance services	23,348	25,890	3,146	52,384	-	52,384
	206,564	86,545	63,953	357,062	-	357,062
Changes in machinery and parts	(8,921)	(7,574)	(10,731)	(27,226)	-	(27,226)
Repairs and Maintenance	(70,967)	(28,049)	(15,532)	(114,548)	-	(114,548)
Employee Expenses	(33,995)	(15,258)	(5,290)	(54,543)	-	(54,543)
Hired in Equipment and labour	(21,102)	(1,269)	(5,941)	(28,312)	-	(28,312)
Gross Profit	71,579	34,395	26,459	132,433	-	132,433
Other Income	1,791	971	775	3,537	-	3,537
Other Expenses	(25,770)	(9,130)	(18,384)	(53,284)	-	(53,284)
EBITDA	47,600	26,236	8,850	82,686	-	82,686
Impairment of non-current assets	(179,609)	(73,064)	(5,524)	(258,197)	-	(258,197)
Depreciation & amortisation expense	(69,342)	(30,369)	(15,781)	(115,492)	-	(115,492)
Finance Income (inc. FX Gain/Loss)	37,343	59	-	37,402	(29,448)	7,954
Finance Costs	(55,455)	(18,403)	(6,736)	(80,594)	31,328	(49,266)
Loss before tax	(219,463)	(95,541)	(19,191)	(334,195)	1,880	(332,315)
Tax benefit/(expense)	(5,926)	4,983	5,733	4,790	-	4,790
Net loss after tax	(225,389)	(90,558)	(13,458)	(329,405)	1,880	(327,525)

Notes to the Combined Group unaudited pro forma statement of profit or loss

The Combined Group unaudited pro forma statement of profit or loss has been presented as the aggregation of the historic statements of profit and loss for the Company, Orionstone and Andy's. The following pro forma adjustments have been included in the Combined Group unaudited pro forma statement of profit or loss as if the Emeco Noteholders' Scheme had occurred on 1 July 2015.

(i) Finance Costs

For the purpose of preparing the Combined Group unaudited pro forma statement of profit or loss interest expense of \$31.3 million resulting in \$49.3 million of interest charges which is made up of \$43.3 million of interest charges that would have been incurred had the Scheme been in place from 1 July 2015 as well as the unwind of capitalised borrowing costs in the amount of \$5.1 million and a further \$0.8 million of interest charges related to existing finance leases.

The pro forma assumes an interest rate of 9.25% and Tranche B Notes with a face value of \$468 million. The amount of interest could change depending on the final value of the Tranche B Notes issued and any hedging arrangements entered into.

(ii) **Finance Income (including foreign exchange gains and losses)**

Swap close out

Subsequent to 30 June 2016, Emeco has closed out interest rate swaps recorded at \$18.9 million at 30 June 2016. The pro forma adjustment reflects a loss of \$3.1 million on the derecognition of the derivative swap asset.

Repurchased Debt

During the year ended 30 June 2016, Emeco closed out certain interest rate swaps for A\$48.2 million which was recognised as a gain on derivatives sold. The funds were used to purchase US\$52.8 million face value of bonds for US\$29.8 million resulting in an A\$31.6 million gain on purchase. The close out of the swaps also resulted in the unwinding of the FX loss on the previously hedged notes of A\$42.1 million. The pro forma adjustment reflects the reversal of the net gain of A\$37.2 million.

Gain on debt forgiveness

Under the proposed Transaction total debt of \$581.6 million, excluding finance leases, is expected to be extinguished in exchange for the issue of new debt in the form of \$468.4 million of Tranche B Notes and 1,363.9 million New Shares² at \$0.067 per Share resulting in a gain on debt forgiveness of \$32.0 million. If the actual Share price or number of Shares issued is different on the date of issue, the gain on debt forgiveness will change.

Transaction costs

Capitalised Transaction costs associated with the existing debt of \$12.4 million have been written off. A further \$8.7 million of transaction costs associated with the new debt facility have been written off, with the balance of the transaction costs (\$25.9 million) being capitalised and amortised over the 5 year life of the debt. Total Transaction costs are expected to be \$35 million, however the final amount may differ on completion.

Transactions not included in the Combined Group unaudited pro forma statement of profit or loss

The Combined Group unaudited pro forma statement of profit or loss does not include the following:

- the forecast reduction in operating costs as a result of the potential synergies generated by the Combined Group
- Tax, depreciation and amortisation: until such time as the acquisition accounting can be finalised and the formation of a tax consolidated group can be considered, the resulting tax consequences cannot be reliably determined and therefore no pro forma adjustments have been made to tax

Similarly, until such time as the acquisition accounting can be finalised and the assessment of the fair value of net assets acquired, the identification of intangible assets or resultant goodwill can't be completed. Accordingly, the change in depreciation expense that would

² Includes New Shares issued in connection with the Black Diamond Placements.

result once fair values are attributed to individual items of property, plant and equipment and any additional amortisation charges resulting from finalised intangible asset values cannot be reliably determined.

(e) **Combined Group unaudited pro forma statement of financial position**

The Combined Group's unaudited pro forma statement of financial position is set out below.

	Emeco 30 June 2016	Andy's acquisition \$'000	Orionstone acquisition \$'000	Debt refinancing and capital raising \$'000	Swap close out \$'000	Combined Group unaudited pro forma \$'000
Current Assets						
Cash assets	24,854	392	4,283	(14,922)	15,350	29,957
Trade Receivables	37,734	5,904	8,286	-	-	51,924
Derivative financial instruments	6,315	-	-	-	(6,315)	-
Inventories	5,333	5,086	2,902	-	-	13,321
Other current assets	1,832	1,279	3,596	-	-	6,707
Assets held for sale	30,728	1,241	-	-	-	31,969
Total Current Assets	106,796	13,902	19,067	(14,922)	9,035	133,878
Non-Current Assets						
Trade and other receivables	6,234	-	224	-	-	6,458
Derivative financial instruments	12,629	-	-	-	(12,629)	-
Intangibles and goodwill	2,344	-	-	-	-	2,344
Property, Plant & Equipmetn	280,182	78,484	155,112	-	-	513,778
Deferred Tax	19,507	4,932	-	-	148	24,587
Total Non-Current Assets	320,896	83,416	155,336	-	(12,481)	547,167
Total Assets	427,692	97,318	174,403	(14,922)	(3,446)	681,045
Current Liabilities						
Trade and other payables	38,035	5,597	11,646	-	-	55,278
Liabilities directly associated with assets classified as held for sale	883	-	-	-	-	883
Tax liabilities	-	5,840	-	-	-	5,840
Interest bearing liabilities	4,579	72,649	1,802	(65,649)	-	13,381
Provisions	3,469	979	694	-	-	5,142
Total current liabilities	46,966	85,065	14,142	(65,649)	-	80,524
Non-current liabilities						
Interest bearing liabilities	373,239	4,359	148,198	(71,232)	-	454,564
Provisions	1,490	101	43	-	-	1,634
Total non-current liabilities	374,729	4,460	148,241	(71,232)	-	456,198
Total liabilities	421,695	89,525	162,383	(136,881)	-	536,722
Net assets	5,997	7,793	12,020	121,959	(3,446)	144,323
Equity						
Share capital	593,616	7,793	12,020	111,079	-	724,508
Reserves	12,505	-	-	-	(345)	12,160
Accumulated losses	(600,124)	-	-	10,880	(3,101)	(592,345)
Total Equity	5,997	7,793	12,020	121,959	-	144,323

Notes to the Combined Group unaudited pro forma statement of financial position

The following pro forma adjustments have been included in the Combined Group unaudited pro forma statement of financial position as if the Scheme had occurred on 30 June 2016.

(i) Acquisition of Orionstone and Andy's

The Combined Group unaudited pro forma statement of financial position has been prepared on a preliminary basis and presented using acquisition accounting principles as required by AASB 3. This standard requires that all identifiable assets (including intangible assets and deferred tax balances) and liabilities that meet certain recognition criteria should be recognised in the Combined Group unaudited pro forma statement of financial position at fair value at the date of acquisition.

Consideration paid for acquisition

The Company will issue Shares for the acquisition of Orionstone and Andy's. A Share price of 6.7 cents has been assumed based on the average weighted price of Shares for the period 19 December 2016 to 28 December 2016. This gives rise to an acquisition price of \$12.020 million for Orionstone and \$7.793 million for Andy's. When the acquisition accounting is finalised, the Share price is likely to change to reflect the Company's Share price on the day the Transaction completes and the Shares are issued with a resultant change in the acquisition price paid for Orionstone and Andy's. Depending on the determination of the Equity Exchange value under the requirements of the Amended RSA on completion date, the number of Shares issued may change in accordance with the provisions of the Amended RSA.

Net assets acquired

For the purposes of preparing the Combined Group unaudited pro forma statement of financial position, it has been assumed that the carrying value of identified assets and liabilities are equal to their fair value at the acquisition date, except as noted below.

Orionstone – fair value adjustments have been recognised with respect to recoverability of certain trade receivables and property, plant and equipment. Adjustments have been made to the liabilities to reflect the expected liabilities at completion as agreed by all parties to the Amended RSA.

Andy's – fair value adjustments have been recognised with respect to recoverability of certain trade receivables and property, plant and equipment. Adjustments have been made to the liabilities to reflect the expected liabilities at completion as agreed by all parties to the Amended RSA.

The recognition of any intangible assets, including goodwill and the recognition of any deferred tax assets or liabilities which may arise as a result of the fair value adjustments is subject to Emeco finalising its fair value assessment of all assets and liabilities acquired as at the acquisition date.

As Emeco has not finalised the fair value assessment of all assets and liabilities as at the acquisition date, for the purposes of preparing the Combined Group unaudited pro forma statement of financial position, it has been assumed that there will be no separately identifiable intangible assets including goodwill and that any difference between the consideration paid and net assets acquired is attributable to the property, plant and equipment. This has resulted in an adjustment of \$15.928 million and \$14.498 million to the property, plant and equipment between the stand alone balance sheet and the fair value attributed to the property, plant and equipment of Orionstone and Andy's respectively.

The FMV of the rental fleet used for the purposes of the Amended RSA differs to the amount recognised in the Statement of financial position pro forma. The book value of property, plant and equipment included in the Statement of financial position includes additional assets that were not

included in the FMV for the purposes of the Amended RSA. In addition the property, plant and equipment owned by Emeco is recorded at the higher of value in use and fair market value less cost to sell. The final value of property, plant and equipment may vary in the event the deemed purchase consideration changes at completion.

On finalisation of the acquisition accounting, the excess of the cost of the acquisition over and above the net fair value of the identifiable assets and liabilities should be recognised as goodwill. This goodwill amount will only be measured and recognised once the acquisition is completed.

Similarly, the identification and valuation of other identifiable intangible assets will not be possible until after the completion of the acquisition. Australian Accounting Standards allow a period of 12 months to finalise the accounting for fair value of assets and liabilities acquired from the date of acquisition.

Acquisition accounting – deferred tax

For the purposes of preparing the Combined Group unaudited pro forma statement of financial position and until such time as the acquisition accounting can be finalised and the formation of a tax consolidated group can be considered, the deferred tax consequences cannot be determined and therefore no pro forma adjustments have been made to tax other than the known tax effect of the closure of Emeco's interest rate swaps.

(ii) Debt refinance and Capital raising

Emeco Noteholders have the option to either receive their pro-rata share of New Shares and beneficial interests in Tranche B Notes or receive cash up to 50% of their outstanding debt. If the Emeco Noteholders elect to take the cash alternative, Emeco has entered into a Scheme Cash Funding Agreement whereby the Scheme Cash Funders will deposit funds into an escrow account to be applied by Emeco to make the cash payment to the cash electing Emeco Noteholder. The Scheme Cash Funders will receive the New Shares and Tranche B Notes the cash electing Emeco Noteholder would have otherwise received under the Emeco Noteholders' Scheme.

The pro forma adjustment assumes that either directly or indirectly all of the Emeco Notes will be extinguished through a pro-rata share of New Shares and beneficial interests in Tranche B Notes.

The pro forma statement of financial position has assumed the final Tranche B Notes owing will be \$468.4 million. This could change if anticipated debt repayments are not made by Andy's prior to the Completion Date. The Tranche B Notes will be issued in USD and therefore are subject to prevailing exchange rates. The pro forma statement of financial position assumes an exchange rate of 76.30 cents. Tranche B Notes have mandatory and voluntary repayment provisions. The pro forma adjustments assume the mandatory repayment provisions will not be triggered within the 12 months and no voluntary repayments will be made, accordingly the full amount of debt has been classified as non-current.

The final number of New Shares to be issued will be determined by reference to the Shareholder Equity Allocation Percentage as defined in the Amended RSA and could change on Completion Date.

Under the proposed Transaction total debt of \$581.6 million, excluding finance leases, is expected to be extinguished in exchange for the issue of new debt in the form of \$468.4 million of Tranche B Notes and 1,363.9 million New Shares³ at \$0.067 per Share resulting in a gain on debt forgiveness of \$32.025 million. If the actual Share price is different on the date of issue, the gain on debt forgiveness will change. In addition, a change to the exchange rate at transaction date will also result in a change to the value of debt extinguished.

Capitalised transactions costs associated with the existing debt of \$12.439 million has been written off and \$25.916 million of costs associated with the new debt facility have been capitalised, with the balance of the transaction costs (\$8.706 million) being expensed. Total transaction costs are expected to be \$34.6 million, however the final amount may differ on completion.

The pro forma adjustments assume there will be no draw down on the new revolving loan facility within the next 12 months.

The Company is expecting to raise \$19.7 million of cash, net of Share issue costs, through the issue of approximately 251.8 million Shares⁴ at \$0.080 per share pursuant to the Rights Offer. The fundraising has been fully underwritten. The actual Share price or final number of Shares may be different on the date the Shares are issued.

(iii) Close out of interest rate swaps

Subsequent to 30 June 2016, Emeco has closed out interest rate swaps recorded at \$18.944 million at 30 June 2016. The adjustment reflects the derecognition of the derivative swap asset, reversal of the cash flow hedging reserve and related deferred tax adjustment, recognition of costs associated with the close out and an increase in cash and cash equivalents.

6. Risks associated with the Transaction

6.1 Risks associated with the operations of the Combined Group

(a) Access to and supply of used and new equipment

In order to generate revenue and earnings, the Company requires access to new and used earthmoving equipment and parts. There are two key categories of capital spend which help generate revenue and earnings: stay in business (**SIB**) capital or growth capital. SIB capital is what is required to maintain the existing fleet in order to maintain revenue levels. This can be achieved through a combination of replacing end of life machines with new machines, or performing major component rebuilds with parts acquired to extend the life of a specific component (e.g. rebuild an engine). Growth capital refers to additional equipment that is purchased to increase the size of the fleet and grow revenue. In addition to capital parts are also required for maintaining the equipment as part of the day-to-day operations.

If the Company is unable in the future to secure adequate supplies of the required number of machines at appropriate prices or if the quality of the available machines is not acceptable, the Company's operational and financial performance may be adversely affected.

The Company's ability to source new replacement equipment is dependent on relationships and contracts with dealers for original equipment manufacturers

³ Includes New Shares issued in connection with the Black Diamond Placements.

⁴ Inclusive of 7% Rights Offer Underwriting Fee (A\$1.4 million) paid in additional New Shares.

(OEMs), as well as its ability to access the used market through brokers. The Company's relationship with OEM dealers, such as Caterpillar, Komatsu and Hitachi, are influenced by the volumes of machines and parts it purchases and the level of industry demand. The Company has access to a global broker network of which it participates both as a procurer and seller of equipment. This network provides the Company with the ability to access low-hour, used equipment at comparable prices when required.

The Company also sources equipment parts from both OEM and non-OEM providers to extend the useful life of its equipment, particularly when increased demand or pricing makes it difficult to source new or used equipment.

In addition, during troughs in the commodity cycle, OEMs typically shrink their production which can also lead to longer lead times when demand picks up due to the time taken to ramp up production. The Company's ability to access the global second hand market provides an alternative option to meet equipment demand.

The Company could be adversely impacted by any incidents affecting the ability of these manufacturers to produce and deliver mining equipment, including casualty events affecting production facilities, work stoppages or strikes, financial difficulties of our suppliers, transport disruptions, or other events or circumstances. It may be difficult to locate alternative manufacturers in the event of any disruptions which could have a material adverse impact on the Company's revenue.

Any change in the Company's relationships with these OEMs or brokers may result in a shortage of equipment and parts which would constrict the Company's ability to enter new contracts or fulfil existing contracts and adversely impact future earnings and financial performance.

(b) Loss of key management personnel

The Company depends on the continued employment and performance of senior executives and other key members of management. If any one of these individuals resigns or becomes unable to continue in his or her present role and is not adequately replaced in a timely manner, business operations and the ability to implement the Company's strategies could be materially disrupted. The Company competes not only with other companies in the equipment rental industry, but also companies in the mining, resources, energy and infrastructure industries for the recruitment and retention of key executives and other employees with the appropriate technical skills and managerial experience necessary to continue to operate its business.

The loss of members of senior management or key employees could materially adversely impact the Company's business if it is unable to recruit suitable replacements in a timely manner.

There can be no assurance that the Company will be able to attract and retain skilled and experienced employees and, should it lose any of its key management personnel or fail to attract qualified personnel, its business may be harmed and its operational and financial performance could be adversely affected.

(c) **Integration risk and the realisation of synergies**

The long term success of the Combined Group will depend, among other things, on the success of the Emeco Board and senior management team in integrating the respective businesses. While it is expected that the respective businesses can add value to the Combined Group in part through the realisation of synergies documented in Section 5.6 of this Explanatory Memorandum, these expected synergies may not be realised due to various factors, including the risks that:

- (i) integration may be subject to unexpected delays, challenges, liabilities and costs;
- (ii) the anticipated efficiencies and benefits of integration may be less than estimated; and
- (iii) there may be a loss of key personnel, customers, suppliers or other contractual arrangements within the Combined Group.

These risks may be realised because of factors including the required involvement of third parties in the achievement of synergies, possible differences in the management culture of the three businesses, an inability to achieve cost savings or the potential loss of key personnel.

If the integration of the respective businesses is not achieved in an orderly manner, and within the assumptions as stated in this Explanatory Memorandum, the expected synergies and benefits may be achieved only in part, or not at all. This could adversely impact the Combined Group's financial performance and position, and the future prospects of the Combined Group.

(d) **Ability to attract and retain skilled workers**

The Company's ability to remain productive, profitable and competitive and to implement planned growth initiatives depends on its ability to attract and retain skilled workers. The loss of a number of key personnel or inability to attract additional personnel may have an adverse impact on the financial and operating performance of the Company.

The Company's maintenance workshop facilities are often in remote locations for close proximity to customers and sometimes requires employees to work in difficult conditions. As a result, there can be shortages of labour that make it challenging to recruit employees with relevant industry and technical experience who are willing to relocate or endure such conditions. In the past, this has resulted in cost increases for the supply of labour and management services.

The Company also expends significant resources training its employees. If the Company's employees choose to work for a competitor, the Company may not realise any benefits from its investment in their training.

Although less prevalent in the current environment given weaker market conditions, due to the cyclical nature of the industry, labour shortages during peak periods, combined with a high historical industry turnover rate and increased competition may affect the Company's ability to continue with or expand operations and may adversely impact its operational and financial performance. Skilled labour shortages could limit the Company's ability to grow or lead to a decline in productivity and an increase in training costs and adversely affect its safety record. Each of these factors could materially adversely impact the Company's revenue and, if costs increase or productivity declines, operating margins.

(e) Availability of tax losses

Generally, tax losses may only be carried forward and recouped against future taxable income if a company satisfies the continuity of ownership test (COT), or failing that, the same business test (SBT). In broad terms the tests are as follows:

- (i) the COT requires that the same ultimate owners must beneficially own the same shares that carry more than 50% of all voting, dividend and capital rights from the time the loss was incurred to the time the loss is to be recouped; and
- (ii) the SBT requires a company to carry on at all times during the year the losses are recouped, the same business as it carried on immediately before the change in beneficial ownership that caused the COT to be failed. In order for the SBT to be satisfied, the following must occur:
 - (A) The entity must carry on the same (as distinguished from merely similar) business during the year of recoupment/income as it did immediately before it failed the COT.
 - (B) The entity must not derive any income in respect of a business of a kind it did not carry on before the COT failure.
 - (C) The entity must not derive income from a transaction of a kind that it had not entered into in the course of its business operations prior to the COT failure.

As the Company will issue a significant number of Shares as part of the Transaction, this will result in a COT testing point. As a result of the Transaction there is therefore a risk that the Company could drop below the required 50% continuity of Shareholders for these purposes and fail the COT. In addition, due to the scale of the new businesses entering the Emeco tax consolidated group, there is a risk that the Transaction could also cause the tax consolidated group to fail the SBT. Where the tax consolidated group fails both the COT and SBT it would be unable to recoup any of the current balance of carried forward tax losses in future income years.

(f) Fleet age risk

Earthmoving equipment age is determined by the hours it has been utilised as opposed to the period of time since manufactured. In periods of high utilisation, equipment ages at a faster rate bringing forward any major components and replacement at end of life. Given the nature of the Company's operations, its fleet will age over time. As its fleet of rental equipment ages, the cost of maintaining such equipment, if not replaced within a certain period of time, may increase. Determining the optimal age of fleet equipment is subjective and requires estimates

by management with asset management expertise. The Company has made estimates regarding the relationship between the age of its fleet rental equipment, the maintenance and repair costs, and the market value of used equipment.

Future operating and financial performance could be adversely affected because maintenance and repair costs may be higher than estimated and market values of used equipment may fluctuate and are generally lower as a piece of equipment ages. In addition, the cost of the new equipment used in its fleet may increase, and therefore the Company may spend more on replacement equipment. Any such cost increases could materially and adversely impact the operating and financial performance of the Company.

These risks may be heightened to the extent that the ageing of its fleet accelerates. The ageing of the Company's fleet could accelerate if it needed to continue to constrain capital expenditure on replacement equipment instead choosing to replace components to extend the useful life because of challenging market conditions and lower than historical rates of utilisation.

(g) Residual value risk

The market value of any given piece of rental equipment could be less than its depreciated value at the time it is sold. The market value of used rental equipment depends on several factors, including:

- (i) the market price and availability for new equipment of a like kind;
- (ii) wear and tear on the equipment relative to its age and the performance of preventive maintenance;
- (iii) the time of year that it is sold;
- (iv) the supply of used equipment on the market;
- (v) the existence and capacities of different sales outlets;
- (vi) the age of the equipment at the time it is sold;
- (vii) the age of major component life in the equipment;
- (viii) the equipment model and its market acceptability;
- (ix) worldwide and domestic demand for used equipment; and
- (x) general economic conditions.

The Company includes in revenue from continuing operations the difference between the sale price and the depreciated or impaired value of an item of equipment sold. Changes in assumptions regarding depreciation could change the Company's depreciation expense, as well as the gain or loss realised upon disposal of equipment.

Sales of the Company's used rental equipment at prices that fall significantly below projections or in lesser quantities than anticipated will have a negative impact on the future revenue, earnings and cash flows.

These risks may be heightened if the Company needs to sell equipment to better align the size of the fleet with utilisation rates because of challenging market

conditions and lower than historical rates of utilisation. The Company reported A\$18 million of proceeds in FY16 from the sale of equipment (A\$14 million FY15). This was classified as other income.

(h) Maintenance expenditure

The Company is required to undertake periodic maintenance on its fleet in order to ensure it is suitable for its intended use when rented to customers.

If the level of maintenance expenditure required is higher than expected, it must be undertaken earlier than anticipated, or if there is a significant operational failure requiring unplanned maintenance expenditure, the operating and financial performance of the Company may be adversely affected.

(i) Consolidation of customers and suppliers

Consolidation in the industries of the Company's customers or suppliers may reduce its bargaining power with those customers or suppliers and lead to the Company transacting on less advantageous financial and commercial terms with those customers or suppliers.

It may also lead to the loss of such customers, which would adversely affect the Company's operational and financial performance.

(j) Information systems risks

The Company relies on computer, information, and communications technology and related systems in order to properly operate the administrative and compliance aspects of its business. From time to time, the Company experiences occasional system interruptions and delays.

The Company has processes in place to respond to system interruptions and delays. However, in the event it is unable to regularly deploy software and hardware, effectively upgrade its systems and network infrastructure, and take other steps to maintain or improve the efficiency and efficacy of its systems, the operation of such systems could be interrupted or result in the loss or corruption of data. In addition, the Company's computer systems are subject to the risks of unauthorised access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorised access to the Company's and its customers' proprietary or classified information.

The Company relies on industry-accepted security measures and technology to securely maintain all confidential and proprietary information on its information systems. The Company has devoted, and will continue to devote, significant resources to the security of its computer systems, however they may still be vulnerable to these threats.

A user who circumvents security measures could misappropriate confidential or proprietary information or cause interruptions or malfunctions in operations. As a result, the Company may be required to expend significant resources to protect against the threat of these system disruptions and security breaches or to alleviate problems caused by these disruptions and breaches. Any of these events could damage the Company's reputation and have a generally material adverse effect on its operating and financial performance.

(k) **Mine site interruptions**

Mining operations are vulnerable to the risk of interruption as a result of a variety of factors, which may be beyond the control of the Company, including the following:

- (i) prolonged heavy rainfall or cyclone;
- (ii) geological instability, including strong seismic activity, landslides, mudslides, rockfalls, cave-ins, or conditions that threaten to result in such an event;
- (iii) accidents or unsafe conditions;
- (iv) issues with mine ventilation;
- (v) equipment breakdowns;
- (vi) industrial relations issues; and
- (vii) scarcity of materials and equipment.

Interruptions to a customer's mining operations would limit the Company's revenue to any agreed fixed monthly charges. In addition, delays to the commencement of projects for which the Company has been contracted to provide rental equipment or maintenance services may occur as a result of the factors listed above or other factors beyond the control of the Company, such as the mining customer underestimating the lead time required to commence operations.

Interruptions to existing operations or delays in commencing operations experienced by customers may result in lost revenue and, in some circumstances, result in the Company incurring additional costs, which may have a material adverse effect on the Company's future financial performance.

(l) **Workplace safety**

The maintenance of mining equipment involves risks and dangers to the personnel involved, including the risk of personal injury and, in exceptional circumstances, loss of life associated with operating heavy machinery. Mining customers seeking rental solutions demand mining equipment to be in excellent operating condition and to have market leading safety features installed.

It is possible that there may be accidents in the future in the operation of the mining equipment the Company supplies, which could result in a deterioration of its safety record. The Company's ability to supply safe rental equipment and onsite maintenance services to customers and to keep its employees safe is fundamental to the Company's business in a number of respects, including:

- (i) the Company's safety record is a key criterion that mining customers use when evaluating tenders for mining equipment rental and maintenance services, since mining customers must ensure their operations adhere to the highest safety standards; and
- (ii) safety incidents may result in operations at the affected site being suspended while the incident is being investigated.

As a consequence, if the Company fails to supply equipment in excellent operating condition, conduct its onsite maintenance services in a safe manner or if accidents occur that are beyond its control, the Company may fail to win new contracts for

equipment rental or maintenance services, fail to have existing contracts renewed, have existing contracts terminated or face increased competition if customers compare the Company's safety to its competitors.

Any of these consequences could have a material adverse effect on the Company's operating and financial performance.

(m) **Environmental risks**

Environmental management and compliance is an important part of the business of the Company's customers. The Company works with its customers to ensure that its equipment and maintenance services operate in alignment with their onsite policies, management systems and procedures.

The Company's actions or failures to act may result in the mining customers for which it performs services incurring environmental liability, regulatory penalties, or having licenses suspended, cancelled or subjected to additional conditions. Some of the Company's customer contracts contain indemnities under which it is obliged to compensate the customer for certain losses resulting from environmental incidents for which the Company is responsible.

As a result, environmental incidents may result in the Company incurring substantial obligations to compensate its customers which could have a material adverse effect on the Company's operational and financial performance.

6.2 Trading risks

(a) **Industry and risks**

A summary of selected major industry risks and risks relating to the Company is set out in this Section. It should be noted that these risks are in addition to the risks commonly faced by businesses, including financial, economic, counterparty, credit and regulatory risks, which may have adverse consequences on the Company.

The future performance of the Company, and the price of its Shares, will be influenced by a number of factors, which may be specific to the proposed Transaction, or to the Company, or of a general nature. Whilst some of these factors can be mitigated by the use of safeguards and appropriate systems and actions, some are outside the control of the Company and cannot be mitigated. The principal risks include, but are not limited to, those set out below.

Emeco Shareholders should be aware that holding Shares in the Company involves many risks, which may be different to the risks associated with holding shares in other companies.

(b) **Market conditions**

Demand for the Company's mining equipment rental services depends in significant part upon the level of earth moving activities conducted by its customers, which are mining companies or contract miners, in the movement of overburden and mined resource.

Due to the geographic and commodity mix of the Company's customers, revenues are indirectly exposed to the prices of gold, thermal and metallurgical coal, oil sands, iron ore and copper.

In FY16, 25% of revenues were generated from the provision of mining equipment rental services to thermal coal mining customers, 10% to coking coal mining customers, 19 % to copper mining customers, 19% to gold mining customers, 13% to oil sands mining customers, and 2% to iron ore mining customers.

Activity levels and results of operations are dependent on the production levels at the mines where equipment is used and the volume of earth moved under the relevant mine plans. Customers' mining activities and the volume of earth moved by them, either temporarily or long term, is influenced by many factors, including the global demand for commodities, current and expected commodity prices, general economic conditions, and the application and impact of the local regulatory environment.

If these drivers of earthmoving volumes are negatively impacted, this may lead to a decrease in the demand for the Company's equipment and the rental rates that the Company can charge of earthmoving volumes.

During the last 24 months, the mining sector in Australia, Chile, Canada and globally, has weakened as a result of weaker economic conditions globally and commodity prices. Mining companies have focused on cost reductions with a number of mining companies reducing costs and capital expenditure, resulting in lower earthmoving volumes and demand for the Company's rental equipment. As a result of this market weakness, the Company's rental revenue and financial performance have been negatively impacted.

The timing of any market recovery is uncertain and even in the case where market conditions recover, the corresponding increase in earthmoving volumes and improvement in the Company's performance may be significantly delayed or short term in nature due to other factors such as market competition, difficulty in achieving synergies or the loss of key personnel.

(c) **Competition**

There are two levels of competition that the Company experiences in the industry. The first is for the supply of equipment and if a customer would prefer to purchase equipment as opposed to rent equipment from a provider. The second level occurs when the customer has decided to pursue a rental solution as the Company operates in a highly competitive industry. There are a number of competitors, including contract miners and other earthmoving equipment rental suppliers, that currently provide services similar to those provided by the Company. These competitors may have significant additional capital, financial and other resources compared to the Company, impacting its ability to compete as successfully in the future as it has in the past. OEMs also compete directly with the Company.

The Company generally competes on the basis of, among other things, reliability, price, service offerings and the age, mix and relative attractiveness of its rental equipment fleet. There can be no assurance that customers will agree to renew expiring contracts on terms acceptable to the Company or at all.

(d) **Contractual risks**

The Company's revenue is dependent on winning new contracts and operates in an increasingly competitive market. It is difficult to predict whether and when new contracts will be awarded due to multiple factors influencing how customers

evaluate potential service providers, such as rental rates, fleet quality, maintenance and safety standards, experience, reputation, customer relationships, financial strength, and ability to provide mining equipment rental services in a timely, safe, and cost-efficient manner.

Consequently, the Company is subject to the risk of losing new awards to competitors which will adversely impact its business, results of operations and financial position.

Operational and financial performance including cash flows may fluctuate from quarter to quarter depending on the timing and size of new contract awards.

Additionally, increased competition and softer market conditions have limited the Company's negotiating power with customers on contract terms where even if the Company is successful in obtaining new contracts and awards, the new contracts may increasingly deviate from the standard terms that the Company seeks to obtain.

Additionally, a significant portion of the Company's revenues are subject to short term contracts with varying terms and substantially all of customer contracts permit the customer to terminate the contract on short notice and without compensation for lost revenue. The term of the Company's customer contracts typically ranges from two to 36 months. The early termination of a contract by one or more of the Company's customers could have a material adverse effect on its business, results of operations and financial condition. If several of the Company's customers were to terminate their relationship with us or fail to renew an expiring contract, the Company's revenues and profits would be significantly adversely affected.

Furthermore, certain of the Company's material contracts contain provisions which allow a counterparty to terminate the contract as a result of the implementation of the Transaction or otherwise for convenience.

The Company has sought the support of all counterparties to material contracts that contain provisions of this sort. Negotiations with these counterparties are ongoing however, to date, no counterparties have indicated that they will terminate such contracts as a result of implementation of the Transaction.

6.3 Financing risk

(a) Indebtedness

If the Transaction is implemented, the Company's gross debt position is expected to be approximately \$468 million of Tranche B Notes and approximately A\$15 million of finance leases. The Company will have the ability to access up to A\$35 million in additional debt and A\$30 million in bank guarantee commitments under the new A\$65 million revolving loan facility. While this Transaction is a reduction of the Company's total gearing metrics from prior to implementation of the Transaction, this level of total potential Indebtedness still has important consequences for the Company and its Shareholders, including the following:

- (i) requiring the Company to dedicate a material portion of its cash flow from operations to meet principal and interest payments thereby reducing the availability of cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;

- (ii) increasing the Company's vulnerability to adverse general economic or industry conditions, commodity prices and exchange rate fluctuations;
- (iii) subjecting the Company to a number of covenants, which reduce its flexibility in planning for, or reacting to, changes in the Company's businesses or industry; and
- (iv) placing the Company at a competitive disadvantage compared to its competitors that have less debt or are not subject to similar negative covenants.

(b) Compliance with Tranche B Notes Terms

The Company will be subject to multiple ongoing obligations and negative covenants relating to a wide variety of factual matters concerning the Company's assets and business under the terms of the Tranche B Notes. The negative covenants under the Tranche B Notes are customary for a high yield bond of this type and include limitations on the Company's ability to:

- (i) make capital expenditures;
- (ii) incur additional indebtedness and guarantee indebtedness;
- (iii) pay dividends or make other distributions or repurchase or redeem capital stock;
- (iv) prepay, redeem or repurchase certain debt;
- (v) issue certain preferred stock or similar equity securities;
- (vi) make loans and investments;
- (vii) sell assets;
- (viii) incur liens;
- (ix) enter into transactions with affiliates;
- (x) alter the businesses it conducts;
- (xi) enter into agreements restricting its subsidiaries' ability to pay dividends; and
- (xii) consolidate, amalgamate, merge or sell all or substantially all of its assets.

If these obligations and covenants are breached, this may result in the occurrence of an event of default. Additionally, the limitations described above may impact on the value of the New Shares following the consummation of the Transaction.

(c) Debt servicing and refinancing risk

The Tranche B Notes need to be fully repaid, renewed or refinanced on or before March 2022. The new revolving loan facility will need to be fully repaid, renewed or refinanced.

The ability of the Company to repay or reschedule the Tranche B Notes and the new revolving loan facility will ultimately be contingent on mining and exploration market activity, commodity prices, AU\$/US\$ exchange rate outcomes, achievement of

integration plans and forecast synergies and the ability of the Company to source additional funds through debt and equity markets.

If market conditions deteriorate significantly against current projections a shortfall is likely.

Accordingly, in these circumstances there would be significant uncertainty as to the Company's ability to fully repay, refinance or reschedule the outstanding Tranche B Notes and the new revolving loan facility at their respective maturity dates and therefore the Company's ability to continue as a going concern.

As such, the Company would need to consider alternative financing arrangements prior to the maturity of those debt facilities, which may include refinancing or restructuring existing facilities, securing new facilities on acceptable terms or securing alternative funding (including potentially through raising additional shareholder equity). There is no guarantee that alternative financing arrangements would in these particular circumstances be successful.

(d) Insurance risks

Although insurance is maintained for ownership and rental of equipment within ranges of coverage consistent with industry practice, no assurance can be given that such insurance will be available in the future on commercially reasonable terms or that any cover will be adequate and available to cover any or all claims. Insurance of all of the risks associated with equipment rental or maintenance services is not always available and, where available, the costs can be prohibitive. Furthermore the Company's insurance does not cover its fleet while it is rented at a customer's site and, in such circumstances, the Company is reliant on the customer's insurance policies or credit quality to compensate it in the event of a loss. If the Company incurs uninsured losses or liabilities, its operating and financial performance may be adversely affected.

(e) Regulatory risks

Changes in legislative and administrative regimes, taxation laws, interest rates, other legal and government policies in Australia may have an adverse effect on the assets, operations and ultimately the financial performance of the Company and the market price of Shares.

(f) Claims, liability and litigation

The Company may have disputes with counterparties in respect of major contracts, or may be exposed to customer or environmental, occupational health and safety or other claims. The Company may incur costs in defending or making payments to settle any such claims, which may not be adequately covered by insurance or at all. Such payments may have an adverse impact on the Company's profitability or financial position.

(g) Foreign jurisdiction risks

The Company currently has operations in Australia, Canada and Chile and may seek growth and expansion in additional markets, including in North and South America.

The Company's operations are subject to political, economic and other risks normally associated with the conduct of business in foreign countries as well as factors specific to the regions.

Some of the risks to which the Company is exposed, directly or indirectly, include among others:

- (i) changes in foreign laws or regulations;
- (ii) changes in laws and policies governing operations of foreign based companies;
- (iii) changes in tax laws;
- (iv) changes in mining policies;
- (v) tax increases or claims by governmental entities;
- (vi) labour disputes;
- (vii) corruption;
- (viii) transparency of the legal system;
- (ix) retroactive tax or royalty claims;
- (x) revocation of consents or approvals;
- (xi) restrictions on the use of land and natural resources;
- (xii) restrictions on production, supplies and essential services;
- (xiii) export controls;
- (xiv) expropriation or nationalisation of property;
- (xv) inflation of costs that is not compensated by a currency devaluation;
- (xvi) restrictions on the remittance of dividend and interest payments offshore;
- (xvii) environmental controls and permitting;
- (xviii) opposition to mining from environmental or other non-governmental organizations;
- (xix) obtaining various approvals from regulators;
- (xx) invalidation of government orders and permits;
- (xxi) foreign exchange restrictions and currency fluctuations;
- (xxii) changing political conditions, currency controls and governmental regulations that favour or require awarding contracts to local contractors or require foreign contractors to employ citizens of, purchase supplies from or use service providers from a particular jurisdiction;
- (xxiii) loss due to civil strife, acts of war, guerrilla activities, acts of sabotage, territorial disputes;
- (xxiv) insurrection and terrorism; and

(xxv) other risks arising out of foreign sovereignty issues.

Such risks could potentially arise in any country in which the Company operates, although risks may be higher in the developing countries in which the Company conducts some of its activities. These risks may divert investment in mining operations, which may adversely affect mining production activity and the demand for rental and maintenance services as well as adversely affecting the secondary market for used equipment.

The Company's operations in these areas also increases its exposure to risks of war, local economic conditions, political disruption, civil disturbance, expropriation, terrorism and governmental policies that may:

- (i) disrupt operations;
- (ii) require the Company to incur greater costs for security;
- (iii) restrict the movement of funds or limit repatriation of profits;
- (iv) lead to international sanctions; or
- (v) limit access to markets for periods of time.

Risk assessments may also categorise threats as serious enough to require resort to public security forces, such as national police or military units on a near-permanent basis. In the event that continued operation in some countries compromises the Company's security or business principles, it may withdraw from these countries on a temporary or permanent basis. This could have a material adverse impact on the Company's financial and operating performance.

6.4 General risks associated with share ownership

(a) Speculative nature of shareholding in the Company

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by Shareholders in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of its Shares.

(b) Significant shareholding by Black Diamond

Depending on the exact number of Shares finally issued following completion of the Transaction and the take up of the Rights Offer, Black Diamond is expected to increase to approximately 20.8% of the total issued Shares in the Company prior to the Management Incentive Plan (Black Diamond may potentially have Voting Power of up to a maximum of 22.5% in Emeco following implementation of the Transaction, prior to the Management Incentive Plan), and may be in a position to influence the decisions made by the Company, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters requiring a Shareholder vote including matters pertaining to a potential change of control in the Company.

(c) Equity capital market fluctuations

The Shareholders should be aware that there are risks associated with holding shares in any company listed on the ASX. The value of Shares may rise above or drop

below the current Share price depending on the financial and operating performance of the Company and external factors over which the Company and its Directors have no control. These external factors include:

- (i) economic conditions in Australia and overseas which may have a negative impact on equity capital markets;
- (ii) changing investor sentiment in the local and international stock markets specifically relating to the mining sector;
- (iii) changes in domestic or international fiscal, monetary, regulatory and other government policies; and
- (iv) developments and general conditions in the markets in which the Company operates and which may impact on the future value and pricing of shares in mining services companies.

(d) **Economic risk and external market factors**

Various factors including political movements, stock market trends, changing customer preferences, interest rates, inflation levels, commodity prices, foreign exchange rates, industrial disruption, environmental impacts, international competition, taxation changes and legislative or regulatory changes, may have an adverse impact on the Company's operating costs, profit margins and Share price. These factors are beyond the control of the Company and it cannot, to any degree of certainty, predict how they will impact on the Company.

Prolonged deterioration in general economic conditions could potentially have an adverse impact on the Company and its operations.

(e) **Foreign exchange risks**

The Company's operations are principally denominated in Australian dollars, Canadian dollars and U.S. dollars with financial reporting in Australian dollars.

For reporting purposes, the Company is exposed to fluctuations in the value of the Australian dollar versus other currencies. As its consolidated financial results are reported in Australian dollars, if the Company generates sales or earnings or has assets and liabilities in other currencies, the translation into Australian dollars for financial reporting purposes can result in a significant increase or decrease in the amount of those sales or earnings and its net assets.

The majority of the Company's debt (including all of the Tranche B Notes) will be denominated in U.S. dollars. Although steps may be undertaken to manage currency risk (for example via hedging strategies), adverse movements in the Australian dollar against the US dollar may have an adverse impact on the Company and result in an increase in the Company's debt in Australian dollar terms. For example, a weakening of the Australian dollar as compared to the U.S. dollar would have the effect of increasing the Australian dollar value of the U.S. dollar denominated debt. Combined with other factors, this could lead to a deterioration in the Company's operating and financial performance.

The Company is also exposed to foreign currency risk on equipment purchases, which are primarily denominated in U.S. dollars. The Company does not hedge its translated foreign currency exchange rate exposure in relation to operations.

The Company's investments in its subsidiaries and their earnings are also not hedged as these currency positions are considered long term in nature.

Fluctuations in foreign currency exchange rates may also make period to period comparisons of results of operations difficult.

(f) Change in accounting or financial reporting standards

Changes in accounting or financial reporting standards may adversely impact the reported financial performance of the Combined Group.

(g) Litigation

Like any business, disputes or litigation may arise from time to time in the course of the business activities of the Combined Group. There is a risk that any material or costly dispute or litigation could adversely affect the reputation, financial performance or value of the Combined Group.

(h) War and terrorist attacks

War or terrorist attacks anywhere in the world could result in a decline in economic conditions worldwide or in a particular region. There could also be a resultant material adverse effect on the business, financial condition and financial performance of the Company.

(i) Negative publicity

The Combined Group will be subject to the risk that negative publicity, whether true or not, may affect stakeholder perceptions of the Combined Group's past actions and future prospects. Being listed on the ASX means that the Combined Group will be subject to risks relating to market expectations for its business and financial and operating performance. If the Combined Group does not manage these expectations in an effective manner, it could give rise to loss of investor confidence in its business and management.

(j) Changes in taxation laws

Variation in the taxation laws affecting the Combined Group's operations could materially affect financial performance. The interpretation of these laws could also change, leading to a change in the taxation treatment of investments or activities.

7. The Transaction Resolutions

In the following Sections, specific detail on each of the Transaction Resolutions is provided. As noted above, the Transaction Resolutions are inter-conditional. This means that if any of them are not passed by the requisite majority, all of those resolutions will be taken to have been rejected by Emeco Shareholders and the Transaction will not be implemented, regardless of whether the other Transaction Resolutions have passed.

8. Resolution 1 – Issue of Shares in connection with the merger with Orionstone and Andy's

8.1 Background to Resolution 1

The background to the Transaction is set out in Section 1 above.

Resolution 1 seeks Emeco Shareholder approval for the issue of New Shares to:

- (a) the Orionstone Shareholders, and Andy's Shareholder as consideration for the Orionstone Acquisition and the Andy's Acquisition respectively;
- (b) the Orionstone Creditors and Andy's Creditors as the equity component of the consideration for the extinguishment of the Orionstone Creditors' and Andy's Creditors' claims against Orionstone and Andy's respectively.

As noted in Section 1.1 above, Orionstone Creditors and Andy's Creditors will be issued Tranche B Notes in addition to the New Shares in consideration for the extinguishment of their claims against Orionstone and Andy's respectively. No Emeco Shareholder approval is required to issue the Tranche B Notes.

ASX Listing Rule 7.1 requires a company to obtain shareholder approval if it issues, or agrees to issue, securities in the capital of the company in any 12 month period that when aggregated total more 15% in number of the existing ordinary shares in the capital of the company.

Immediately following the Transaction, the Orionstone Shareholders, Orionstone Creditors, Andy's Shareholder, and Andy's Creditors are expected to collectively hold approximately 30% of the total Shares on issue in Emeco, subject to dilution under the Management Incentive Plan.

8.2 Information required under ASX Listing Rule 7.3

The information set out below has been included in this Explanatory Memorandum to comply with the content requirements prescribed by ASX Listing Rule 7.3.

- (a) **Maximum number of securities to be issued:** The number of Shares to be issued under this Resolution 1 will be capped at 1,350 million.

However, the actual number of New Shares to be issued to the Orionstone Shareholders, Orionstone Creditors, Andy's Shareholder, and Andy's Creditors pursuant to the Transaction is calculated according to the formula set out in the Amended RSA and described below.

Based on the Shares on issue at the date of this Explanatory Memorandum, the expected number of Shares to be issued to the Orionstone Shareholders, Orionstone

Creditors, Andy's Shareholder, and Andy's Creditors collectively is approximately 758 million New Shares.

The formula to calculate the ultimate number of New Shares to be issued under Resolution 1 provides that:

- (a) Andy's and Orionstone Shareholders receive less value (in the form of New Shares) where the fair market value of their rental equipment assets at the Calculation Date decreases relative to the fair market value as of the signing of the Amended RSA due to the sale of equipment during this time period;
- (b) Andy's and Orionstone Shareholders receive more value (in the form of New Shares) if the companies contribute excess cash to the Merged Group on the Calculation Date; and
- (c) Andy's and Orionstone Supporting Creditors receive less value (in the form of New Shares) if their Principal Outstanding at the Calculation Date (being the amount of indebtedness eligible to be converted into New Shares) has decreased since the date of the Amended RSA.

The formula does this by capturing the key determinants of value of each of Emeco, Orionstone and Andy's, namely the fair market value of the equipment they hold, the contributed EBITDA by each company, the amount of debt each has and their respective excess cash balances. The value of these variables at the Calculation Date will impact the amount of New Shares that are issued under the Transaction.

Formula (New Shares to Andy's Shareholders and Orionstone Shareholders): The New Shares to be issued to shareholders of each of Andy's and Orionstone under Resolution 1 will be calculated as the Shareholder Equity Allocation Percentage, multiplied by the Implied Transaction Equity Value, divided by the Implied Share Price.

The New Shares to be issued to shareholders of each of Andy's and Orionstone is determined by firstly calculating the Initial Shareholder Equity Allocation Percentage. This is the value attributed to each of the three Emeco, Andy's and Orionstone companies based solely on each company's respective FY16 EBITDA and the fair market value of its equipment, calculated as a percentage of the aggregate value of the combined three companies. Therefore, if any of the companies sell equipment prior to completion, its Initial Shareholder Equity Percentage will decrease and that of the other two companies will increase.

The Initial Shareholder Equity Allocation Percentage is then adjusted for the following in order to arrive at the Shareholder Equity Allocation Percentage for each company:

- (a) Excess cash contributed to the Merged Group upon completion – The more cash a merger entity holds on completion, the greater the value received by its respective shareholders.
- (b) The amount of Principal Outstanding converted to equity by the creditors of each of the three companies – The less debt the Merged Group assumes upon completion in respect of a merger entity, the greater the Implied Transaction Equity Value to be distributed according to the Shareholder Equity Allocation Percentage.

The Shareholder Equity Allocation Percentage is the basis on which we attribute value in the Merged Group (as represented by the Implied Transaction Equity Value) to the shareholders of Orionstone and Andy's.

The Implied Transaction Equity Value is the implied transaction equity value of the Merged Group based on the sum of:

- (a) A\$662,600,000, being the FY16 EBITDA of each of the three companies plus A\$15,000,000 in assumed synergies, multiplied by a transaction multiple of 6x; and
- (b) the combined excess cash contributed by Andy's, Orionstone, and Emeco;

less:

- (c) the Total Debt Facilities of the three companies.

The Implied Transaction Equity Value can change where there are changes to the anticipated levels of excess cash or debt. These changes can in turn impact the amount of New Shares issued. Generally:

- (a) If the Implied Transaction Equity Value is lower than anticipated as a result of:
 - (i) lower than expected excess cash contributed by each/any of Emeco, Orionstone and Andy's; and/or
 - (ii) greater than expected combined debt,it will correspond to a lower Implied Share Price and more New Shares issued.
- (b) If the Implied Transaction Equity Value increases due to Emeco contributing greater than expected excess cash, the Implied Share Price will increase and the number of New Shares issued will decrease.
- (c) If the Implied Transaction Equity Value increases due to Orionstone and/or Andy's contributing greater than expected excess cash, the Implied Share Price will remain unchanged and the number of New Shares issued will increase.

The number of New Shares issued to the shareholders of Orionstone and Andy's is their respective share of the Implied Transaction Equity Value divided by the Implied Share Price. Therefore, the number of New Shares ultimately issued to these shareholders is partly dependent on the Implied Share Price. See paragraph (c) below for further details on the Implied Share Price.

Set out below are worked examples of the application of this formula. There are further worked examples set out in Annexure G.

Formula (New Shares to Andy's Creditors and Orionstone Creditors): The New Shares to be issued under Resolution 1 to creditors of each of Andy's and Orionstone will be calculated as each party's Principal Outstanding on the Commencement Date or the Calculation Date (whichever is lesser) multiplied by twenty percent (20%), divided by the Implied Share Price.

Essentially, the value of shares to be issued to these creditors will be 20% of the face value of its debt (capped at debt levels on the date of the Amended RSA). In order to calculate the number of New Shares issued to these creditors, this value is divided by

the Implied Share Price. See paragraph (c) below for further details on the Implied Share Price.

The number of New Shares ultimately issued to these creditors is partly dependent on the Implied Share Price. See paragraph (c) below for further details on the Implied Share Price.

Worked Example:

Set out below is a worked example of the application of the formulae outlined in this section 8. There are further worked examples set out in Annexure G.

	Andy's Shareholders	Orionstone Shareholders	Emeco Shareholders
Contributed FY16 EBITDA (% Contribution)	15.6%	27.6%	56.8%
Contributed FMV (% Contribution)	16.4%	21.8%	61.8%
Initial Shareholder Equity Percentage Allocation ⁽¹⁾	16.0%	24.7%	59.3%

1) Equally weights Contributed FY16 EBITDA and Contributed FMV

	Andy's Shareholders	Orionstone Shareholders
Initial Shareholder Equity Percentage Allocation	16.0%	24.7%
x Adjustment Factor ⁽¹⁾	34.0%	34.0%
Pre-Excess Cash Shareholder Equity Allocation Percentage	5.4%	8.4%
Add: Excess Cash Contributed Percentage	-	-
Shareholder Equity Allocation Percentage	5.4%	8.4%
x Implied Transaction Equity Value (A\$m)	195.0	195.0
Implied Shareholder Equity Value (A\$m)	\$10.6	\$16.4
÷ Implied Share Price (A\$)	\$0.091	\$0.091
New Shares Issued (mm)	116.3	179.4

Note: Ownership Percentages reflect estimated pre-Black Diamond Placements & pre-Rights Offer figures

1) Equal to 100% less the total equity allocation for contributed excess cash and equitization of Principal Outstanding by Supporting Creditors of each of the three companies

	Andy's Creditors	Orionstone Creditors
Principal Outstanding (A\$m)	\$65.6	\$145.4
x Twenty Percent (20.0%)	20.0%	20.0%
Principal Exchanged for New Shares (A\$m)	\$13.1	\$29.1
÷ Implied Share Price (A\$)	\$0.091	\$0.091
New Shares Issued (mm)	143.7	318.3

The cap on the number of New Shares to be issued under this Resolution 1 is based on conservative assumptions regarding the variables affecting the actual number of Shares to be issued. Emeco anticipates the number of New Shares issued under this Resolution 1 being smaller than the cap. However, in the event that the number of New Shares to be issued to the Orionstone Shareholders, Orionstone Creditors, Andy's Shareholder, and Andy's Creditors calculated in accordance with the formula provided in the Amended RSA is greater than the specified cap, then the Company will issue the shortfall in Shares using its 15% placement capacity.

- (b) **Issue and allotment date of securities:** If the Transaction is implemented, the New Shares will be issued and allotted on the Completion Date. It is intended that the issue will occur no later than three months after the date of the EGM (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules).

- (c) **Implied Share Price of the securities:** The New Shares will be issued at a fixed price, subject to adjustments under the terms of the Amended RSA to be calculated as at the Calculation Date as follows.

Formula (Implied Share Price): The Emeco Group Shareholder Equity Allocation Percentage multiplied by the Implied Transaction Equity Value and then divided by 599,675,707 (being the number of Emeco Shares on issue pre-Transaction).

The Implied Share Price represents the value of a New Share pre-Transaction. This is calculated by taking the value of the Emeco Shareholders' portion of the Implied Transaction Equity Value divided by 599,675,707 (being the number of Emeco Shares on issue pre-Transaction).

The calculations for the Shareholder Equity Allocation Percentage and Implied Transaction Equity Value are stated above in paragraph (a).

Set out below is a worked example of the application of this formula.

Total Enterprise Value (per RSA)	\$662.6
Less: Total Tranche B Debt	(468.4)
Less: Total Finance Leases	(14.7)
Implied Equity Value	\$179.6
Plus: Estimated Emeco Excess Cash	15.5
Implied Transaction Equity Value	\$195.0
Initial Shareholder Equity Percentage Allocation	59.3%
x Adjustment Factor ⁽¹⁾	34.0%
Pre-Excess Cash Shareholder Equity Allocation Percentage	20.2%
Add: Excess Cash Contributed Percentage	7.9%
Emeco Shareholder Equity Allocation Percentage	28.1%
x Implied Transaction Equity Value (A\$m)	195.0
Implied Equity Value to Emeco Shareholders (A\$m)	\$54.8
÷ Outstanding Emeco Shares (mm)	599.7
Implied Share Price (A\$)	\$0.091

Note: Ownership Percentages reflect estimated pre-Black Diamond Placements & pre-Rights Offer figures

1) Equal to 100% less the total equity allocation for contributed excess cash and equitization of Principal Outstanding by Supporting Creditors of each of the three companies

- (d) **Persons to whom Emeco will issue the securities under Resolution 1:** The New Shares for which Emeco Shareholder approval is sought under Resolution 1 will be issued to the following persons:

Party	New Shares Issued (mm)	Ownership Percentage (%)
Andy's Shareholders	116.3	5.4%
Andy's Creditors	143.7	6.7%
Orionstone Shareholders	179.4	8.4%
Orionstone Creditors	318.3	14.9%
Total New Shares Issued Under Resolution 1	757.8	35.5%

Note: Ownership Percentages reflect estimated pre-Black Diamond Placements & pre-Rights Offer figures

Andy's Shareholders: AEM Holdings Pty Ltd (ACN 168 883 323)

Andy's Creditors: includes financial institutions which have provided financing to Andy's such as Caterpillar Financial Australia Limited and Australia and New Zealand Banking Group Limited

Orionstone Shareholders: includes Mr Ashley Fraser, Advent Private Capital and other Orionstone Shareholders

Orionstone Creditors: includes financial institutions which have provided financing to Orionstone such as Macquarie Bank Limited, Deutsche Bank, Benthams, Caterpillar Financial Australia Limited and Arkkan Opportunities Fund Ltd

No one of the Orionstone Shareholders, Orionstone Creditors, Andy's Shareholder, or the Andy's Creditors will hold in excess of 20% of the total Shares on issue in Emeco after being issued New Shares.

- (e) **Terms of the securities:** The New Shares will be issued on the same terms and conditions as Emeco's existing Shares and rank equally with all other Shares then on issue.
- (f) **Intended use of funds:** No funds are being raised for the issue of New Shares pursuant to Resolution 1. New Shares are being issued as consideration for the

Orionstone Acquisition and the Andy's Acquisition, and as partial consideration for the extinguishment of the Orionstone Creditors' and Andy's Creditors' claims against Orionstone and Andy's, respectively.

- (g) **Voting exclusion:** A voting exclusion statement is set out under Resolution 1 in the Notice of Extraordinary General Meeting.

8.3 Effect of Emeco Shareholder approval of Resolution 1

If approved, Resolution 1 is expected to result in the approval of the issue of approximately 758 million Shares, subject to certain adjustments under the terms of the Amended RSA. It will also mean the Shares issued are not counted towards the 15% limit under ASX Listing Rule 7.1, which restricts the issue of new capital in the next 12 month period without Emeco Shareholder approval.

9. Resolution 2 – Issue of Shares pursuant to the Emeco Noteholders' Scheme

9.1 Background to Resolution 2

As described in Section 1.1 above, Emeco proposes to enter into a creditors' scheme of arrangement with Emeco Noteholders. Under the scheme of arrangement, the debts under or in respect of the Emeco Notes that are owed to Emeco Noteholders will be extinguished in consideration for:

- (a) cash; or
- (b) New Shares and Tranche B Notes,

as elected by each Emeco Noteholder.

Resolution 2 is for the purposes of obtaining Emeco Shareholder approval for the issue of New Shares to:

- (a) the Emeco Noteholders that elect to receive New Shares and Tranche B Notes in accordance with the Emeco Noteholders' Scheme, if approved (**Electing Emeco Noteholders**); and
- (b) the parties which make available to the Emeco Group the aggregate amount of cash payable by it under the Emeco Noteholders' Scheme in part repayment of the amount made available by them (**Scheme Cash Funders**).

Emeco Shareholder approval is not required to issue the Tranche B Notes to the Electing Emeco Noteholders or the Scheme Cash Funders.

Immediately following the Transaction, the Electing Emeco Noteholders and Scheme Cash Funders are expected to collectively hold approximately 31% of the total Shares on issue in Emeco subject to adjustments under the terms of the Amended RSA and dilution from the Management Incentive Plan.

The Ad Hoc Committee and Black Diamond have agreed to elect to receive New Shares and Tranche B Notes and so will receive the same consideration under the Emeco Noteholders' Scheme as the other Electing Emeco Noteholders if the Emeco Noteholders' Scheme is approved by the requisite majorities.

9.2 Information required under ASX Listing Rule 7.3

The information set out below has been included in this Explanatory Memorandum to comply with the content requirements prescribed by ASX Listing Rule 7.3.

- (a) **Maximum number of securities that may be issued:** The number of Shares to be issued under this Resolution 2 will be capped at 1,350 million.

However, the actual number of shares to be issued to the Electing Emeco Noteholders and Scheme Cash Funders pursuant to the Transaction is calculated according to the formula set out in the Amended RSA and described below.

Based on the Shares on issue at the date of this Explanatory Memorandum, the expected number of Shares to be issued to the Electing Emeco Noteholders and Scheme Cash Funders collectively under the Emeco Noteholders' Scheme is approximately 777 million New Shares.

The formula to calculate the ultimate number of New Shares to be issued to the Electing Emeco Noteholders and Scheme Cash Funders ensures that Emeco Noteholders and Scheme Cash Funders receive less value (in the form of New Shares) if the Emeco Noteholders' Principal Outstanding has reduced since the date of the Amended RSA.

Formula (New Shares to Electing Emeco Noteholders): The par value of the Emeco Notes Outstanding on the Calculation Date, less the Emeco Swap Proceeds, calculated at the Prevailing Exchange Rate as at the Commencement Date multiplied by twenty percent (20%), divided by the Implied Share Price.

Essentially, the value of shares to be issued to the Electing Emeco Noteholders and Scheme Cash Funders will be 20% of the sum of the face value of its debt less the Emeco Swap Proceeds. In order to calculate the number of New Shares issued to these parties, this value is divided by the Implied Share Price.

The number of New Shares ultimately issued to Electing Emeco Noteholders and the Scheme Cash Funders is dependent on the Implied Share Price. See paragraph (c) below for further details on the Implied Share Price.

Set out below is a worked example of the application of this formula. There are further worked examples set out in Annexure G.

Par value of Emeco Notes Outstanding (US\$m)	\$282.7
÷ FX Rate	0.7630
Par value of Emeco Notes Outstanding (A\$m)	\$370.5
Less: Swap Proceeds (A\$m)	(15.5)
Sub-total	\$355.1
x Twenty Percent (20%)	20.0%
Emeco Tranche B Equity Value (A\$m)	\$71.0
÷ Implied Share Price (A\$)	\$0.091
New Shares (mm)	777.4

Note: Equity Value reflects pre-Black Diamond Placements & pre-Rights Offer estimate

The cap on the number of New Shares to be issued under this Resolution 2 is based on conservative assumptions regarding the variables affecting the actual number of New Shares to be issued. Emeco anticipates the number of New Shares issued under this Resolution 2 being smaller than the cap. However, in the event that the number of New Shares to be issued to the Electing Emeco Noteholders and Scheme Cash Funders calculated in accordance with the formula provided in the Amended RSA is greater than the specified cap, then the Company will issue the shortfall in Shares using its 15% placement capacity.

- (b) **Issue and allotment date of securities:** If the Transaction is implemented, the New Shares will be issued and allotted to Electing Emeco Noteholders on the Completion Date. It is intended that the issue will occur no later than three months after the date of the EGM (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules).
- (c) **Implied Share Price of the securities:** The New Shares will be issued at a fixed price, subject to adjustments under the terms of the Amended RSA to be calculated as at the Calculation Date as follows.

Formula (Implied Share Price): The Implied Share Price represents the value of a New Share prior to the Black Diamond Placements and Rights Offer. This is calculated by taking the value of the Emeco Shareholders' portion of the Implied Transaction Equity Value divided by 599,675,707 (being the number of Emeco Shares on issue pre-Transaction).

The calculations for the Shareholder Equity Allocation Percentage and Implied Transaction Equity Value are stated above in paragraph (a) and in Section 8.2 paragraph (a).

Set out below is a worked example of the application of this formula.

Total Enterprise Value (per RSA)	\$662.6
Less: Total Tranche B Debt	(468.4)
Less: Total Finance Leases	(14.7)
Implied Equity Value	\$179.6
Plus: Estimated Emeco Excess Cash	15.5
Implied Transaction Equity Value	\$195.0
Initial Shareholder Equity Percentage Allocation	59.3%
x Adjustment Factor ⁽¹⁾	34.0%
Pre-Excess Cash Shareholder Equity Allocation Percentage	20.2%
Add: Excess Cash Contributed Percentage	7.9%
Emeco Shareholder Equity Allocation Percentage	28.1%
x Implied Transaction Equity Value (A\$m)	195.0
Implied Equity Value to Emeco Shareholders (A\$m)	\$54.8
÷ Outstanding Emeco Shares (mm)	599.7
Implied Share Price (A\$)	\$0.091

Note: Ownership Percentages reflect estimated pre-Black Diamond Placements & pre-Rights Offer figures

1) Equal to 100% less the total equity allocation for contributed excess cash and equitization of Principal Outstanding by Supporting Creditors of each of the three companies

- (d) **Persons to whom Emeco will issue the securities under Resolution 2:** The New Shares for which Emeco Shareholder approval is sought under Resolution 2 will be issued to the Electing Emeco Noteholders and Scheme Cash Funders.

Electing Emeco Noteholders

New Shares will be issued to each Electing Emeco Noteholder under the Emeco Noteholders' Scheme. The number of New Shares to be issued to an Electing Emeco Noteholder will be determined in accordance with the formula set out above (subject to dilution by New Shares issued under the Black Diamond Placements, Rights Offer and Management Incentive Plan as set out in Section 5.5 of this Explanatory Memorandum).

No Electing Emeco Noteholder will hold in excess of 20% of the total Shares on issue in Emeco immediately after being issued with their New Shares pursuant to the Emeco Noteholders' Scheme. See section 10 for a detailed discussion of Black Diamond's holding post-Transaction.

Scheme Cash Funders

Under the Emeco Noteholders' Scheme, Emeco Noteholders may elect to receive either Tranche B Notes and New Shares or an amount of cash (**Cash Consideration**) as consideration for extinguishing their claims (**Cash Electing Noteholders**). The maximum aggregate amount of cash that Emeco will be required to pay as Cash Consideration is approximately A\$45 million. To satisfy its obligations with respect to the payment of the Cash Consideration, Emeco has entered into an agreement with certain parties who will provide the necessary funds.

In repayment of such cash funding, the Company will issue to the Scheme Cash Funders the New Shares and Tranche B Notes that the Cash Electing Noteholders would have otherwise been entitled to receive if they had not elected to receive the Cash Consideration.

- (e) **Terms of the securities:** The New Shares will be issued on the same terms and conditions as Emeco's existing Shares and rank equally with all other Shares then on issue.
- (f) **Intended use of funds:** No funds are being raised under the Emeco Noteholders' Scheme.

New Shares are being issued to Electing Emeco Noteholders as partial consideration for the compromise and extinguishment of the debts and claims owed by members of the Emeco Group to the Emeco Noteholders under or in respect of the Emeco Notes.

New Shares are being issued to the Scheme Cash Funders in part repayment of the cash required to fund the cash consideration for the compromise and extinguishment of the debts and claims owed by members of the Emeco Group to the Cash Electing Noteholders under or in respect of the Emeco Notes.

- (g) **Voting exclusion:** A voting exclusion statement is set out under Resolution 2 in the Notice of Extraordinary General Meeting.

9.3 Effect of Emeco Shareholder approval of Resolution 2

If approved, Resolution 2 is expected to result in the approval of the issue of approximately 777 million New Shares, subject to certain adjustments under the terms of the Amended RSA and will mean the New Shares issued are not counted towards the 15% limit under ASX Listing Rule 7.1 for issued capital in the next 12 month period without Emeco Shareholder approval.

10. Resolution 3 – Approval for Black Diamond to acquire a Relevant Interest in Shares pursuant to Black Diamond Placements and Underwriting Agreement

10.1 Background to Resolution 3

Resolution 3 seeks Emeco Shareholder approval under item 7 of section 611 of the Corporations Act for Black Diamond to acquire a Relevant Interest in more than 20% of Emeco Shares on issue following completion of the Transaction (in particular as a result of the Shares issued under the Black Diamond Placements and Underwriting Agreement), in the circumstances described below.

On 14 December 2016, Emeco held a Scheme Meeting (**December Scheme Meeting**) at which Emeco Noteholders considered a resolution to approve a creditors' scheme (**Prior Scheme Resolution**). At that meeting, Black Diamond voted against the Prior Scheme Resolution. As a result, the voting thresholds required to approve the Prior Scheme Resolution were not achieved.

After discussions, Black Diamond committed to support the Transaction and Emeco entered into the Black Diamond Agreement with Black Diamond. The Black Diamond Agreement sets out the terms agreed between Black Diamond and Emeco with respect to the Emeco Noteholders' Scheme and Transaction, including the following:

- (a) Black Diamond's agreement to support the Noteholders' Scheme and Transaction;
- (b) the issue of Placement Shares to Black Diamond under the Black Diamond Placements (in addition to the New Shares that Black Diamond will receive as a Scheme Noteholder) as described in Section 10.3;
- (c) the appointment of Black Diamond as an Underwriter to the Rights Offer for up to A\$10 million as described in Section 10.4; and
- (d) the appointment of a Director nominated by Black Diamond.

The material terms of the Black Diamond Agreement and Underwriting Agreement are summarised in Section 10.5 below.

As at the date of this Explanatory Memorandum, Black Diamond is not an Emeco Shareholder. If the Transaction is approved and implemented, Black Diamond will be a Scheme Noteholder and is expected to be issued Tranche B Notes and approximately 257 million New Shares as Scheme Consideration. This represents Voting Power of approximately 12.0% in the Company, immediately following the Scheme but subject to dilution from the Black Diamond Placements, the Rights Offer and Management Incentive Plan. Black Diamond will participate in the Emeco Noteholders' Scheme on the same terms and will receive the same consideration as other Electing Emeco Noteholders.

10.2 Emeco Shareholder approval required

In addition to the New Shares issued to Black Diamond as a Scheme Noteholder, if Black Diamond:

- (a) is issued the Placement Shares (from the Initial Placement and the Top-Up Placement); and
- (b) takes up its entire proportion of Underwritten Shares and is issued Underwriting Fee Shares,

Black Diamond's Voting Power in the Company is expected to increase to approximately 20.8% (Black Diamond may potentially have Voting Power of up to a maximum of 22.5% in Emeco following implementation of the Transaction, prior to the Management Incentive Plan). This increase in its Voting Power would contravene the Corporations Act unless an exception applies, one such exception being Emeco Shareholder approval of Black Diamond's increase in its Voting Power pursuant to the Black Diamond Placements and Underwriting Agreement as described below.

Based on the Shares on issue at the date of this Explanatory Memorandum, the expected number of New Shares to be issued to Black Diamond under Resolution 3 is approximately 270 million New Shares⁵ (increasing Black Diamond's Relevant Interest from 12.0%, being Black Diamond's expected Relevant Interest immediately following the Emeco Noteholders Scheme, to approximately 20.8%).

Following any adjustments pursuant to the Amended RSA on Calculation Date, the maximum Relevant Interest that Black Diamond is expected to receive as a result of the Transaction is up to approximately 22.5%.

10.3 Black Diamond Placements

Under the Black Diamond Agreement, the Company has agreed to issue to Black Diamond (in addition to the New Shares issued to Black Diamond under the Scheme and the Underwritten Shares and Underwriting Fee Shares issued to Black Diamond under the Underwriting Agreement (as discussed in section 10.4), for no additional consideration:

- (a) Placement Shares equal to 5% of the total Shares on issue following completion of the Emeco Noteholders' Scheme and the Rights Offer, but prior to the issue of Emeco Shares under Management Incentive Plan (**Initial Placement**); and
- (b) such number of Placement Shares required to preserve the Voting Power of Black Diamond (arising from the issue of the New Shares, Underwritten Shares and Underwriting Fee Shares to Black Diamond) immediately prior to the Initial Placement, which would otherwise be diluted by the Initial Placement (**Top-up Placement**),

(together, the **Black Diamond Placements**).

The Managing Director of the Company, Mr Ian Testrow, has agreed to reduce his entitlement to be issued Shares under the Management Incentive Plan (as discussed in section 14) by the corresponding number of Shares to be issued to Black Diamond under the Top-Up Placement.

On completion of the Black Diamond Placements, Black Diamond is expected to be issued approximately 144 million Placement Shares, which will increase Black Diamond's aggregate Voting Power in the Company to 17.6%, prior to New Shares issued to Black Diamond as part of the Underwriting Agreement as described below.

10.4 Underwriting Agreement – Issue of Underwritten Shares and Underwriting Fee Shares

In accordance with the Black Diamond Agreement, Emeco has entered into the Underwriting Agreement with Black Diamond (and other parties) for Black Diamond to jointly underwrite

⁵ Assumes zero participation in the Rights Offer, other than the Underwriters (that is, Black Diamond takes up its entire proportion of Underwritten Shares and is issued Underwriting Fee Shares).

the Rights Offer. The other joint underwriters are First Samuel and Black Crane. The material terms of the Underwriting Agreement are summarised in Section 10.5(b).

Black Diamond has agreed to underwrite A\$10 million of the Rights Offer, which is expected to be approximately 118 million Shares (**Underwritten Shares**) on a proportional basis (being 50% of A\$20 million) in respect of any shortfall with the other joint Underwriters. Further, Emeco has agreed to pay a total underwriting fee equal to 7% of the Underwritten Amount to the Underwriters on a proportional basis. This fee will be payable by the issue of New Shares to the Underwriters at the issue price of the Rights Offer (**Underwriting Fee Shares**). Accordingly, Black Diamond will be entitled to A\$0.7 million in Underwriting Fee Shares, which is expected to be approximately 8 million New Shares. The potential impact of the Underwriting Agreement on the Company's capital structure is set out in Annexure I.

If Black Diamond receives its entire proportion of Underwritten Shares and Underwriting Fee Shares (in addition to the Placement Shares issued under the Black Diamond Agreement), Black Diamond's Voting Power in the Company is expected to increase by approximately 3.2% from 17.6% (being the expected Voting Power Black Diamond may have following implementation of the Emeco Noteholders' Scheme and Black Diamond Placements) to 20.8%. Black Diamond may potentially have Voting Power of up to a maximum of 22.5% in Emeco following implementation of the Transaction, prior to the Management Incentive Plan.

The funds raised under the Rights Offer are intended to be used to provide liquidity to support the acquisition of Orionstone and Andy's, implementation of strategic initiatives across the combined group, and for general working capital.

10.5 Material terms of agreements

(a) Black Diamond Agreement

The material terms of the Black Diamond Agreement, including the Black Diamond Placements, are summarised below.

Term	Provision
Parties	Emeco and Black Diamond.
Black Diamond's obligations	<p>Black Diamond has irrevocably agreed to do the following (among other things):</p> <ul style="list-style-type: none"> (a) support the Transaction, including by voting the Emeco Notes it holds or, if requested by Emeco, refraining from voting the Emeco Notes it holds in the Emeco Noteholders' Scheme and (b) obtain approval under the Foreign Acquisitions and Takeovers Act 1975 (Cth) with respect to the issue of Shares to Black Diamond as described in this Explanatory Memorandum. <p>Black Diamond has irrevocably agreed not to do the following (among other things):</p> <ul style="list-style-type: none"> (c) elect to receive Cash Consideration under the Emeco Noteholders' Scheme; and (d) directly or indirectly dispose of the Emeco Notes that

	Black Diamond holds to any person (other than certain specified persons).
Emeco's obligations	Emeco has agreed to do the following (among other things): <ul style="list-style-type: none"> (a) issue Placement Shares pursuant to the Initial Placement for no additional consideration; (b) issue Placement Shares for the purposes of the Top-up Placement for no additional consideration; (c) on or after the Completion Date, take all actions to cause the appointment to the Emeco Board of one Director nominated by Black Diamond; (d) pay Black Diamond's legal fees; and (e) appoint Black Diamond as joint underwriter to underwrite 50% of the Rights Offer.
Termination	The Black Diamond Agreement automatically terminates on the earlier of 1 May 2017 or the date on which the Amended RSA is terminated.

(b) **Material terms of Underwriting Agreement**

The material terms of the underwriting are summarised below.

Term	Provision
Underwriters	Black Diamond, First Samuel and Black Crane.
Structure of Rights Offer	Renounceable pro rata entitlement offer (or such other structure agreed between the Company and the Underwriters). The structure of the Rights Offer with regard to whether it will be an "accelerated" structure (ie a entitlement offer conducted pursuant to an accelerated timetable) or a "traditional" structure (ie a entitlement offer conducted pursuant to traditional, non-accelerated timetable) is still to be determined.
Offer Price	The Issue Price (calculated in accordance with the terms of the Amended RSA)
Rights Offer maximum amount	A\$20 million, being the number of new Emeco Shares equivalent to A\$20 million divided by the Offer Price
Underwritten Amount	A\$20 million
Underwriting commitment	The Underwriters agree to fully underwrite the Underwritten Amount in the following proportions: <ul style="list-style-type: none"> (a) Black Diamond – 50% (A\$10 million) (b) First Samuel – 40% (A\$8 million) (c) Black Crane – 10% (A\$2 million)

Lead Manager(s)	Emeco may appoint any person with the prior written consent of the Underwriters as a lead manager or co-lead managers for the purpose of managing the Rights Offer.
Conditions precedent	<ul style="list-style-type: none"> (a) the Emeco Noteholders' Scheme becoming effective in accordance with the Corporations Act (Scheme Effective Date) by the agreed date under the Amended RSA; (b) the Amended RSA not having been terminated immediately before the Scheme Effective Date; (c) receipt of a due diligence report from the Due Diligence Committee for the Rights Offer; and (d) Emeco Shareholder approval of the Transaction Resolutions.
Termination rights	A party may terminate if the conditions precedent are not satisfied or waived by their respective deadlines.
Implementation of Rights Offer	Emeco and the Underwriters will implement the Rights Offer by way of customary documents and procedures in respect of a renounceable entitlement offer, provided that such offering shall be made available outside of the United States in reliance on Regulation S of the United States Securities Act of 1933, as amended.
Underwriting fees	7% of the Underwritten Amount to the Underwriters on a proportional basis, payable by the issue of Underwriting Fee Shares at the Offer Price.
Reimbursement of costs	Emeco will pay the reasonable fees and expenses of the Underwriters in relation to the Rights Offer, not to exceed \$100,000 in aggregate.
Timing	By the Completion Date, Emeco must have received at least A\$10 million through an institutional component of the Rights Offer launched between the Scheme Effective Date and the Completion Date ⁶ and/or through the pre-funding of up to A\$10 million by the Underwriters.
Standard provisions	Standard representations and warranties, undertakings, covenants and indemnities for an agreement of this type were agreed.

⁶ This assumes that the Rights Offer will be conducted pursuant to an "accelerated" structure. The structure of the Rights Offer with regard to whether it will be an "accelerated" structure or a "traditional" structure is still to be determined.

10.6 Corporations Act, ASIC policy and ASX Listing Rule requirements

Item 7 of Section 611

Section 606(1) of the Corporations Act prohibits a person from acquiring shares in a company if, after that acquisition, that person or any other person would have a Relevant Interest or Voting Power in excess of 20% of the voting shares in that company unless an exception applies. An exception in item 7 of section 611 provides that section 606(1) of the Corporations Act does not prohibit an acquisition of a Relevant Interest in the voting shares of a company if the shareholders of the company have agreed to the acquisition by resolution passed at a general meeting, at which no votes are cast in relation to the resolution by the person to whom the shares are to be issued or by an associate of that person.

For the approval to be validly given, certain information must be provided to Emeco Shareholders. This section contains the necessary information about the proposed issue of Placement Shares for the purposes of the Black Diamond Placements, and Black Diamond has provided the information below about it and its associates, and its intentions (as relevant). Emeco does not take responsibility for the information provided by Black Diamond.

If approval is given, it is intended that the issue of Placement Shares to Black Diamond will complete as soon as possible after this EGM subject to the timetable for the Transaction set out in Section 1.5 above.

ASIC policy

ASIC Regulatory Guide 74 *Acquisitions approved by members (RG74)* sets out ASIC guidance on the disclosure required and the voting restrictions imposed by item 7 of section 611 of the Corporations Act.

In addition to discussion of the statutory disclosure requirements under item 7 of section 611, paragraph RG74.25 sets out additional material information required by ASIC to be included in the explanatory materials to obtain shareholders' approval.

Importantly, paragraphs RG74.27 and RG74.31 provide that shareholders should be provided with an analysis of the proposed acquisition in the form of an independent expert report, which is standard market practice. Accordingly, the Emeco Board has engaged PPB Corporate Finance Pty Ltd to prepare an Independent Expert's Report and opine on whether the issue of Placement Shares to Black Diamond pursuant to the Black Diamond Placements and the Underwritten Shares is fair and/or reasonable to Emeco Shareholders who are not associated with Black Diamond, Black Crane and First Samuel.

The Independent Expert's Report set out in full in Annexure B has concluded that the issue of the Placement Shares to Black Diamond and Underwritten Shares and Underwriting Fee Shares to Black Diamond, Black Crane and First Samuel is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

ASX Listing Rule 7.2 exception 16

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period without shareholder approval. Under ASX Listing Rule 7.2 exception 16, an issue of securities is also not taken into account in the calculation of the 15% threshold in ASX Listing Rule 7.1 where the issue has the prior approval of shareholders in a general meeting pursuant to item 7 of section 611 of the Corporations Act.

The proposed issue of Shares to Black Diamond is being approved under this section of the Corporations Act and accordingly ASX Listing Rule 7.2 exception 16 applies in relation to the Shares to be issued to Black Diamond.

10.7 Information required under item 7 of section 611

The information set out below has been included in this Explanatory Memorandum to comply with the content requirements prescribed by item 7 of section 611 of the Corporations Act.

- (a) **Information about Black Diamond and its associates:** Black Diamond is a limited liability company organised under the laws of the State of Delaware, United States of America. Black Diamond is owned and controlled by its three Principals, Stephen H. Deckoff, Mounir Nahas and Leslie Meier. As a limited liability company, Black Diamond does not have directors. Instead, it is managed by its three Principals.

Black Diamond is an investment adviser registered with the U.S. Securities and Exchange Commission. Black Diamond and its affiliates are in the investment advisory business and manage capital of private funds on behalf of third party investors.

No Black Diamond fund presently owns any Shares in Emeco.

Pursuant to the Black Diamond Agreement, a total of approximately 527.0 million Shares are expected to be issued to Black Diamond (257.2 million for the Scheme Consideration, 126.5 million for the Initial Placement, 17.3 million for the Top-Up Placement, and 125.9 for the Rights Offer Underwriting).

The New Shares issued to Black Diamond as a Scheme Noteholder will be issued to the BDCM-managed funds in proportion to the amount of Emeco bonds held by each such fund. The Placement Shares, Underwritten Shares and Underwriting Fee Shares will be issued to Black Diamond or its nominees in accordance with the terms of the Black Diamond Agreement and Underwriting Agreement (as applicable).

- (b) **Maximum extent of the increase in Black Diamond's Voting Power in Emeco:** For the purposes of Resolution 3, Black Diamond's Voting Power in Emeco is expected to increase as a result of the Black Diamond Agreement as follows:
- (i) by 4.9% from 12.0% (being the maximum Voting Power Black Diamond may have following implementation of the Emeco Noteholders' Scheme) to 17.0% following the Initial Placement;
 - (ii) by 0.6% from 17.0% to 17.6% following the Top-up Placement; and
 - (iii) by 3.2% from 17.6% to approximately 20.8% following the issue of Underwritten Shares and Underwriting Fee Shares to Black Diamond on a proportional basis.

Black Diamond may potentially have Voting Power of up to a maximum of 22.5% in Emeco following implementation of the Transaction, prior to the Management Incentive Plan

The tables in Annexure I provide full particulars of the Shares in which Black Diamond will have a Relevant Interest immediately before and after various issues under the Transaction (including the issue of Placement Shares, Underwritten Shares and Underwriting Fee Shares), the maximum extent of Black Diamond's Voting

Power in Emeco, and factors which may change Black Diamond's Voting Power in the Company.

- (c) **Voting Power that Black Diamond would have as a result of the Black Diamond Placements and Underwriting Agreement:** Black Diamond is expected to have Voting Power of 20.8% in the Company as a result of the Black Diamond Placements and Underwriting Agreement⁷. Black Diamond may potentially have Voting Power of up to a maximum of 22.5% in Emeco following implementation of the Transaction, prior to the Management Incentive Plan. Refer to Annexure I for detailed information.
- (d) **Maximum extent of the increase in the Voting Power of Black Diamond's associates in Emeco:** No associate of Black Diamond will be issued with any Placement Shares, Underwritten Shares and/or Underwriting Fee Shares as a result of the Black Diamond Placements and Underwriting Agreement. Accordingly, each associate of Black Diamond will be deemed to have the same increase in Voting Power as Black Diamond following completion of the Black Diamond Placements and Underwriting Agreement.
- (e) **Voting Power that each of Black Diamond's associates would have as a result of the Black Diamond Placements and Underwriting Agreement:** No associate of Black Diamond will be issued with any Placement Shares, Underwritten Shares and/or Underwriting Fee Shares as a result of the Black Diamond Placements and Underwriting Agreement. Accordingly, each associate of Black Diamond will be deemed to have the same increase in voting power as Black Diamond following completion of the Black Diamond Placements and Underwriting Agreement.

10.8 Information required under RG74

The information set out below has been included in this Explanatory Memorandum to comply with the content requirements set out in RG74.

- (a) **Black Diamond's intentions regarding the future of Emeco:** The present intentions of Black Diamond regarding the future of the Company if Emeco Shareholders approve the issue of Shares under the Black Diamond Placements and Underwriting Agreement are:
 - (i) Black Diamond does not have any present intentions to change the business of Emeco;
 - (ii) other than with respect to Black Diamond's funding obligations under the Underwriting Agreement, Black Diamond has no intention to inject further capital into Emeco;
 - (iii) Black Diamond has no present plans that would impact the future employment of present Emeco employees;
 - (iv) Black Diamond has not considered any proposal where assets will be transferred between Emeco and Black Diamond (including its associates); and

⁷ Assumes zero participation in the Rights Offer, other than the Underwriters (that is, Black Diamond takes up its entire proportion of Underwritten Shares and is issued Underwriting Fee Shares).

- (v) has no present intention to redeploy the fixed assets of Emeco discuss any intention to redeploy the fixed assets of Emeco.
- (b) **Interests of Directors in the Black Diamond Placements, Underwriting Agreement or any other relevant agreement between Black Diamond and Emeco:** No Director has a material personal interest in the Black Diamond Placements, the Black Diamond Agreement, the Underwriting Agreement or any other relevant agreement or in the approval of Resolution 3.

The Managing Director of the Company, Mr Ian Testrow, has agreed to reduce his entitlement to be issued Shares under the Management Incentive Plan (as discussed in Section 14) by the corresponding number of Placement Shares to be issued to Black Diamond under the Top-Up Placement.
- (c) **Additional information:** Neither Emeco, Black Diamond nor any of their associates are aware of any other information that may be relevant to Emeco Shareholders' decision on whether or not to vote in favour of Resolution 3.

10.9 Independent Expert's Report

The Independent Expert's Report considers this Resolution 3 in satisfaction of the requirements of RG74. It sets out a detailed independent examination of the Transactions and proposed acquisition of a Relevant Interest in more than 20% of Shares by Black Diamond to assist Non-associated Shareholders to assess the merits of, and decide whether to approve, Resolution 3 (and the Transaction Resolutions).

The Independent Expert has determined that the Transaction, including the acquisition of a Relevant Interest in more than 20% of Shares by Black Diamond, is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

11. Resolution 4 – Approval of financial assistance in relation to the Orionstone Acquisition

11.1 Background to Resolution 4

The Orionstone Acquisition is part of the series of inter-conditional transactions proposed to be undertaken to implement the Transaction. As previously stated, the Transaction involves, among other things:

- (a) the issue of interests in Tranche B Notes to (amongst others) the Orionstone Creditors as the debt component of the consideration for the extinguishment of the Orionstone Creditors' claims against Orionstone Pty Limited and as part of the consideration payable by Emeco for the shares in Orionstone;
- (b) entry into a new revolving loan facility by the Combined Group; and
- (c) entry into new hedging positions by the Combined Group,

(the **Orionstone Financing**)

The Orionstone Financing will be secured by the assets of members of the Combined Group, including Orionstone and its subsidiaries. The same security would support any future refinancing of some or all of the Orionstone Financing.

11.2 Relevant terms of the Orionstone Financing

Under the terms of the Orionstone Financing, Orionstone and its subsidiaries (which will become subsidiaries of Emeco following completion of the Orionstone Acquisition) will be required to guarantee the performance of the obligations of Emeco and its subsidiaries (as borrower and/or guarantor) under the Orionstone Financing (including the repayment of the face value and any interest payable under the Tranche B Notes) and provide security for those obligations.

These are customary requirements for such funding arrangements. It is expected that Orionstone will also give certain customary representations, warranties, and undertakings, and will grant the holders of Tranche B Notes, lenders of the new revolving loan facility and counterparties to the new hedging arrangements (together, "**Finance Parties**") and certain customary rights in the event that an event of default occurs (such as a member of the Combined Group and party to the funding arrangements committing a material breach or becoming insolvent).

11.3 Financial assistance

Section 260A of the Corporations Act prohibits a company from financially assisting any person to acquire shares in that company or a holding company of that company, unless the assistance:

- (a) does not materially prejudice the interests of the company or its shareholders or the company's ability to pay its creditors;
- (b) is approved by shareholders under section 260B of the Corporations Act; or
- (c) falls within a limited number of exemptions under section 260C of the Corporations Act, none of which apply to the Orionstone Acquisition.

As described above it is expected that Orionstone (among other parties) will guarantee and provide security for the obligations of the Combined Group under the Orionstone Financing, which may directly or indirectly assist Emeco to acquire shares in Orionstone. For example, by giving a guarantee and providing security, Orionstone may be taken to assist Emeco in acquiring shares in Orionstone under the Orionstone Acquisition which is inter-conditional with the series of transactions required to effect the Transaction, pursuant to which the Tranche B Notes (among other things) are being issued as partial consideration.

This assistance may constitute financial assistance to acquire shares in Orionstone for the purposes of section 260A of the Corporations Act as the Orionstone Financing would not otherwise occur but for the Transaction, of which the Orionstone Acquisition is a part. Orionstone will also seek the approval of its shareholders to give such financial assistance. This is typical practice in such circumstances.

11.4 Effect of the proposed financial assistance

As a result of participating in the arrangements in connection with the Orionstone Acquisition and the Orionstone Financing, Orionstone may:

- (a) become liable as a guarantor for the guaranteed money, and may become subject to enforcement action by the Finance Parties in the event of a default under the Orionstone Financing over the security granted by Orionstone, the proceeds of which may be applied towards the repayment of the amounts owing under the Orionstone Financing or other finance documents;

- (b) be required to give the customary representations, warranties and undertakings which may impose certain restrictions on its ability to:
 - (i) grant further security over its assets or dispose of assets;
 - (ii) make distributions to shareholders; and
 - (iii) borrow money in the future or incur further financial indebtedness; and
- (c) be required to make available directly or indirectly its cash flows (whether through dividends, capital distributions, intercompany loans or otherwise) or other resources in order to enable the borrowers and/or other guarantors to comply with their payment and other obligations under the Orionstone Financing.

These customary representations, warranties and undertakings are given by all material entities in the Emeco Group as part of the terms of the Tranche B Notes.

11.5 Reasons for giving financial assistance

The main reason for the giving of financial assistance in connection with the Orionstone Acquisition is that the Orionstone Financing which is occurring as part of the consideration payable to various parties under the Transaction involve Orionstone providing the assistance to Emeco in the manner described in Section 11.3.

11.6 Requirement for approval by Emeco Shareholders

In addition, under section 260B(2) of the Corporations Act, if a company giving financial assistance will be a subsidiary of a listed Australian company immediately after the relevant acquisition of shares, the financial assistance must also be approved by a special resolution passed at a general meeting by the shareholders of the listed company.

As part of the Amended RSA and as a condition for completion of the Transaction, it was also envisaged that Emeco Shareholder approval be obtained in relation to any financial assistance given by Orionstone and its subsidiaries.

Accordingly, it is an essential component of the overall transaction that Emeco Shareholders pass a special resolution pursuant to section 260B(2) of the Corporations Act approving the financial assistance at a general meeting.

12. Resolution 5 – Approval of financial assistance in relation to the Andy's Acquisition

12.1 Background to Resolution 5

The Andy's Acquisition is part of a series of inter-conditional transactions proposed to be undertaken to implement the Transaction. The Transaction involves, among other things:

- (a) the issue of Tranche B Notes to (among others) the Andy's Creditors as the debt component of the consideration for the extinguishment of the Andy's Creditors' claims against Andy's as part of the consideration payable by Emeco for the shares in Andy's;
 - (b) entry into a new revolving loan facility by the Combined Group; and
 - (c) entry into new hedging positions by the Combined Group,
- (the **Andy's Financing**)

The Andy's Financing will be secured by the assets of members of the Emeco Group, including Andy's and its subsidiaries. The same security would support any future refinancing of some or all of the Andy's Financing.

12.2 Relevant terms of the Andy's Financing

Under the terms of the Andy's Financing, Andy's (which will be a subsidiary of Emeco following completion of the Andy's Acquisition) will be required to guarantee the performance of the obligations of Emeco and its subsidiaries (as borrower and/or guarantor) under the Andy's Financing (including the repayment of the face value and any interest payable under the Tranche B Notes) and to provide security for those obligations.

These are customary requirements for such funding arrangements. It is expected that Andy's will also give certain customary representations, warranties, and undertakings, and will grant the holders of the Tranche B Notes and the Finance Parties and certain customary rights in the event that the Combined Group commits an event of default (such as committing a material breach or becoming insolvent).

12.3 Financial assistance

In accordance with section 260A of the Corporations Act, the requirements of which are set out in Section 11.3 of this Explanatory Memorandum, Andy's is prohibited from giving financial assistance in respect of the Andy's Financing unless Emeco Shareholders approve the assistance.

As described above it is expected that Andy's (among other parties) will guarantee and provide security for the obligations of the Combined Group under the Andy's Financing, which may directly or indirectly assist Emeco to acquire shares in Andy's. For example, by giving a guarantee and providing security, Andy's may be taken to assist Emeco in acquiring shares in Andy's under the Andy's Acquisition which is inter-conditional with the series of transactions required to effect the Transaction, pursuant to which the Tranche B Notes (among other things) are being issued as partial consideration.

This assistance may constitute financial assistance to acquire shares in Andy's for the purposes of section 260A of the Corporations Act as the Orionstone Financing would not occur but for the Transaction, of which the Andy's Acquisition is a part. Andy's will also seek the approval of its shareholders to give such financial assistance. This is typical practice in such circumstances.

12.4 Effect of the proposed financial assistance

As a result of participating in the arrangements in connection with the Andy's Acquisition and the Andy's Financing, Andy's may:

- (a) become liable as a guarantor for the guaranteed money, and may become subject to enforcement action by the Finance Parties in the event of a default under the Andy's Financing over the security granted by Andy's, the proceeds of which may be applied towards the repayment of the amounts owing under the Andy's Financing or other finance documents; and
- (b) be required to give the customary representations, warranties and undertakings which may impose certain restrictions on its ability to:
 - (i) grant further security over its assets or dispose of assets;
 - (ii) make distributions to shareholders; and

- (iii) borrow money in the future or incur further financial indebtedness; and
- (c) be required to make available directly or indirectly its cash flows (whether through dividends, capital distributions, intercompany loans or otherwise) or other resources in order to enable the borrowers and/or other guarantors to comply with their payment and other obligations under the Andy's Financing.

These customary representations, warranties and undertakings are given by all material entities in the Emeco Group as part of the terms of the Tranche B Notes.

12.5 Reasons for giving financial assistance

The main reason for the giving of financial assistance in connection with the Andy's Acquisition is that the Orionstone Financing which is occurring as part of the consideration payable to various parties under the Transaction involve Andy's providing the assistance to Emeco in the manner described in Section 12.3 above.

12.6 Requirement for approval by Emeco Shareholders

In addition, under section 260B(2) of the Corporations Act, if a company giving financial assistance will be a subsidiary of a listed Australian company immediately after the relevant acquisition of shares, the financial assistance must also be approved by a special resolution passed at a general meeting by the shareholders of the listed company.

As part of the Amended RSA and as a condition for completion of the Transaction, it was also envisaged that Emeco Shareholder approval be obtained in relation to any financial assistance given by Andy's and its subsidiaries.

Accordingly, it is an essential component of the overall transaction that Emeco Shareholders pass a special resolution pursuant to section 260B(2) of the Corporations Act approving the financial assistance at a general meeting.

13. Resolution 6 – Approval of Management Incentive Plan

13.1 Background to Resolution 6

The Company will establish a Management Incentive Plan as an incentive for Employees of Emeco which is designed to align their interests with the long term interests of Emeco Shareholders (**Management Incentive Plan**). Participation in the Management Incentive Plan will provide participants with an ongoing incentive to improve the Company's performance and return to Emeco Shareholders.

The Management Incentive Plan will be adopted by Emeco on or following completion of the Transaction and the purpose of Resolution 6 is to seek Emeco Shareholder approval for the purposes of ASX Listing Rule 7.2 exception 9.

13.2 ASX Listing Rule requirements

ASX Listing Rule 7.1 limits the issue of equity securities (including performance rights and options) to a maximum of 15% of a company's issued capital over a rolling 12 month period. There are a number of exceptions to rule 7.1, including exception 9 of ASX Listing Rule 7.2 which provides that securities granted under an employee incentive scheme are not required to be included in the 15% calculation where shareholders approve the grant of securities as an exception to ASX Listing Rule 7.1, and the approval is refreshed every three years.

If Resolution 6 is approved, securities or performance rights may be granted by Emeco in accordance with the approval up until the date which is three years after the date of this EGM and details of any securities or performance rights granted under the Management Incentive Plan will be published in Emeco's annual report for the year in which they are granted.

13.3 Information required under ASX Listing Rule 7.2 exception 9

The information set out below has been included in this Explanatory Memorandum to comply with the content requirements prescribed by ASX Listing Rule 7.2 exception 9.

- (a) **Summary of the terms of the Management Incentive Plan:** The rules of the Management Incentive Plan are the same as Emeco's existing employee incentive plans (the terms of which Emeco Shareholders approved at previous Annual General Meetings of the Company). These rules of the Management Incentive Plan are available on Emeco's website and a summary is set out below.

Under the Management Incentive Plan, Emeco may make an offer of ordinary fully paid Shares subject to the satisfaction of certain service conditions (**Shares Award**).

Vesting

Service conditions relate to continuity of service with the Company during the period specified in the terms of the offer made to eligible participants (except in circumstances where the eligible participant leaves the Company due to death, total and permanent disability, retrenchment or retirement).

The Emeco Board may make a Shares Award at its discretion to any eligible participant, including full-time or part-time employees, executive directors, contractors, casual employees and prospective participants (**Employees**).

Price

The issue price for the Shares the subject of a Shares Award is nil.

Voting rights and dividends

Employees will not be entitled to any voting rights or dividends payable in respect of Shares the subject of a Shares Award until the service conditions have been satisfied and the Employee is the beneficial owner of the Shares. See information under 'Trustee arrangements' below.

Change of control

In the event of a change in control of the Company (that is, the acquisition by a third party and its associates of greater than 50% of Shares), the Emeco Board has absolute discretion to decide that any Shares Award under the Management Incentive Plan is filled on an accelerated basis as at the date that any such change in control occurs.

Further, if there is an effective (but not an absolute) change of control of the Company, the Emeco Board may determine in its absolute discretion whether to waive any service conditions and immediately satisfy any existing Shares Award. For these purposes, effective control means the occurrence of an event which results in a third party and its associates having the capacity to determine the outcome of decisions on the financial and operating policies of Emeco.

Accelerated vesting

Shares Awards granted to Employees may also be accelerated in the event of death, total and permanent disability, retrenchment or retirement. If the Employee's employment with Emeco terminates prior to the expiry of the requisite vesting period for cause or as a result of resignation for any other reason, unsatisfied Shares Awards will immediately lapse (unless the Emeco Board determines otherwise).

Trustee arrangements

Shares issued or allocated under the Management Incentive Plan during any service or performance period will be held by the Emeco Employee Share Ownership Trust, a trust operated by an independent and professional trustee, Pacific Custodians Pty Ltd, until they are released to an Employee in accordance with their terms.

Suspension, termination or amendment

The Management Incentive Plan may be suspended, terminated or amended at any time by the Emeco Board, subject to any resolution of the Company required by the ASX Listing Rules.

- (b) **Issues since last approval:** No Shares have been issued under the Management Incentive Plan to date.
- (c) **Voting exclusion:** A voting exclusion statement is set out under Resolution 6 in the Notice of Extraordinary General Meeting.

14. Resolution 7 – Approval of the issue of Shares under the Management Incentive Plan to the Managing Director and Chief Executive Officer

14.1 Background to Resolution 7

Resolution 7 seeks Emeco Shareholder approval for the issue of up to 210 million Shares to Mr Ian Testrow, the Managing Director and Chief Executive Officer, under the terms of the Management Incentive Plan.

Mr Ian Testrow has agreed to reduce his entitlement to be issued Shares under the Management Incentive Plan by the corresponding number of Shares to be issued to Black Diamond under the Top-Up Placement.

The issue of Shares under the Management Incentive Plan is part of a series of inter-conditional transactions proposed to be undertaken to implement the Transaction in order to incentivise Mr Testrow to remain with the Company and align his interests with the long term interests of Emeco Shareholders.

The rules of the Management Incentive Plan are summarised in Section 13.3(a) of this Explanatory Memorandum and will be made available on Emeco's website.

The Shares will be issued subject to a retention condition that requires Mr Testrow to remain employed by the Emeco Group until the third anniversary of the Completion Date (except in circumstances where he leaves the Company due to death, total and permanent disability, retrenchment or retirement or the Company terminates Mr Testrow other than due to misconduct).

Emeco Shareholders should be aware that approval is not being sought for the purposes of the related party provisions contained in Chapter 2E of the Corporations Act, because the Emeco Board (other than Mr Testrow who is not able to make a recommendation due to his

interest in his own resolution) considers that the grant of these pursuant to this Resolution 7 constitutes part of Mr Testrow's reasonable remuneration. In reaching this conclusion, the Emeco Board has had regard to a variety of factors including market practice and the remuneration offered to persons in comparable positions at comparable companies.

14.2 Information required under ASX Listing Rule 10.15

ASX Listing Rule 10.14 requires a listed company to obtain shareholder approval by ordinary resolution prior to permitting the acquisition of securities under an employee incentive scheme by a director or an associate of a director. As Mr Testrow is the Company's Managing Director, the Company is seeking approval for the acquisition of these Shares by Mr Testrow under ASX Listing Rule 10.14 and for all other purposes.

For the purposes of ASX Listing Rule 10.15, the following information is provided to Emeco Shareholders.

- (a) **Maximum number of securities to be granted and price:** It is proposed that Mr Testrow will be issued up to 50% of the total number of Shares available through the Management Incentive Plan (subject to reduction per the Black Diamond Agreement and up to a maximum number of 210 million Shares).

The Shares would be issued as part of Mr Testrow's remuneration and so there is no cash consideration payable by Mr Testrow (and accordingly no issue price) in connection with the issue of these Shares. As such, no loans will be provided by Emeco in connection with the grant of these Shares.

- (b) **Details of prior issues or grants:** No prior issues or grants have been made under the Management Incentive Plan.
- (c) **Entitlement to participate:** All eligible participants (as defined by ASIC Class Order 14/1000), including full-time or part-time employees, Directors, contractors, casual employees and prospective participants will be entitled to participate in the Management Incentive Plan.
- (d) **Voting exclusion:** A voting exclusion statement is set out under Resolution 7 in the Notice of Extraordinary General Meeting.
- (e) **Date of grant:** If approved, the Shares Award will be made to Mr Testrow no later than 12 months after the EGM, subject to satisfaction of the service condition.

In accordance with ASX Listing Rule 7.2 exception 14, if Emeco Shareholders approve Resolution 7 for the purposes of ASX Listing Rule 10.14, approval is not separately required under ASX Listing Rule 7.1 such that the Shares to be issued to Mr Testrow do not count to the 15% limit under ASX Listing Rule 7.1 (which restricts the issue of new capital in the a 12 month period without shareholder approval subject to certain exceptions).

14.3 Accelerated vesting and termination benefits

Emeco Shareholder approval is also being sought for the potential future termination benefits under sections 200B and 200E of the Corporations Act should any of the Shares the subject of this Resolution 7 be granted as a result of termination of employment. Under section 200B of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a managerial or executive office in the company if it is approved by shareholders under section 200E of the Corporations Act or an exception otherwise applies.

Details of the retirement benefits

Under the terms of the Management Incentive Plan, the Shares Award will vest on an accelerated basis in the event of Mr Testrow's death, total and permanent disability, retrenchment or retirement and the Shares will be transferred to Mr Testrow. If Mr Testrow's employment with Emeco terminates prior to the expiry of the 3 year performance period for cause or as a result of resignation for any other reason, the Shares Award will immediately lapse (unless the Emeco Board determines otherwise).

Where the Shares Award vests on an accelerated basis, the accelerated vesting of the Shares Award in these circumstances may be considered a benefit in connection with Mr Testrow's retirement from office and, therefore, within the scope of section 200B of the Corporations Act.

The benefit may fall within one of the recognised exceptions under the Corporations Act if the amount of the benefit is less than a prescribed multiple of the director's remuneration and if the nature of the benefit falls within one of the categories set out in the Corporations Act. However, in the event the Shares Award vest to Mr Testrow on an accelerated basis and such a benefit does not technically fall within any of the categories of exceptions set out in the Corporations Act, Emeco Shareholders are being asked to approve the accelerated vesting of Shares Award in these circumstances for the purposes of section 200E of the Corporations Act.

Value of the retirement benefits

The total value of the benefits to be approved by Emeco Shareholders cannot be determined in advance. This is because various matters will or are likely to affect the value, including the market price of Shares at the time that any Shares Award vests on an accelerated basis to Mr Testrow and the period that Mr Testrow has been employed during the vesting period.

If and when the Shares Award vests on an accelerated basis to Mr Testrow, the value of the benefit can be calculated by multiplying the number of Shares the subject of the Shares Award which vest by the market price of Shares at that vesting time.

The Company is seeking this approval to assist it to meet its obligations to Mr Testrow under the Management Incentive Plan and to provide the Company with flexibility to continue to remunerate executive Directors fairly and responsibly, particularly in relation to its treatment of Shares granted under the Management Incentive Plan.

It should be noted that there is no current intention for Mr Testrow to vacate his role of Managing Director.

15. Resolution 8 – Approval for the Company to acquire a Relevant Interest in Shares

15.1 Background to Resolution 8

Resolution 8 seeks Emeco Shareholder approval under item 7 of section 611 of the Corporations Act for Emeco to acquire a Relevant Interest in its own Shares as a result of entering into voluntary escrow arrangements with the counterparties to the Amended RSA (**Escrowed Parties**) under the terms of the Amended RSA. As the escrow arrangements empower Emeco to exercise a degree of control over the disposal of the shares held by the Escrowed Parties, Emeco will acquire a Relevant Interest in those shares, representing up to a possible maximum of 62.2% of the total Shares on issue (**Escrowed Shares**) following on the Completion Date for the Transaction (pre-Rights Offer).

Escrowed Parties include the Ad-Hoc Committee, the Scheme Cash Funders, Andy's Shareholders, Orionstone Shareholders, certain Andy's Creditors (Caterpillar Financial

Australia Limited and Australia and New Zealand Banking Group Limited) and certain Orionstone Creditors (including Macquarie Bank Limited and Caterpillar Financial Australia Limited), but does not include Black Diamond.

15.2 Material terms of voluntary escrow arrangements

The Amended RSA provides that an Escrowed Party may not dispose of:

- (a) New Shares to any person who is not a party to the Amended RSA or who has not otherwise agreed to be bound by the voluntary escrow arrangements set out in the Amended RSA, for a period of 30 days from the Completion Date; and
- (b) more than 50% of any New Shares that it holds on the date 30 days after the Completion Date to any person who is not a party to the Amended RSA or who has not otherwise agreed to be bound by the voluntary escrow arrangements set out in the Amended RSA, for a period of 60 days from the Completion Date,

or any shorter period which the Emeco Shareholders may approve.

With the exception of the holding lock described above, the Escrowed Parties will be entitled to all other rights applicable to holders of Shares in respect of the Escrowed Shares, including in relation to voting, entitlements to participate in pro rata offers to eligible Emeco Shareholders, bonus issues and dividends.

15.3 Corporations Act and ASIC policy requirements

Item 7 of Section 611

Section 606(1) of the Corporations Act prohibits a person from acquiring shares in a company if, after that acquisition, that person or any other person would have a Relevant Interest or Voting Power in excess of 20% of the voting shares in that company unless an exception applies. An exception in item 7 of section 611 provides that section 606(1) of the Corporations Act does not prohibit an acquisition of a Relevant Interest in the voting shares of a company if the shareholders of the company have agreed to the acquisition by resolution passed at a general meeting, at which no votes are cast in relation to the resolution by the person to whom the shares are to be issued or by an associate of that person.

For the approval to be validly given, certain information must be provided to Emeco Shareholders. This Section provides certain information to Emeco Shareholders so that they can make an informed decision in respect of Resolution 8.

In addition, the Independent Expert's Report in Annexure B provides an opinion to Emeco Shareholders regarding the proposed lock up of Escrowed Shares as part of the overall effect of the Transaction. The Independent Expert has concluded that the lock up of the Escrowed Shares is not material as the Relevant Interest is only for a period of 60 days after the Completion Date and relates only to the trading of the Escrowed Shares and not any other rights attached to the Escrowed Shares including the voting rights.

ASIC policy

ASIC Regulatory Guide 74 *Acquisitions approved by members (RG74)* sets out ASIC guidance on the disclosure required and the voting restrictions imposed by item 7 of section 611 of the Corporations Act.

In addition to discussion of the statutory disclosure requirements under item 7 of section 611, paragraph RG74.25 sets out additional material information required by ASIC to be included in the explanatory materials to obtain shareholders' approval.

Importantly, paragraphs RG74.27 and RG74.31 provide that shareholders should be provided with an analysis of the proposed acquisition in the form of an independent expert report, which is standard market practice. Accordingly, the Emeco Board has engaged PPB Corporate Finance Pty Ltd to prepare an Independent Expert's Report and opine on whether the issue of Placement Shares to Black Diamond pursuant to the Black Diamond Placements and the Underwritten Shares is fair and/or reasonable to Emeco Shareholders who are not associated with Black Diamond, Black Crane and First Samuel.

The Independent Expert's Report set out in full in Annexure B has concluded that the issue of the Placement Shares to Black Diamond and Underwritten Shares and Underwriting Fee Shares to Black Diamond, Black Crane and First Samuel is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer to Emeco Shareholders other than Black Diamond, Black Crane and First Samuel and their associates.

15.4 Information required under the Corporations Act and ASIC policy

By virtue of the holding lock, Emeco is deemed to be acquiring a Relevant Interest in its own Shares, however Emeco will not obtain any power to influence the exercise of any votes attaching to the Shares. Emeco (and its associates) will technically increase its Voting Power in the Company and acquire a Relevant Interest as Emeco will have enforcement rights in relation to the disposal of the Escrowed Shares pursuant to the holding lock. Information required under the Corporations Act and ASIC policy is set out below.

- (a) **Identity of the parties acquiring the Relevant Interest:** Emeco Group.
- (b) **Maximum extent of the increase in Emeco's Voting Power:** Emeco currently has no interest in any Shares. The maximum extent of Emeco's increase in Voting Power in the Company is 62.2% of the total Shares on issue.
- (c) **Voting Power that Emeco Group would have as a result of the holding lock:** Emeco will be deemed to have Voting Power of 62.2% in the Company, however as described above, Emeco will not obtain any power to influence the exercise of any votes attaching to the Shares. Rather its Voting Power results from a Relevant Interest arising due to entry into an agreement with the Escrowed Parties that restricts the disposal of Shares.
- (d) **Maximum extent of the increase in the Voting Power of Emeco's associates in Emeco:** Any associate of Emeco will be deemed to have the same increase in Voting Power as Emeco, being 62.2%, due to the holding lock.
- (e) **Voting Power of Emeco's associates as a result of the holding lock:** Any associate of Emeco will be deemed to have the same Voting Power as Emeco, being 62.2%, due to the holding lock.

15.5 Independent Expert's Report

The Independent Expert's Report prepared for the purposes of opining on the Transaction also considers this Resolution 8 in satisfaction of the requirements of RG74. It sets out a detailed independent examination of the Transactions and proposed acquisition of a Relevant Interest by Emeco in its own Shares as a result of entering into the voluntary

escrow arrangements to assist Non-associated Shareholders to assess the merits of and decide whether to approve Resolution 8 (and the Transaction Resolutions).

The Independent Expert has determined that the Transactions, including the acquisition of a Relevant Interest in Shares by Emeco as a result of the voluntary escrow arrangements, are fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

16. Resolution 9 – Election of Peter Frank

16.1 Background to Resolution 9

As described in Sections 10.1 and 10.5, Black Diamond has the right to appoint one Director to the Emeco Board under the Black Diamond Agreement. Black Diamond nominates Peter Frank to be elected or appointed to the Emeco Board.

Resolution 9 seeks approval from the Emeco Shareholders for the election of Peter Frank.

16.2 Information on Peter Frank experience

Mr. Frank is a Senior Managing Director at Black Diamond. Prior to joining Black Diamond, Mr. Frank was President of GSC Group, an SEC-registered investment adviser, where he worked since 2001. From 2005 until 2008, he served as the Senior Operating Executive for GSC's private equity funds. Prior to 2001, Mr. Frank was the CEO of Ten Hoeve Bros., Inc. and was an investment banker at Goldman, Sachs & Co. He is currently a director of Arclin Cayman Holding Ltd, Color Spot Nurseries, Inc., IAP Worldwide Services, Inc., North Metro Harness Initiative, LLC, and White Birch Investment, LLC. Mr. Frank also served as chairman of the board of Kolmar Labs Group, Inc. and Worldtex, Inc. Mr. Frank graduated from the University of Michigan with a B.S.E.E. degree and earned an M.B.A from the Harvard Business School.

Mr. Frank does not have a Relevant Interest or personal interest in the shares to be issued to Black Diamond's managed funds. Mr. Frank is an associate (as defined under the Corporations Act) of Black Diamond.

18. Glossary

The meanings of the terms used in this Explanatory Memorandum are set out below.

Term	Meaning
Ad-Hoc Committee	the informal ad-hoc committee of Emeco Noteholders designated for the purpose of assisting discussions regarding the Transaction and consisting of Ascribe II Investments LLC, Brookfield Credit Opportunities Master Fund, L.P. and Goldman Sachs International.
Adjustment Factor	100% less (a) the Excess Cash Percentages; and (b) the Tranche B Equity Allocation Percentage.
Amended RSA	the Amended and Restated Restructuring Support Agreement dated 30 December 2016 between Emeco, the Emeco Note Issuer, Andy's and Orionstone (among others), as amended from time to time.
Andy's	Andy's Earthmovers (Asia Pacific) Pty Ltd (ACN 146 240 511).
Andy's Acquisition	the acquisition by the Company of all the shares in Andy's.
Andy's Creditors	Australia and New Zealand Banking Group Limited and Caterpillar Financial Australia Limited.
Andy's Shareholder	a holder of fully paid ordinary shares in the capital of Andy's.
Annual Report	the Company's annual report comprising the financial report, the directors' report and the auditor's report for the relevant financial year.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited (ACN 008 624 691) and, where the context requires, the financial market that it operates.
BDCM	Black Diamond Capital Management L.L.C.
Black Crane	Black Asia Cranes Opportunities Fund.
Black Diamond	BDCM and its associated funds which hold interests in Emeco Notes.
Black Diamond Agreement	the agreement entered into between Emeco and Black Diamond, dated 15 December 2016, as amended and restated on 29 December 2016.
Black Diamond Placements	the Initial Placement and Top-Up Placement, being the private placement of Shares to Black Diamond in accordance with the Black Diamond Agreement.
Calculation Date	two business days after the Scheme Effective Date.
Cash Consideration	has the meaning set out in Section 9.2(d) of this Explanatory Memorandum.

Term	Meaning
Chairman	the Chairman of the EGM.
Closely Related Party	of a member of the Key Management Personnel means: <ul style="list-style-type: none"> • a spouse or child of the member; • a child of the member's spouse; • a dependent of the member or the member's spouse; • anyone else who is one of the member's family and may be expected to influence the member or be influenced by the member in the member's dealings with the Company; • a company the member controls; or • a person prescribed by the Corporations Regulations 2001 (Cth).
Combined Group	the Company and its subsidiaries, including Orionstone and Andy's following the successful implementation of the Transaction.
Commencement Date	30 December 2016.
Completion Date	the date on which the last transaction under the Transaction is (other than the Rights Offer) is effected.
Consolidation Parties	Andy's and Orionstone and a reference to Consolidation Party means either of them.
Constitution	the constitution of Emeco.
Corporations Act	Corporations Act 2001 (Cth).
Directors	members of the Emeco Board.
EGM	the extraordinary general meeting of Emeco Shareholders to be held on Monday, 13 March 2017.
Electing Emeco Noteholders	has the meaning set out in Section 9.1 of this Explanatory Memorandum.
Emeco or Company	Emeco Holdings Limited (ACN 112 188 815).
Emeco Board	the board of directors of Emeco.
Emeco Group	Emeco and each of its Subsidiaries, and a reference to Emeco Group Member or a member of the Emeco Group is to Emeco or any of its Subsidiaries.
Emeco Indenture	the indenture dated 17 March 2014 in respect of the 9.875% senior secured notes due 2019 between the Emeco Note Trustee, the Emeco Note Issuer, Emeco and certain other members of Emeco Group.

Term	Meaning
Emeco Note Issuer	Emeco Pty Limited (ACN 112 227 728).
Emeco Note Trustee	The Bank of New York Mellon as the trustee under the Emeco Indenture.
Emeco Noteholders	holders of the Emeco Notes.
Emeco Noteholders' Scheme	a scheme of arrangement under Part 5.1 of the Corporations Act between Emeco and the Emeco Noteholders.
Emeco Notes	the notes issued by the Emeco Note Issuer pursuant to the Emeco Indenture.
Emeco Notes Outstanding	US\$282,720,000, being the aggregate principal amount outstanding of the Emeco Notes of US\$335,000,000, less the US\$52,280,000 (face value) Emeco Notes previously held and subsequently cancelled by the Company on 26 October 2016 in accordance with the Original RSA.
Emeco Share Register	means the register of members of Emeco maintained in accordance with the Corporations Act.
Emeco Share Registry	Link Market Services Limited (ACN 083 214 537).
Emeco Shareholder	a person who is registered as the holder of an Emeco Share in the Emeco Share Register.
Emeco Swap Proceeds	US\$11,794,723.5 (A\$15,458,352.1 converted at the prevailing FX Rate on the Original Commencement Date), being the net cash proceeds actually received by the Emeco Note Issuer on the close out or termination of the Emeco Swap Transaction.
Emeco Swap Transaction	the swap transactions between the Emeco Note Issuer and Goldman Sachs Financial Markets Pty Ltd subject of the revised confirmations dated 8 January 2015 and 9 January 2015.
Emeco Tranche B Notes Participant	the Electing Emeco Noteholders and the Scheme Cash Funders.
Employees	has the meaning set out in Section 13.3 of this Explanatory Memorandum.
Escrowed Parties	has the meaning set out in Section 15.1 of this Explanatory Memorandum.
Escrowed Shares	has the meaning set out in Section 15.1 of this Explanatory Memorandum.
Excess Cash	the cash and cash equivalents balance of Emeco Group, Orionstone (and each of its subsidiaries) or Andy's (as the case may be) and converted as necessary to A\$ at the Prevailing Exchange Rate on the Calculation Date.
Excess Cash Contributed	in respect of Emeco, Orionstone and Andy's, its respective Excess

Term	Meaning
Percentage	Cash expressed as a percentage of the Implied Transaction Equity Value.
Excess Cash Percentage	the Total Contributed Excess Cash expressed as a percentage of the Implied Transaction Equity Value.
Explanatory Materials	the Notice of Extraordinary General Meeting and Explanatory Memorandum.
First Samuel	First Samuel Limited (ACN 086 243 567).
FX Rate	the prevailing exchange rate on the Calculation Date, unless otherwise indicated.
Implied Share Price	the Emeco Group Shareholder Equity Allocation Percentage multiplied by the Implied Transaction Equity Value and then divided by 599,675,707.
Implied Transaction Equity Value	Emeco's implied transaction equity value assuming its acquisition of Andy's and Orionstone based on the sum of: <ul style="list-style-type: none"> (a) A\$662,600,000; and (b) the Total Contributed Excess Cash; less: <ul style="list-style-type: none"> (c) Total Debt Facilities.
Independent Expert	PPB Corporate Finance Pty Ltd.
Independent Expert's Report	the report to be issued by the Independent Expert in connection with the resolutions seeking Emeco Shareholder approval for the purposes of item 7 of section 611 of the Corporations Act.
Initial Placement	has the meaning set out in Section 10.3(a).
Initial Shareholder Equity Allocation Percentage	means, in respect of each of Andy's, Emeco and Orionstone: <ul style="list-style-type: none"> (a) for Emeco, 59.3%; (b) for Orionstone, 24.7%; and (c) for Andy's, 16.0% subject to certain adjustments per the terms of the Amended RSA on the Calculation Date.
Issue Price	means: <ul style="list-style-type: none"> (a) the Implied Transaction Equity Value less the aggregate Underwriting Fees; divided by: <ul style="list-style-type: none"> (b) the Pre-Rights Offer Outstanding Shares.

Term	Meaning
Key Management Personnel	has the same meaning as in the accounting standards. Broadly speaking this includes those persons with the authority and responsibility for planning, directing and controlling the activities of the Company (whether directly or indirectly), and includes any Directors.
Management Incentive Plan	has the meaning set out in Section 13.1 of this Explanatory Memorandum.
New Share	a Share to be issued and allotted pursuant to the Transaction.
Non-associated Shareholders	Emeco Shareholders that are not associated with the Transaction.
Offer Price	has the meaning set out in Section 10.5(b) of this Explanatory Memorandum.
Original RSA	the document entitled "Restructuring Support Agreement" entered into between, among others, Emeco, the Emeco Note Issuer, Orionstone and Andy's and dated 23 September 2016.
Original Scheme	has the meaning set out in Section 1.1 of this Explanatory Memorandum.
Orionstone	Orionstone Holdings Pty Ltd (ACN 603 473 623).
Orionstone Acquisition	the acquisition by the Company of all the shares in Orionstone.
Orionstone Creditors	certain creditors of Orionstone who are parties to the Amended RSA.
Orionstone Restructure	arrangements for the purpose of terminating any existing employee share option plans, warrants and subordinated debt agreements of the Orionstone Group to be completed on or before the Completion Date.
Orionstone Shareholder	a holder of fully paid ordinary shares in the capital of Orionstone.
Placement Shares	Shares issued to Black Diamond pursuant to the Black Diamond Placements.
Pre-Rights Offer Outstanding Shares	means the total number of EHL Shares issued and outstanding after completion of the Equity Exchange and the Initial Placement.
Prevailing Exchange Rate	on the relevant date, the Bloomberg AUD-USD/CAD/CLP/other currency cross rate (mid-point) at 3pm Australian Eastern Standard Time.
Principal Outstanding	<p>(a) in respect of each Emeco Noteholder, the amount of principal owing to such Emeco Noteholder pursuant to the Emeco Notes;</p> <p>(b) respect of an Orionstone Creditor, the amount of principal (and any accrued but unpaid interest, costs, fees and expenses not paid on the Completion Date) owing to such</p>

Term	Meaning
	<p>Orionstone Creditor pursuant to the Orionstone current finance documents including any amount owing to an Orionstone hedge counterparty following the close-out or termination of any derivative position (including in relation to floating-to-fixed interest rate swaps, cross currency interest rate swaps and forward exchange rate swaps) in respect of which an Orionstone Group member is the counterparty; and</p> <p>(c) in respect of an Andy's Creditor, the amount of principal (and any accrued but unpaid interest, costs, fees and expenses not paid on the Completion Date) owing to such Andy's Creditor pursuant to the Andy's current finance documents and the terms of the Amended RSA.</p>
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act but does not include anything which would not be a relevant interest under sections 609(6) or 609(7) of the Corporations Act.
RG74	ASIC Regulatory Guide 74 <i>Acquisitions approved by members</i> .
Rights Offer	a rights offer to raise, subject to the Completion Date occurring, up to A\$20,000,000 in cash as set out in Annexure C paragraph (a)(ix) of this Explanatory Memorandum.
Scheme Cash Funders	has the meaning set out in Section 9.1 of this Explanatory Memorandum.
Scheme Cash Funding Agreement	the agreement dated 1 December 2016 as amended and restated on 30 December 2016 among the Company, the Emeco Note Issuer and the Scheme Cash Funders party thereto, as amended from time to time.
Scheme Cash Recipients	has the meaning set out in Section 9.1 of this Explanatory Memorandum.
Scheme Consideration	the consideration to be paid or issued to Scheme Noteholders in accordance with the Emeco Noteholders' Scheme.
Scheme Effective Date	the date on which the order of the Court made under section 411(4)(b) of the Corporation Act in relation to the Emeco Noteholders' Scheme is lodged with ASIC and becomes effective under section 411(10) of the Corporations Act.
Scheme Meeting	the meeting of Emeco Noteholders ordered by the Court to be convened under section 411(1) of the Corporations Act to consider and vote on the Emeco Noteholders' Scheme and includes any meeting convened following any adjournment or postponement of that meeting.
Scheme Noteholder	an Emeco Noteholder as at the Scheme Effective Date solely in its capacity as a holder of Emeco Notes, notwithstanding the disposal

Term	Meaning
	or transfer of any right under the Emeco Indenture or any agreement to dispose of or transfer any such right entered into by that person before or after that time.
Securities Act	United States Securities Act of 1933, as amended.
Share	a fully paid ordinary share in the capital of Emeco.
Shares Award	has the meaning set out in Section 13.3.
Shareholder Equity Allocation Percentage	in respect of the shareholders of each of Andy's, Emeco Group and Orionstone Group, the Initial Shareholder Equity Allocation Percentage multiplied by the Adjustment Factor, plus its Excess Cash Contributed Percentage.
Subsidiary	has the meaning given in the Corporations Act.
Supporting Creditors	certain creditors of Emeco, Orionstone and Andy's who are parties to the Amended RSA.
Top-Up Placement	has the meaning set out in Section 10.3(b).
Total Contributed Excess Cash	the aggregate Excess Cash of Andy's, Emeco Group and Orionstone (and Orionstone's subsidiaries).
Total Debt Facilities	<p>the sum of the par value of:</p> <ul style="list-style-type: none"> (a) the Principal Outstanding on the Calculation Date less the Emeco Swap Proceeds multiplied by 80%; plus (b) the Emeco Swap Proceeds; plus (c) the aggregate of equipment financing owed by Emeco and the Consolidation Parties on the Calculation Date; <p>converted as applicable to A\$ at the Prevailing Exchange Rate on the Commencement Date.</p>
Tranche B Notes	the senior secured notes maturing FY22 replacing the Emeco Notes pursuant to the Emeco Noteholders' Scheme.
Tranche B Equity Allocation Percentage	the Tranche B Equity Value as a percentage of the Implied Transaction Equity Value.
Tranche B Equity Value	<p>the sum of:</p> <ul style="list-style-type: none"> (a) an amount equal to the lesser of the par value of the Andy's Creditors' Principal Outstanding on the Calculation Date and the Andy's Creditors' Principal Outstanding on the Commencement Date, multiplied by 20%; (b) an amount equal to the par value of the Emeco Tranche B Notes Participants' Principal Outstanding on the Calculation Date (converted to A\$ at the Prevailing Exchange Rate on the Commencement Date) less the Emeco Swap Proceeds,

Term	Meaning
	<p>multiplied by 20%; and</p> <p>(c) an amount equal to the lesser of the par value of the Orionstone Creditors' Principal Outstanding on the Calculation Date and the Orionstone Creditors' Principal Outstanding on the Commencement Date, multiplied by 20%.</p>
Transaction	the transaction described in paragraph (a) of Annexure C of this Explanatory Memorandum
Transaction Resolution	Resolutions 1 to 9 (inclusive) as set out in the Notice of Extraordinary General Meeting.
Underwriters	Black Diamond, First Samuel and Black Crane and a reference to Underwriter means any one of them.
Underwriting Agreement	the Underwriting Agreement entered into between Emeco and the Underwriters, dated 29 December 2016.
Underwriting Fee Shares	Shares issued to the Underwriters as fees for underwriting pursuant to the Underwriting Agreement.
Underwritten Amount	A\$20 million.
Underwritten Shares	the Shares to be issued under the Underwriting Agreement to the Underwriters to the extent that the relevant Shares form a shortfall under the Underwriting Agreement.
Voting Power	has the meaning given to that term in the Corporations Act.

Annexure A – Notice of Extraordinary General Meeting

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is given that the Extraordinary general meeting (**Extraordinary General Meeting**) of Emeco Holdings Limited (**Emeco** or **Company**) will be held at Baker McKenzie, Level 27, 50 Bridge Street, Sydney, NSW, 2000 on Monday, 13 March 2017 at 11.30am (Sydney time).

BUSINESS OF MEETING

Emeco Shareholders are asked to consider and if thought fit, pass the resolutions set out below in relation to the proposed recapitalisation of the Company and the acquisitions of Orionstone and Andy's (**Transaction**).

The Transaction Resolutions are conditional on each other. If any of the Transaction Resolutions are not passed by the requisite majority, none of the other Transaction Resolutions will be implemented regardless of whether the other Transaction Resolutions have passed.

Information on the resolutions is set out below and in the Explanatory Memorandum (of which this Notice of Extraordinary General Meeting forms a part).

DEFINED TERMS

Unless otherwise defined in this Notice of Extraordinary General Meeting, capitalised terms used in this Notice of Extraordinary General Meeting have the same meanings as set out in the Glossary to the Explanatory Memorandum (of which this Notice of Extraordinary General Meeting forms a part).

Resolution 1: Issue of shares in connection with the merger with Orionstone and Andy's

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the proposed issue of fully paid ordinary shares in the Company to the Orionstone Shareholders, Orionstone Creditors, Andy's Shareholder and Andy's Creditors at an issue price and on other terms described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."

Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on this resolution by:

- (a) Orionstone Shareholders, Orionstone Creditors, the Andy's Shareholder and Andy's Creditors; and
- (b) an associate of any of the persons named in paragraph (a) above.

However, the Company need not disregard a vote if:

- (c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

See "Notes on Voting" below.

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 1. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 1.

The Independent Expert has prepared an Independent Expert's Report in relation to the proposed Transaction Resolutions (set out in Annexure B). The Independent Expert has concluded that the Transaction is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 1.

Refer to Section 8 of the Explanatory Memorandum for further information.

Resolution 2: Issue of Shares pursuant to the Emeco Noteholders' Scheme

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the proposed issue of fully paid ordinary shares in the Company under the Creditors' Scheme calculated in accordance with the method and on the terms described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."

Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on this resolution by:

- (a) a person who may participate in the proposed issue of New Shares and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of Emeco Shares, if Resolution 2 is passed; and
- (b) an associate of any of the persons in paragraph (a) above.

However, the Company need not disregard a vote if:

- (c) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (d) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

See "Notes on Voting" below.

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 2. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 2.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 2.

The Independent Expert has prepared an Independent Expert's Report in relation to the proposed Transaction Resolutions (set out in Annexure B). The Independent Expert has concluded that the Transaction is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders,

in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

Refer to Section 9 of the Explanatory Memorandum for further information.

Resolution 3: Approval for Black Diamond to acquire Relevant Interest in Shares pursuant to Black Diamond Placements and Underwriting Agreement

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purpose of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the acquisition by Black Diamond of a Relevant Interest in up to 595 million fully paid ordinary shares in the Company as described in the Explanatory Memorandum which accompanied and formed part of this Notice of Extraordinary General Meeting."

Voting Exclusion Statement

In accordance with the Corporations Act, the Company will disregard any votes cast on this resolution by Black Diamond and any associates of such person. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

See "Notes on Voting" below.

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 3. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 3.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 3.

The Independent Expert has prepared an Independent Expert's Report in relation to the proposed Transaction Resolutions (set out in Annexure B). The Independent Expert has concluded that the Transaction is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

Refer to Section 10 of the Explanatory Memorandum for further information.

Resolution 4: Approval of financial assistance in relation to the Orionstone Acquisition

To consider and, if thought fit, to pass the following resolution as a special resolution:

*"That, subject to the passing of all other Transaction Resolutions, for the purpose of section 260B(2) of the Corporations Act and for all other purposes, approval is given for the financial assistance to be provided by Orionstone Holdings Pty Ltd (**Orionstone**) and each wholly owned subsidiary of Orionstone in connection with the Orionstone Acquisition and the Orionstone Financing or any refinancing thereof as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."*

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 4. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 4.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 4.

Refer to Section 11 of the Explanatory Memorandum for further information.

Resolution 5: Approval of financial assistance in relation to the Andy's Acquisition

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purpose of section 260B(2) of the Corporations Act and for all other purposes, approval is given for the financial assistance to be provided by Andy's Earthmovers (Asia Pacific) Pty Ltd in connection with the Andy's Acquisition and the Andy's Financing or any refinancing thereof as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 5. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 5.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 5.

Refer to Section 12 of the Explanatory Memorandum for further information.

Resolution 6: Approval of Management Incentive Plan

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purpose of ASX Listing Rule 7.2 exception 9 and for all other purposes, approval is given for:

- (a) the establishment of a plan, to be called the Management Incentive Plan for the provision of incentives to management of the Company; and*
- (b) the issue of Shares Awards under the Management Incentive Plan,*

in accordance with the terms of the Management Incentive Plan initialled by the Chairman for the purposes of identification and described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."

Voting Exclusion Statement

In accordance with the ASX Listing Rules, the Company will disregard any votes cast on this resolution by any Director who is eligible to participate in the Management Incentive Plan and any associates of such person. However, the Company need not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

See "Notes on Voting" below.

Directors' recommendation

The Directors (other than those Directors eligible to participate in the Management Incentive Plan abstaining) unanimously recommend that Emeco Shareholders vote in favour of Resolution 6. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 6 (with any Directors eligible to participate in the Management Incentive Plan abstaining).

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 6.

Refer to Section 13 of the Explanatory Memorandum for further information.

Resolution 7: Approval of the issue of Shares to the Managing Director and Chief Executive Officer, Ian Testrow

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purposes of ASX Listing Rule 10.14, sections 200B and 200E of the Corporations Act and for all other purposes, approval is given for the allocation of no more than 210 million fully paid ordinary shares in the Company to Mr Ian Testrow, the Managing Director and Chief Executive Officer of the Company, pursuant to the terms of the Management Incentive Plan (and subject to reduction in accordance with the Black Diamond Agreement), as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."

Voting Exclusion Statement

In accordance with the Corporations Act and ASX Listing Rules, the Company will disregard any votes cast on this resolution by:

- (a) any Director who is eligible to participate in the Management Incentive Plan and any associates of such person; and
- (b) if ASX has expressed an opinion under rule 10.14.3 that approval is required for participation in the employee incentive scheme by anyone else, by that person and any associates of such person;
- (c) any proxy of any member of Key Management Personnel or a Closely Related Party of a member of Key Management Personnel, who is not directed how to vote.

However, the Company need not disregard a vote if:

- (d) in the case of a person described in (a), (b) or (c) above, it is cast by:
 - (i) a person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form; or;
 - (ii) the person chairing the meeting as proxy (expressly or by default) for a person who is entitled to vote, without being directed how to vote; and
- (e) in the case of a person described in (d) above, it is cast by the person chairing the meeting as proxy and the chair is expressly authorised to exercise the proxy even if the resolution is connected with the remuneration of a Key Management Personnel.

See "Notes on Voting" below.

Directors' recommendation

The Directors, other than Mr Ian Testrow (who makes no recommendation due to his personal interest in the outcome of this Resolution 7), recommend that Emeco Shareholders vote in favour of Resolution 7.

Refer to Section 14 of the Explanatory Memorandum for further information.

Resolution 8: Approval for the Company to acquire Relevant Interest in Shares

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purpose of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given to the Company for the acquisition by the Company of a Relevant Interest in the Escrowed Shares as a result of the voluntary escrow arrangements under the Amended RSA as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Extraordinary General Meeting."

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 8. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 8.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 8.

The Independent Expert has prepared an Independent Expert's Report in relation to the proposed Transaction Resolutions (set out in Annexure B). The Independent Expert has concluded that the Transaction is fair and reasonable, and in the best interests of Non-associated Emeco Shareholders, in the absence of a superior offer and on the basis that an Emeco Shareholder does not participate in the Rights Offer.

Refer to Section 15 of the Explanatory Memorandum for further information.

Resolution 9: Election of Peter Frank

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to the passing of all other Transaction Resolutions, for the purpose of clause 19.3 of the Constitution, Peter Frank being eligible is elected as a Director with effect from the Completion Date."

Directors' recommendation

The Directors unanimously recommend that Emeco Shareholders vote in favour of Resolution 9. Each of the Directors holding Shares in the Company intends to vote in favour of Resolution 9.

The Chairman of the Meeting intends to vote undirected proxies in favour of Resolution 9.

Refer to Section 16 of the Explanatory Memorandum for further information.

NOTES ON VOTING

(a) **Determination of entitlement to attend and vote**

In accordance with section 1074E(2)(g)(i) of the Corporations Act and regulation 7.11.37 of the Corporations Regulations 2001 (Cth), Emeco has determined that you will be entitled to attend and vote at the Extraordinary General Meeting if you are registered as a holder of Emeco Shares as at 11.30am (Sydney time) on 11 March 2017. If you are not registered as a holder of Emeco Shares as at this time, you will not be entitled to attend or vote at the meeting as an Emeco Shareholder.

(b) **How to Vote**

You can vote in either of two ways:

- by attending the Extraordinary General Meeting and voting in person or by attorney, or in the case of corporate Emeco Shareholders, by corporate representative; or
- by appointing a proxy to attend and vote at the Extraordinary General Meeting on your behalf, either by using the proxy form accompanying the Explanatory Memorandum (of which this notice forms part) or electronically by visiting www.linkmarketservices.com.au.

Voting in person, by attorney or by corporate representative

If possible, you should arrive at the meeting venue by 11.00am (Sydney time) so that your shareholding can be checked against the Emeco Share Register and your attendance noted. You must register your attendance on arrival.

If you wish to attend the Extraordinary General Meeting by attorney, evidence of the appointment and non-revocation of such attorney must be received by the Emeco Share Registry by no later than 11.30am (Sydney time) on 11 March 2017. Attorneys should bring with them original or certified copies of the power of attorney under which they have been authorised to attend and vote at the Extraordinary General Meeting.

A representative of a company attending the meeting should bring to the Extraordinary General Meeting a letter or certificate evidencing their appointment, unless previously given to the Emeco Share Registry. Further details in respect of appointing a proxy are set out in the instructions under 'Appointment of Proxy' Form" which forms part of the proxy form enclosed with this Notice. Shareholders can download and fill out the 'Appointment of Corporate Representation' form from Link Market Services Limited's website – www.linkmarketservices.com.au Select the "Investor Services" tab and click on Forms.

Voting by proxy

- Emeco Shareholders are entitled to appoint a proxy to attend the Extraordinary General Meeting and vote on their behalf. If an Emeco Shareholder is entitled to attend and cast two or more votes at the Extraordinary General Meeting, the Emeco Shareholder may appoint two proxies and may specify the proportion or the number of votes that the proxy may exercise. If no such proportion or number is specified, each proxy may exercise half of the Emeco Shareholder's votes. Fractions of votes will be disregarded.
- A proxy does not need to be an Emeco Shareholder.
- If a proxy is not directed how to vote on a resolution, the proxy may vote, or abstain from voting, as that person thinks fit.

- If a proxy is instructed to abstain from voting on a resolution, that person is directed not to vote on the Emeco Shareholder's behalf on the resolution and the shares the subject of the proxy appointment will not be counted in determining the required majority.
- Emeco Shareholders who return their Extraordinary General Meeting Proxy Form with a direction how to vote but do not nominate the identity of their proxy will be taken to have appointed the chairman of the Extraordinary General Meeting as their proxy to vote on their behalf. If a proxy form is returned but the nominated proxy does not attend the Extraordinary General Meeting, the chairman of the Extraordinary General Meeting will act in place of the nominated proxy and vote in accordance with any instructions. Proxy appointments in favour of the chairman of the Extraordinary General Meeting, the company secretary or any other officer of Emeco will be used to support the resolutions.
- Completed proxy forms should be sent to the Emeco Share Registry by:
 - mailing it to Link Market Services Limited using the reply paid envelope;
 - posting it to Link Market Services Limited, Locked Bag A14, Sydney South NSW 1235;
 - lodging it online at Link Market Services Limited's website, www.linkmarketservices.com.au. You will be taken to have signed your proxy form if you lodge it in accordance with the instructions on the website;
 - facsimile to Link Market Services Limited at 02 9287 0309 (from within Australia) or +61 2 9287 0309 (from outside Australia); or
 - hand delivering it to Link Market Services Limited, 1A Homebush Bay Drive, Rhodes, New South Wales.

To be effective, proxy forms must be received by Link Market Services Limited as set out above or by the Company at its registered office at Level 3, 71 Walters Drive, Osborne Park, Western Australia 6017 by no later than 11.30am (Sydney time) on 11 March 2017. Proxy forms received after this time will be invalid.

- The Extraordinary General Meeting Proxy Form must be signed by the Emeco Shareholder or the Emeco Shareholder's attorney. Proxies given by corporations must be executed in accordance with the Corporations Act. Where the appointment of a proxy is signed by the appointer's attorney, a certified copy of the power of attorney or the power itself must be received by 11.30am (Sydney time) on 11 March 2017. If sent by fax, the power of attorney must be certified.
- In the case of joint Emeco Shareholders, the name of any one of the joint Emeco Shareholders may be shown on the Extraordinary General Meeting Proxy Form and any one of the joint Emeco Shareholders may sign the Extraordinary General Meeting Proxy Form. If more than one of the joint Emeco Shareholders are present personally or by duly authorised representative, proxy or attorney, only the vote of the holder whose name appears first in the Emeco Share Register counts.

Voting by Corporate Representative

- An Emeco Shareholder, or proxy, that is a corporation and entitled to attend and vote at the Extraordinary General Meeting may appoint an individual to act as its corporate representative.

- Evidence of the appointment of a corporate representative must be in accordance with section 250D of the Corporations Act 2001 (Cth) and be lodged with Emeco before the Extraordinary General Meeting or at the registration desk on the day of the Extraordinary General Meeting.
- If the appointment of a corporate representative is signed under power of attorney, the power of attorney under which the appointment is signed, or a certified copy of that power of attorney, must accompany the appointment unless the power of attorney has previously been noted by the Emeco Share Registry.

Voting by Attorney

- An Emeco Shareholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint an attorney to attend and vote at the Extraordinary General Meeting on the Emeco Shareholder's behalf.
- An attorney need not be a shareholder of Emeco.
- The power of attorney appointing the attorney must be duly signed and specify the name of each of the Emeco Shareholder, Emeco and the attorney, and also specify the meetings at which the appointment may be used. The appointment may be a standing one.
- To be effective, the power of attorney must also be returned in the same manner, and by the same time, as outlined above for proxy forms.

Annexure B – Independent Expert's Report

**Emeco Holdings Limited
Independent Expert's Report
and Financial Services Guide**

Proposed acquisitions and recapitalisation

31 January 2016



PART 1: FINANCIAL SERVICES GUIDE

PPB Corporate Finance Pty Ltd

PPB Corporate Finance Pty Ltd (ABN 13 130 176 911) ('PPB') is the licensed corporate finance business of PPB Advisory. PPB is a wholly owned subsidiary of PPB Pty Ltd, trading as PPB Advisory (ABN 67 972 164 718). PPB Advisory provides strategic and financial advisory services to a wide range of clients. PPB's contact details are as set out on our letterhead.

Engagement

PPB has been engaged by the independent directors ('Independent Directors') of Emeco Holdings Limited ('Emeco' or the 'Company') to prepare this independent expert's report ('IER' or 'Report'). This IER will accompany the Notice of Meeting and Explanatory Memorandum provided by the directors of Emeco ('Directors') to the shareholders of the Company ('Shareholders') to assist them in deciding whether to approve the proposed acquisitions and recapitalisation of the Company ('Proposed Transaction').

Financial Services Guide

This Financial Services Guide ('FSG') has been prepared in accordance with the Corporations Act, 2001 (Cth). It provides important information to help retail investors make decisions regarding the general financial product advice included in the IER; the services we offer; information about PPB; the dispute resolution process and our remuneration.

PPB holds an Australian Financial Services Licence (No. 344626) ('Licence'). PPB is required to issue to you, as a retail client, a FSG in connection with our IER.

PPB is licensed to provide financial services

The Licence authorises PPB to provide reports for the purposes of acting for and on behalf of clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate restructures or share issues, to carry on a financial services business to provide general financial product advice for securities and certain derivatives (limited to old law securities, options contracts and warrants) to retail and wholesale clients.

You have not engaged PPB directly, but have received this IER because it accompanies the Notice of Meeting and Explanatory Memorandum you have received from the Directors. Our IER includes details of our engagement and identifies the party who has engaged us.

Our IER is provided on our own behalf as an Australian Financial Services Licensee authorised to provide the financial product advice contained in this IER.

General financial product advice

Our IER provides general financial product advice only, and does not provide any personal financial product advice, because it has been prepared without taking into account your particular personal circumstances or objectives (either financial or otherwise), your financial position or your needs.

Some individuals may place a different emphasis on various aspects of potential investments.

An individual's decision in relation to voting on the Proposed Transaction, as described in the Notice of Meeting and

Explanatory Memorandum, may be influenced by their particular circumstances and, therefore, individuals should seek independent advice.

Remuneration

PPB will receive a fee of approximately \$50,000 (plus GST and disbursements) based on commercial rates. PPB will not receive any fee contingent upon the outcome of the Proposed Transaction and accordingly, does not have any pecuniary or other interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the Proposed Transaction.

All of our employees receive a salary. Employees may be eligible for bonuses based on overall productivity and contribution to the operation of PPB or PPB Advisory but any bonuses are not directly connected with individual assignments and in particular are not directly related to the engagement for which our IER was provided.

PPB does not pay commissions or provide any other benefits to any parties or person for referring customers to us in connection with the reports that PPB is licensed to provide.

Independence

PPB is not aware of any actual or potential matter or circumstance that would preclude it from preparing this IER on the grounds of independence under regulatory or professional requirements. In particular, PPB has had regard to the provisions of applicable pronouncements and other guidance statements relating to professional independence issued by Australian professional accounting bodies and the Australian Securities and Investments Commission.

Complaints resolution

PPB is required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, PPB Corporate Finance Pty Ltd, GPO Box 5151, Sydney NSW 2001.

On receipt of a written complaint we will record the complaint, acknowledge receipt of the complaint and seek to resolve the complaint as soon as practical. If we cannot reach a satisfactory resolution, you can raise your concerns with the Financial Ombudsman Service Limited ('FOS').

FOS is an independent body established to provide advice and assistance in helping resolve complaints relating to the financial services industry. PPB is a member of FOS. FOS may be contacted directly via the details set out below.

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Email: info@fos.org.au
Web: www.fos.org.au

PART 2: INDEPENDENT EXPERT'S REPORT

31 January 2016

The Independent Directors
Emeco Holdings Limited
Level 3
71 Walkers Drive
OSBORNE PARK WA 6017

Dear Independent Directors

Independent Expert's Report and Financial Services Guide

1. Introduction

PPB Corporate Finance Pty Ltd ('PPB') has been engaged by the independent directors¹ ('Independent Directors') of Emeco Holdings Limited ('Emeco' or the 'Company') to prepare an independent expert's report ('IER' or 'Report') for the shareholders of Emeco ('Shareholder' or 'Shareholders') in relation to a proposed recapitalisation and issue of shares through a series of transactions ('Proposed Transaction'). The Proposed Transaction is described below. The series of transactions are inter-conditional.

Our opinions expressed in this Report are as at 30 December 2016 ('Valuation Date').

2. The Proposed Transaction

Emeco announced on 3 January 2017 ('Announcement Date') that, subject to Shareholder approval, the directors of Emeco ('Directors') had signed an amended and restated restructuring support agreement ('RSA') with its financiers and the major creditors and shareholders of Orionstone Pty Ltd ('Orionstone') and Andy's Earthmovers Pty Ltd ('Andy's'). The RSA sets out the key terms of the Proposed Transaction which comprises:

- the acquisition of Orionstone through the exchange of 100% of the ordinary shares of Orionstone for the issue of 7% of Emeco's ordinary shares ('Share' or 'Shares') (on a post transaction basis) ('Orionstone Acquisition')
- the acquisition of Andy's through the exchange of 100% of the ordinary shares of Andy's for the issue of 5% of Shares in Emeco (on a post transaction basis) ('Andy's Acquisition')
- a debt for equity swap whereby the claims of the holders of \$371 million², 9.875% 144A notes due on March 2019 ('Notes') in Emeco ('Emeco Noteholders'), Orionstone's creditors and Andy's creditors will be compromised and extinguished in exchange for new senior secured Tranche B Notes for \$468 million with a 5 year maturity and cash interest of 9.25% per annum ('New Notes') and Shares in Emeco on a fully diluted basis³ as follows:
 - Emeco Noteholders - 31%
 - Orionstone's creditors - 13%

¹ Directors that are not associated with the Proposed Transaction

² USD282.7 million, 9.875% 144A Notes due in March 2019 converted to AUD371 million in the RSA using an exchange rate of 0.763 (AUD390.7 million converted at the RBA quoted exchange rate of 0.7236 on 30 December 2016)

³ After the pro-rata rights issue and assuming full take up and before the management incentive plan and subject to adjustments prior to completion under the terms of the RSA

- Andy's creditors - 6%

(the New Notes and Shares referred to together as the 'Equity Exchange')

- equity raising by way of pro-rata rights issue ('Pro-rata Rights Offer') for \$20 million, fully underwritten by First Samuel Limited ('First Samuel'), Black Cranes Asia Opportunities Fund ('Black Crane') and Black Diamond Capital Management LLC and entities associated with it ('Black Diamond')⁴ (together the 'Underwriters').

The Underwriters agree to fully underwrite the Underwritten Amount in the following proportions:

- Black Diamond – 50% (\$10 million)
- First Samuel – 40% (\$8 million)
- Black Crane – 10% (\$2 million).
- Black Crane and First Samuel, substantial shareholders of Emeco, will underwrite 10% and 40% respectively and Black Diamond, Emeco's largest noteholder, will underwrite 50% of the \$20 million
- cancellation of all commitments under its asset backed loan that is due to expire in December 2017
- entry into a new revolving loan facility agreement
- the restructure of existing security arrangements and entry into new security arrangements.

(the cancellation of all commitments, entry into a new revolving loan facility agreement and the restructure of existing and entry into new security arrangements, together referred to as the 'Loan Restructure').

The parties to the RSA have agreed with Emeco that any Shares in Emeco issued pursuant to the Equity Exchange will be subject to a voluntary escrow arrangement for a period of up to 60 days ('Lock-Up').

The Equity Exchange, Pro-rata Rights Offer and the Loan Restructure (collectively referred to as the 'Proposed Transaction'), are inter-conditional.

The Proposed Transaction is also conditional on the approval of Emeco Noteholders through a creditors' scheme of arrangement under Part 5.1 of the Corporations Act ('Creditors Scheme').

The Proposed Transaction supersedes an earlier transaction announced by the Company on 23 September 2016, in substantially similar terms ('Initial Transaction'). The Initial Transaction did not proceed because Black Diamond voted against the resolutions at the creditors scheme meeting, which took place on 14 December 2016. As a result, the requisite voting threshold was not achieved.

In order to secure the support of Black Diamond, Emeco entered into an agreement with Black Diamond ('Black Diamond Agreement') dated 15 December 2016⁵ as part the Proposed Transaction which involves, following implementation of the Equity Exchange and prior to the Pro-rata Rights Offer:

- the private placement of Shares by Emeco to Black Diamond which represent 5.0% of the fully diluted issued capital of Emeco after the Pro-rata Rights Offer ('Black Diamond Initial Placement')
 - an issue of Shares by Emeco to Black Diamond which represent 0.7% of the fully diluted issued capital of Emeco after the Pro-rata Rights Offer ('Black Diamond Top Up')
- (the Black Diamond Initial Placement and Black Diamond Top Up are referred to together as the 'Black Diamond Placements')
- appointment of one director to the board of directors of the Company
 - the Company will pay the legal fees incurred by Black Diamond in respect of the Black Diamond Agreement
 - Black Diamond will underwrite half of the \$20 million Pro-rata Rights Offer on a proportional basis in respect of any shortfall with the other Underwriters

⁴ Black Diamond is an alternative asset management firm which beneficially owns approximately 33% of the Emeco notes through its management of certain private investment funds

⁵ As amended and restated on 29 December 2016

Black Diamond is otherwise receiving the same consideration under the Creditors Scheme as all other Emeco Noteholders. In order to mitigate the potential for Black Diamond to be considered a separate class of creditor due to the additional rights it is receiving under the broader Proposed Transaction, the Company has requested that Black Diamond refrains from voting all Black Diamond Notes on the Creditors Scheme resolutions.

As a result of the Shares issued to Black Diamond pursuant to the Equity Exchange, the Black Diamond Placement, and by virtue of Black Diamond's role as Underwriter (including Emeco satisfying Black Diamond's underwriting fee by issuing Shares to Black Diamond), Black Diamond may acquire a relevant interest in 20% or more of Emeco's issued capital following completion of the Proposed Transaction.

Further details in relation to the Proposed Transaction are provided in Section 1 of this Report.

3. Purpose of this Report

Section 606 of the Corporations Act (Cth) 2001 ('Act') prohibits a person from acquiring a relevant interest in a public company where that person already has a voting right in excess of 20% and their voting right would increase further. Section 611 allows non associated shareholders to waive the Section 606 prohibition by passing a resolution at a general meeting. As set out in Section 1, the Proposed Transaction may result in the following parties each acquiring relevant interests of more than 20% of Emeco's issued capital:

- Black Diamond may hold an interest of between 16.2% and 20.8% after the Proposed Transaction by virtue of Shares issued pursuant to the:
 - Black Diamond Initial Placement (5.0%)
 - Black Diamond Top Up (0.7%)
 - Equity Exchange (10.2%)
 - Pro-Rata Rights Offer, by virtue of Black Diamond's role as an Underwriter (0.3% to 5.0%).
- Emeco Noteholders, together, already owning 4.4%⁶ being issued with an additional 31% of Shares that could result in an increase in their interest to more than 20% being approximately 32%⁷
- Emeco having a relevant interest of 62.2%, by virtue of the Lock-Up for 60 days. The Lock-Up relates only to the trading of the Shares and not any other rights attached to the Shares such as the voting rights.

These issues of Shares require the approval of the shareholders of Emeco that are not associated with the Proposed Transaction ('Non-Associated Shareholders') in accordance with item 7 of Section 611 ('Section 611') of the Act.

Although Black Crane and First Samuel, Underwriters to the Pro-rata Rights Offer, have existing ownership interests of 15.3% and 19.5% respectively, each of their interests will be diluted to less than 10% of the combined group including the businesses of Emeco, Orionstone and Andy's ('Combined Group'), after the Proposed Transaction.

The Independent Directors have appointed PPB to prepare an IER advising whether, in our opinion, the Proposed Transaction is fair and reasonable to, and in the best interests of, the Non-Associated Shareholders.

This Report is to be included in the Explanatory Memorandum and Notice of Meeting to be sent to Shareholders and has been prepared for the exclusive purpose of assisting the Non-Associated Shareholders in their consideration of the Proposed Transaction. PPB and PPB Advisory, including any members or employees thereof, are not responsible to any person, other than the Non-Associated Shareholders and Emeco, in respect of this Report, including for any errors or omission however caused.

This Report should be considered in conjunction with, and not independently of, the information set out in the Explanatory Memorandum and Notice of Meeting.

⁶ Percentage interest on the Valuation Date, before the Proposed Transaction

⁷ On a fully diluted basis assuming full take up of the Pro-rata Rights Offer

4. Basis of evaluation

We have prepared this Report having regard to the Australian Securities and Investments Commission ('ASIC') Regulatory Guides ('RG'), especially RG 111 *Contents of experts reports* ('RG 111') and RG 112 *Independence of experts* ('RG 112') and RG 74 *Acquisitions approved by members* ('RG 74').

RG 74 indicates that the IER should be prepared in accordance with the guidance provided in RG 111 that states that an expert should focus on the purpose and outcome of the transaction rather than the legal mechanism to effect the transaction. RG 111 provides guidance in relation to a range of transactions.

In considering the Proposed Transaction we have had regard to the economic substance of the Proposed Transaction and that the series of transactions comprising the Proposed Transaction are inter-conditional. As such, the series of transactions (collectively referred to as the Proposed Transaction) must be considered together as it is not possible for one to occur without all of the others.

To assess whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, we have adopted the tests of whether the Proposed Transaction is either fair and reasonable (in the best interests), not fair but reasonable (in the best interests), or neither fair nor reasonable (not in the best interests), as set out in RG 111.

ASIC's interpretation of RG 111 suggests that we consider the Proposed Transaction as follows:

- the Proposed Transaction is fair, if the value of a Share in the entity prior to the Proposed Transaction (on a control basis) is equal to or less than the value of a Share in the entity following the Proposed Transaction (on a minority interest basis)
- the Proposed Transaction is reasonable, if it is fair, or, despite not being fair, after considering other significant factors, there are sufficient reasons for Shareholders to vote for the Proposed Transaction.

The analysis as explained above requires that the Proposed Transaction be evaluated as if it was a takeover of Emeco by Emeco Noteholders and the Underwriters. However:

- no element of the Proposed Transaction will result in Non-Associated Shareholders being provided any consideration by Emeco
- Emeco will be merging its operations with Orionstone and Andy's and issuing Shares to the shareholders of Orionstone and Andy's
- following the Proposed Transaction, Shareholders of Emeco will continue to hold the same or a greater number of Shares in Emeco, being the Combined Group, although the value and trading price of those Shares is likely to be impacted by the Proposed Transaction.

Given that Non-Associated Shareholders can elect to participate in the Pro-rata Rights Offer or not, we have assessed the fairness of the Proposed Transaction on the basis that a Non-Associated Shareholder does not participate in the Pro-rata Rights Offer.

A Non-Associated Shareholder may consider alternative approaches to assessing the merits of the Proposed Transaction. Therefore, in our reasonableness assessment, we have considered the position of a Non-Associated Shareholder that elects to participate in the Pro-rata Rights Offer.

Further details on the basis of evaluation are set out in Section 2.3 of our detailed Report.

Our IER is provided to Shareholders for the above purposes only, and should not be used or relied upon for any other purpose, nor should it be disclosed to or discussed with any other party without our prior written consent (except relevant statutory authorities or your professional advisors, acting in that capacity, provided that they accept that we assume no responsibility or liability whatsoever to them in respect of the contents).

Our Report is subject to the limitations and disclosures set out in Section 15 of the Report.

5. Summary and conclusion

In our opinion, in the absence of a superior offer, and on the basis that a Shareholder *does not participate* in the Pro-rata Rights Offer, the Proposed Transaction is fair and reasonable as far as Non-Associated Shareholders are concerned. Further, we consider the Proposed Transaction to be in the best interests of Non-Associated Shareholders.

Since the debt for equity swap with the Emeco Noteholders, Orionstone's creditors and Andy's creditors, is subject to a Creditors Scheme and is part of the Proposed Transaction that we have assessed as being fair and reasonable, we are also of the view that the Creditors Scheme is in the best interest of Non-Associated Shareholders as a whole.

We have assessed whether the Proposed Transaction is fair by comparing our fair market value of a Share in Emeco before the Proposed Transaction to the fair market value of a Share in Emeco after the Proposed Transaction.

There are compelling reasons for the Non-Associated Shareholders to approve the Proposed Transaction as they will be clearly better off if the Proposed Transaction proceeds. In accordance with RG 111 the expert is to consider these reasons and the position of a Non-Associated Shareholder that *does participate* in the New Notes offer, as part of the reasonableness assessment of the Proposed Transaction.

Emeco has been experiencing significant financial pressures mostly due to the decline in certain mining sectors in Australia, declining Share prices and its significant levels of debt. The Company's current asset backed loan is due to expire in December 2017 and the Notes are due to expire in March 2019. Emeco requires a substantial reduction in its debt and additional capital if it is to generate future earnings growth in the business. Both will occur if the Proposed Transaction proceeds.

Our opinion should be read in conjunction with the remainder of this letter and our detailed Report that is attached.

The Proposed Transaction is fair

We have assessed whether the Proposed Transaction is fair by comparing our valuation of a Share in Emeco before the Proposed Transaction to the value of a Share in Emeco after the Proposed Transaction.

We have assessed the fairness of the Proposed Transaction on the basis that a Shareholder does not participate in the Pro-rata Rights Offer. We have also considered the position of a Shareholder that does participate in the Pro-rata Rights Offer as part of our reasonableness assessment.

In Section 14 of our Report, we set out our fairness assessment.

On the basis that a Shareholder does not participate in the Pro-rata Rights Offer, our fairness assessment indicates that the fair market value of an issued Share after the Proposed Transaction, on a pro forma fully diluted basis ('Pro forma Number of Shares'), is within the range of the fair market value of an issued Share before the Proposed Transaction.

A Shareholder that *does not participate* in the Pro-rata Rights Offer will continue to hold their Shares. By virtue of the Proposed Transaction, if all Shareholders elect not to participate in the Pro-rata Rights Offer, their interests, excluding the Underwriters, will be diluted from 65.3% to 15.5% of the total issued Shares of the Company (compared to 21.5% if they do participate).

On the basis that a Shareholder *does not participate* in the Pro-rata Rights Offer, we have assessed the fair market value of an issued Share in Emeco:

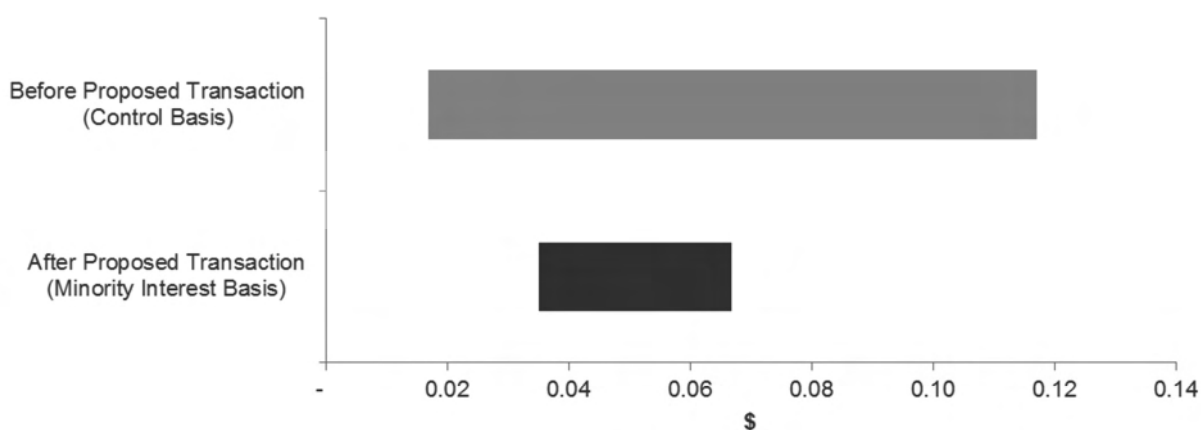
- before the Proposed Transaction, on a control basis, to be in the range of nil to \$0.083 (8.3 cents)
- after the Proposed Transaction, on a minority interest and fully diluted basis, to be in the range of \$0.037 (3.7 cents) to \$0.066 (6.6 cents).

Comparison of value before the Proposed Transaction is on a control basis and after the Proposed Transaction is on a minority interest basis.

The Lock-Up, that forms part of the Proposed Transaction, gives Emeco a relevant interest of 62.2% of the Shares on issue after the Proposed Transaction. The relevant interest is only for a period of 60 days after completion of the Proposed Transaction and relates only to the trading of the Shares and not any other rights attached to the Shares such as the voting rights. As such, we consider that the impact on Non-Associated Shareholders is not material.

A summary of our fairness assessment is set out Section 14

Figure 1: Fairness summary – Proposed Transaction



Source: PPB Analysis

On the basis that a Shareholder *does not participate* in the Pro-rata Rights Offer, our assessed fair market value of an issued Share after the Proposed Transaction is within the range of the fair market value of an issued Share before the Proposed Transaction. Therefore, we have determined that the Proposed Transaction is fair to a Shareholder that does not participate in the Pro-rata Rights Offer, according to RG 111.

RG 111 recommends that the Proposed Transaction is assessed on the basis that Emeco is subject to a change of control transaction. This reflects the possibility that Shareholders, in approving the Proposed Transaction, may give up the opportunity to realise a control premium.

Our assessment involves comparison of the underlying value with the 'consideration' to be received by Shareholders, where that consideration is deemed to be Shares in Emeco after the Proposed Transaction. For the purposes of the comparison, we have valued the Shares after the Proposed Transaction on a minority interest basis (trading value) and compared it to the value of the Shares before the Proposed Transaction on a control basis.

We have assessed the value of the Shares after the Proposed Transaction using the sum of the parts approach, which assesses the value of Emeco, Orionstone and Andy's separately. Under this approach, each business is considered on the basis of similarities in products, growth prospects, and in some respects, demand drivers.

The sum of the parts approach, therefore, provides a flexible valuation approach to take account of these factors, which are likely to vary across the different businesses. We have not included the value of potential synergies arising from the acquisition of Orionstone and Andy's. RG 111.11 states that any special value of the 'target' to a particular 'bidder' (eg synergies that are not available to other bidders) should not be taken into account.

We have applied a control premium of 30% in our analysis, however a control premium effectively represents the outcome of pricing decisions in change of control transactions. The trading price of Emeco Shares on the Australian Securities Exchange ('ASX') will not incorporate a control premium, in the absence of any takeover offer.

The Proposed Transaction is reasonable

We have assessed whether the Proposed Transaction is reasonable after consideration of the following:

Advantages

Shareholder participation in Pro-rata Rights Offer

Non-Associated Shareholders will have the ability to participate in the Pro-rata Rights Offer that could result in them holding an interest of up to 21.5% of the issued Shares after the Proposed Transaction (compared to 65.3% before the Proposed Transaction).

In the event that the Pro-rata Rights Offer is not subscribed for by Shareholders they will be subscribed for by the Underwriters. This could result in Shareholders holding up to 16% and the Underwriters holding up to 18%⁸.

Shareholders are being offered favourable value for the debt to equity swap

The pricing of the debt to equity swap is favourable to Non-Associated Shareholders because the total value of the Shares being issued is at a discount of between 28% and 59% to the debt being swapped.

Reduced leverage

The Proposed Transaction offers an opportunity for Emeco to reduce financial leverage.

The Proposed Transaction will also result in the combined net debt of Emeco, Orionstone and Andy's reducing by approximately \$113 million which would result in the Combined Group's:

- interest coverage ratio⁹ increasing from 1.3 times to 2.5 times 30 June 2016 ('FY16') pro forma earnings before interest, tax, depreciation, amortisation ('EBITDA')
- net debt to enterprise value ('EV') will decrease from 90% to 72% as compared to the average of its peers of 41%¹⁰
- interest rate (coupon) decreasing from 9.875% to 9.25%¹¹.

The reduced financial leverage may not provide significant cash benefits in the current low interest rate environment, however the lower leverage could more easily allow Emeco to capitalise on growth opportunities that may emerge in the future.

Impact of Emeco's highly leveraged capital structure on its Share price

Our analysis suggests that Shares in Emeco are trading at a discount (this is also implied by our valuation per Share on a minority interest basis). Although it is difficult to definitively attribute this to any specific factor, we assume that, like its peers, the market is downgrading Emeco due to its high level of gearing, cash flow constraints and its aging fleet. As such, the Proposed Transaction provides an opportunity for Emeco to reduce its gearing, reduce the average age of its rental fleet (which reduces capital expenditure and alleviates cash flow constraints) and may result in a re-rating of Emeco's Shares with the discounting being removed or reduced.

Condition of fleet assets

The age and condition of the rental fleet assets of Orionstone and Andy's, which are being acquired by Emeco, are superior to Emeco's rental fleet assets. This will reduce Emeco's need for capital expenditure compared to Emeco's capital expenditure requirements before the Proposed Transaction.

Alternative options

⁸ Excluding the Shares to be issued to Black Diamond pursuant to the Black Diamond Placements and Equity Exchange

⁹ Calculated based on 30 June 2016 financial position

¹⁰ Average calculated based on an 80% confidence interval

¹¹ Based on new senior secured notes per RSA

Our consideration of the alternatives suggests that the Proposed Transaction is the superior option available to Emeco as far as Non-Associated Shareholders are concerned. The Directors have appointed advisers to evaluate the alternatives and they have considered a number of options, including:

- sale of all or part of the Company
- scrip based acquisitions and strategic alliances
- restructure of debt and equity raisings.

The Proposed Transaction allows the participation of Shareholders and enhances Emeco's operating platform through the acquisition of Orionstone and Andy's.

Continue as a Shareholder

Shareholders will continue to hold their Shares in Emeco.

Earnings per Share accretive in the long term

We estimate that the Proposed Transaction will result in earnings per Share being diluted in the short to medium term but will be accretive over the longer term. However, this is not unusual for a transaction of this type and does not result in a transfer of value, so long as a Shareholder participates fully in the Pro-rata Rights Offer.

Alignment of interests of debt providers (Emeco Noteholders)

There is likely to be greater alignment between the interests of Emeco Noteholders and Non-Associated Shareholders through common ownership of the same instrument (ordinary Shares in Emeco).

From a control perspective, the Proposed Transaction does confer additional control, through their 31% interest and a seat¹² on the board.

Synergies with the acquisition of Orionstone and Andy's

The Directors have estimated that there are potential synergies to be achieved over time through the acquisition of Orionstone and Andy's mainly due to expected cost savings of \$15 million per annum.

Underwriting fee at market

The Pro-rata Rights Offer is being underwritten for a fee of 7% of the amount underwritten on a proportional basis, ie \$20 million, paid in Shares at the issue price¹³. Based on our analysis of non-renounceable rights issues since January 2013, the underwriting fee is within the range of underwriting fees, albeit towards the higher end of the range.

Support of Emeco's major Shareholders

Emeco's two largest Shareholders, Black Crane (15.3%) and First Samuel (19.5%) indicate their support for the Proposed Transaction through their willingness to underwrite the Pro-rata Rights Offer to the extent of \$10 million.

Emeco's third largest Shareholder, in its capacity as a note holder, Ascribe (4.4% interest before the Proposed Transaction) is supporting the Proposed Transaction through its agreement to a debt for equity swap for \$468 million¹⁴ of New Notes at an interest rate of 9.25% for 31% of the issued Shares in Emeco.

Support of Emeco's largest noteholder

Black Diamond, Emeco's largest noteholder, has indicated it will support the Proposed Transaction.

Recommendation of Independent Directors

In the Explanatory Memorandum, the Independent Directors state that they recommend the Proposed Transaction.

¹² Black Diamond is allowed to appoint one nominee to the Emeco board

¹³ Calculated in accordance with the terms of the revised RSA

¹⁴ \$300 million in relation to Emeco, \$169 million in relation to Orionstone and Andy's

Disadvantages

Significant dilution

Non-Associated Shareholders' interests will be significantly diluted from 65.3% to between 15.5% and 21.5% after the Proposed Transaction as:

- Black Diamond may have an interest of up to 20.8% of the issued Shares
- Underwriters, excluding Black Diamond, may have an interest of up to 13.2% of the issued Shares
- Emeco Noteholders, excluding Black Diamond, may have an interest of up to 20.6% of the issued Shares
- Orionstone's and Andy's shareholders may have an interest of up to 7.1% and 4.6% of the issued Shares, respectively
- Orionstone's and Andy's creditors may have an interest of up to 12.6% and 5.7% of the issued Shares, respectively.

Significant shareholding by Black Diamond

Black Diamond may hold up to 20.8% of the total issued Shares in the Company and may be in a position to influence the decisions made by the Company, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters requiring a Shareholder vote including matters pertaining to a potential change of control in the Company.

Change in operating activities

By virtue of the acquisition of Orionstone and Andy's, the nature of the operating activities of Emeco will change, albeit not materially. Shareholders that sought to invest in the equity of Emeco due to its specific risk profile and exposures may need to re-evaluate their investment in Emeco due to the changes in exposures presented by Emeco after the Proposed Transaction.

The Proposed Transaction may trigger termination rights under contracts entered into for the Company's business

There may be some counterparties to contracts with the Company or its subsidiaries that have rights to terminate their contracts as a result of the implementation of the Proposed Transaction. For example, the Company has a number of material customers that have a right to terminate their contracts with the Company if the Creditors Scheme is implemented, as a result of the Creditors Scheme falling within the definition of 'insolvency event' in the contract, or the customer having the right to terminate the contract for convenience. A similar risk extends to two of the Company's suppliers and one of its financiers. To the extent possible, the Company has discussed the rationale and impact of the Proposed Transaction with the relevant counterparty to mitigate this risk and sought confirmation where possible that they will not exercise their termination rights in respect of the contracts. To date, the Company has not received any indication that any counterparties will exercise such termination rights as a result of implementation of the Proposed Transaction.

No alternatives

If the Proposed Transaction is not approved, the Proposed Transaction will not proceed and there is a significant risk that the Company may be unable to source replacement funding for the \$371 million¹⁵ of Notes that expire in March 2019 and the \$75 million asset backed loan facility ('ABL Facility') that expires in December 2017. The ABL Facility is critical to the operating liquidity of the business.

The Directors would need to immediately focus on a standalone restructuring solution and begin negotiations with the Emeco Noteholders. Based on the Directors' investigations to date, any other possible transaction may be materially more dilutive to Shareholders than the Proposed Transaction. In addition, implementing an

¹⁵ USD282.7 million, 9.875% 144A notes due in March 2019 converted to AUD371 million in the RSA using an exchange rate of 0.763 (AUD390.7 million converted at the RBA quoted exchange rate of 0.7236 on 30 December 2016)

alternative transaction may be extremely difficult given the challenging operating conditions and continuing volatility across the mining industry.

The upcoming ABL Facility and Notes maturities, in conjunction with Emeco's high leverage and deteriorating asset values (due to Emeco's aging fleet and underinvestment in capital expenditure ('capex') caused by cash constraints) raises serious concerns as to whether or not Emeco has the ability to continue to meet its debt service requirements in the short to medium term.

If the Proposed Transaction is not approved, the Share price of Emeco may fall below the current Share price of \$0.0720 per share on 13 January 2017.

Cost of the Proposed Transaction

The Directors have advised that the legal and professional adviser fees of approximately \$35 million will be borne by the Company. If the Proposed Transaction does not proceed, Shareholders will not benefit from any potential upside.

In addition, there is an underwriting fee of 7% of the total Shares issued in respect of the \$20 million Pro-rata Rights Offer being underwritten, regardless of the percentage take up by Shareholders.

Creditors Scheme

If the Creditors Scheme is approved by the Court, then any subordinate claims of existing Shareholders will be released. Subordinate claims are defined as:

- a claim for a debt owed by the Company to a person in the person's capacity as a member of the Company (whether by way of dividends, profits or otherwise)
- any other claim that arises from buying, holding, selling or otherwise dealing in Shares in the Company.

One implication of this release is that existing Shareholders will be unable to commence proceedings against the Company in relation to claims arising prior to the implementation of the Creditors Scheme.

Current Share price

We note that the Share price since the Announcement Date of the Proposed Transaction has increased by 6%, from the closing price of 6.8 cents on the day prior to the Announcement Date to closing at 7.2 cents on 13 January 2017 (as shown in Section 3.12 of the Report). If the Proposed Transaction does not proceed, it is likely that the Share price will fall.

Whilst the market currently implies a 6.5 times 30 June 2017 ('FY17') forecast EBITDA multiple¹⁶ for Emeco, the upcoming ABL Facility and Notes maturities, Emeco's high degree of leverage and continually deteriorating asset values, (due to underinvestment in capex caused by cash constraints) put downward pressures on the future earnings potential of the Company.

Market price for the Notes

Before the announcement of the Proposed Transaction, the Notes were trading as low as USD 43, and the day immediately preceding the announcement of the Proposed Transaction at USD 78 (the Notes were trading at USD 60 the day immediately preceding announcement of the Initial Transaction). To the extent the Proposed Transaction is not implemented, one would expect the pricing of the Notes to decrease well below the pre-announcement prices, implying zero equity value and very material concerns in the marketplace with Emeco's ability to continue to trade.

Shareholders are being offered unfavourable pricing for the Pro-rata Rights Offer

Based on an issue price of the Pro-rata Rights Offer of 8.5 cents per Share¹⁷, it represents an 18% premium to the current Share price of 7.2 cents on 13 January 2017 and a 29% to 128% discount to our assessed value of the Combined Group.

¹⁶ Based on assumed FY17 EBITDA of \$60 million

¹⁷ The issue price of the Pro-rata Rights Offer of 8.5 cents per Share is based on the implied transaction equity value and issue price as defined in the Explanatory Memorandum

6. Other factors

If the Proposed Transaction is not approved, the Share price of Emeco may not rise from the current trading price because the Company has no alternative plans. The Directors will need to continue to investigate sources of alternative funding for the current ABL Facility that expires in December 2017 and the \$371 million Notes (with cash interest of 9.875% per annum) expiring in March 2019.

The Directors have investigated numerous options to alleviate the funding pressures. The Proposed Transaction is, in the view of the Independent Directors, the most beneficial to Shareholders in the Company's current circumstances.

7. Other matters

PPB has prepared the FSG in accordance with the Act. The FSG is set out in Part 1 of this document.

The decision of whether or not to accept the Proposed Transaction is a matter for each Shareholder to decide, based on their own views as to the value of Emeco and their own expectations about future market conditions, the future performance of Emeco, risk profile and investment strategy.

If Shareholders are in any doubt as to the action that they should take in relation to the Proposed Transaction, they should seek their own professional advice.

This letter should be read in the context of our full report that is attached.

Yours faithfully

PPB Corporate Finance Pty Ltd

A handwritten signature in black ink, appearing to read "Campbell Jaski".

Campbell Jaski
Director

A handwritten signature in black ink, appearing to read "Fiona Hansen".

Fiona Hansen
Authorised Representative
AR Number 246371

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All references to \$ in this report are Australian dollars unless stated otherwise

1. Summary of the Proposed Transaction

1.1 The Proposed Transaction

Emeco announced on 3 January 2017 that, subject to Shareholder approval, the Directors had signed an amended and restated RSA with its financiers and the major creditors and shareholders of Orionstone and Andy's. The RSA sets out the key terms of the Proposed Transaction.

The RSA establishes the framework for a proposed recapitalisation of the Company, the acquisition of Orionstone and Andy's and a Pro-rata Rights Offer that enables Shareholders to participate in the future growth of the Company. As part of the Proposed Transaction, the Directors expect to refinance the USD282.7 million, 9.875% 144A notes due on March 2019 and the \$75 million asset backed loan expiring in December 2017.

The Directors expect that the Proposed Transaction will provide the Company with a capital structure that will support long term growth, reduce leverage, improve interest coverage and extend debt funding maturity through to financial year 2022.

The expanded scale of the Company's acquisition of Orionstone and Andy's will bring operating efficiencies. The Directors expect the acquisitions to bring significant cost synergies and will reduce Emeco's capital expenditure requirements in the near future.

The RSA sets out the key terms of the Proposed Transaction that comprises:

- the Orionstone Acquisition through the exchange of 100% of the ordinary shares of Orionstone for the issue of 7% of issued Shares in Emeco (on a post transaction basis)
- the Andy's Acquisition through the exchange of 100% of the ordinary shares of Andy's for the issue of 5% of issued Shares in Emeco (on a post transaction basis)
- an Equity Exchange involving a debt for equity swap whereby the claims of the Emeco Noteholders, Orionstone creditors and Andy's creditors will be compromised and extinguished in exchange for senior secured notes and Shares in Emeco on a fully diluted basis as follows:
 - Emeco Noteholders - 31%
 - Orionstone's creditors - 13%
 - Andy's creditors - 6%
- new senior secured notes to be issued by Emeco Finance Pty Ltd for \$468 million with a 5 year maturity and cash interest of 9.25% per annum
- equity raising by way of a Pro-rata Rights Offer for \$20 million, to be fully underwritten by Black Diamond (50%) and Emeco's two largest Shareholders, First Samuel (40%) and Black Crane (10%). The underwriting fee will be 7% of the \$20 million underwritten amount, paid in Shares at the issue price, as well as reasonable fees and expenses not to exceed \$100,000 aggregated
- cancellation of all commitments under its asset backed loan that is due to expire in December 2017
- entry into a new revolving loan facility agreement
- the restructure of existing security arrangements and entry into new security arrangements (the cancellation of all commitments, entry into a new revolving loan facility agreement and the restructure of existing and entry into new security arrangements, together referred to as the Loan Restructure).

As a result of the Shares issued to Black Diamond pursuant to the Equity Exchange, the Black Diamond Placement, and by virtue of Black Diamond's role as Underwriter (including Emeco satisfying Black Diamond's underwriting fee by issuing Shares to Black Diamond), Black Diamond may acquire a relevant interest in 20% or more of Emeco's issued capital following completion of the Proposed Transaction.

The parties to the RSA have undertaken to Emeco that any Shares in Emeco issued pursuant to the Equity Exchange will be subject to a Lock-Up which comprises a voluntary escrow period of up to 60 days.

The Equity Exchange and Pro-rata Rights Offer and the Loan Restructure (collectively referred to as the Proposed Transaction), are inter-conditional.

The Proposed Transaction is also conditional on the approval of Emeco Noteholders through a Creditors Scheme.

The Proposed Transaction supersedes an Initial Transaction proposed by the Company, in substantially similar terms. The Initial Transaction could not proceed because Black Diamond voted against the resolutions at the scheme meeting, which took place on 14 December 2016. As a result, the requisite voting threshold was not achieved.

In order to secure the support of Black Diamond, Emeco entered into the Black Diamond Agreement as part the Proposed Transaction which involves, following implementation of the Equity Exchange and prior to the Pro-rata Rights Offer the:

- Black Diamond Initial Placement: an issue of Shares by Emeco to Black Diamond which represent 5.0% of the fully diluted issued capital of Emeco after the Pro-rata Rights Offer
 - Black Diamond Top Up: an issue of Shares by Emeco to Black Diamond which represent 0.7% of the fully diluted issued capital of Emeco after the Pro-rata Rights Offer
- (the Black Diamond Initial Placement and Black Diamond Top Up are referred to together as the Black Diamond Placements)

The Black Diamond Top Up was agreed in order to keep Black Diamond whole as a result of any dilution due to the Black Diamond Initial Placement, with the amount of Shares to be issued to Ian Testrow under the Company's management incentive plan being reduced by a corresponding amount.

As a result of the Shares issued to Black Diamond pursuant to the Equity Exchange, the Black Diamond Placement, and by virtue of Black Diamond's role as Underwriter (including Emeco satisfying Black Diamond's underwriting fee by issuing Shares to Black Diamond), Black Diamond may acquire a relevant interest in 20% or more of Emeco's issued capital following completion of the Proposed Transaction.

Full details of the Proposed Transaction are included in the Explanatory Memorandum and Notice of Meeting prepared by the Directors, to which this Report forms part.

1.2 Impact on Shareholders

If Shareholders do not participate in the Pro-rata Rights Offer, their equity interests will be diluted. Table 1 summarises the impact on shareholdings after the Proposed Transaction.

Table 1: Impact on shareholdings after the Proposed Transaction

	Number of shares million	% Interest
Existing Emeco Shareholders	600	23.7%
Emeco Noteholders	777	30.7%
Orionstone Shareholders	179	7.1%
Orionstone creditors	318	12.6%
Andy's Shareholders	116	4.6%
Andy's creditors	144	5.7%
Black Diamond Initial Placement	127	5.0%
Black Diamond Top Up	17	0.7%
Rights issue participants	252	10.0%
Total	2,531	100%

Source: PPB analysis

1.3 Rationale for the Proposed Transaction

The Directors' rationale in pursuing the Proposed Transaction was based on a number of factors:

- Emeco, like many similar companies exposed to the mining industry in Australia, have been impacted by declining commodity prices, the slow-down in mining activity and hence demand for their services. In addition, the Emeco Share prices has also declined. Emeco's market capitalisation declined from \$46 million in December 2015 to \$39 million on 30 December 2016¹⁸. This has further increased Emeco's relatively high gearing. After the Proposed Transaction, Emeco will be a large equipment rental business with approximately 800 machines in its rental fleet, offering services on an enhanced scale, with a stronger balance sheet, more capable fleet and more diverse customer base.
- Specific financial benefits sought are:
 - refinancing will be extended to 2022 financial year
 - interest coverage ratio is expected to be 2.5 times based on FY16 pro forma EBITDA for the Combined Group, up from 1.3 times before the Proposed Transaction for Emeco
 - debt to EBITDA ratio for the Company is expected to decrease from 7.2 times (on a standalone basis before the Proposed Transaction) to 4.4 times, based on the FY16 pro forma adjusted EBITDA (including cost synergies) after the Proposed Transaction for Emeco on a consolidated basis, with further deleveraging over time from expected capex savings.
- The larger and stronger platform will enable Emeco to pursue opportunities for growth and to create value for all key stakeholders including enhanced geographic and end market exposure with significant value creation potential.
- The average age of the Emeco rental fleet will be reduced.
- The Directors have appointed several corporate advisers over the last two years to explore and evaluate various strategic alternatives and to explore a range of options to recapitalise the Company. In February 2016, the Directors appointed a corporate advisor to evaluate a debt restructuring as envisaged by the Proposed Transaction. The Proposed Transaction is considered by the Directors to be the best option to maximise long term value for Shareholders.

The Directors believe that the Proposed Transaction is the best available option for Emeco, at the current time, because it will create a sustainable capital structure with debt funding extended to the 2022 financial year, it allows participation by Shareholders through the Pro-rata Rights Offer and significantly enhances Emeco's scale, geographic and service diversification through the acquisition of Orionstone and Andy's.

1.4 Conditions precedent

The Proposed Transaction is subject to a number of conditions precedents including:

- Approval of the Proposed Transaction by Emeco Noteholders through a Creditors Scheme under Part 5.1 of the Act.
- Execution of the indenture governing the New Notes.
- Emeco entering into an agreement for a new revolving loan facility.
- Preparation of an independent expert's report by an independent expert.
- Security arrangements for all new and existing facilities will be in place after completion of the Proposed Transaction.
- Execution of an underwriting agreement with the Underwriters.
- Shareholder approval at a general meeting for:
 - the issue of new Shares (ASX Listing Rule 7.1)
 - the issue of new Shares to Ian Testrow, Chief Executive Officer, pursuant to the new management equity incentive scheme plan (ASX Listing Rule 10.14)
 - approvals to issues of Shares as an exception to Section 606 of the Act (Section 611), specifically the:

¹⁸ Source: Capital IQ

- Black Diamond potential to acquire a relevant interest in more than 20% of Emeco's issued capital
- Emeco Noteholders potential to acquire a relevant interest in more than 20% of Emeco's issued capital
- acquisition by Emeco of a relevant interest in more than 20% of Emeco's issued capital by virtue of the Lock-Up period
- approval for the giving of financial assistance by Orionstone and Andy's.
- Various regulatory approvals such as Foreign Investment Review Board ('FIRB'), Australian Competition and Consumer Commission, ASIC and the ASX.
- The giving of any financial assistance by Orionstone or Andy's in connection with the acquisitions for the purposes of Section 206B(2) of the Act.
- Orionstone and Andy's close-out or termination of any hedging positions.
- Termination of Orionstone shareholders' agreement.
- Delivery of a tax opinion by KPMG in accordance with the terms of its engagement.
- The Black Diamond Agreement, including Black Diamond Placement, remain in full force.

Full details of all the conditions precedent are included in the Explanatory Memorandum and Notice of Meeting prepared by the directors, to which this Report forms part.

2. Scope of the report

2.1. Purpose and scope

The Directors have appointed PPB to prepare this Report to express an opinion as to whether the Proposed Transaction is fair and reasonable to (and in the best interests of) Non-Associated Shareholders, as a whole.

This Report has been prepared at the request of, and for the benefit of, the Directors and for the benefit of Non-Associated Shareholders, to assist the Directors in fulfilling their obligations to provide Non-Associated Shareholders with full and proper disclosure to enable them to assess the merits of the Proposed Transaction and to decide whether to agree to the resolutions set out in the Explanatory Memorandum and Notice of Meeting.

This Report is to accompany the Explanatory Memorandum and Notice of Meeting to be sent to Shareholders.

Our IER has been prepared in accordance with APES 225 Valuation Services ('APES 225') issued by the Accounting Professional & Ethics Standards Board. As required under APES 225, we confirm that we are independent of the Directors, Emeco, Orionstone, Andy's and the major Shareholders of Emeco.

2.2. Regulatory requirements

Although there is no requirement for an independent expert report for the Proposed Transaction as a whole, pursuant to the Act, or the ASX Listing Rules, the Directors have engaged PPB to prepare an independent expert report setting out whether, in our opinion, the Proposed Transaction is fair and reasonable to, (and in the best interests of) the Non-Associated Shareholders.

Corporations Act

The Proposed Transaction requires the approval of the Non-Associated Shareholders in accordance with Item 7 of Section 611 of the Act.

Section 606 of the Act prohibits a person from acquiring a relevant interest in a public company where that person's voting power increases from 20% or below to in excess of 20% or, if that person already has a voting power in excess of 20%, their voting power would increase further.

The Proposed Transaction will result in:

- Emeco Noteholders acquiring a relevant interest of more than 20% of Emeco's issued capital
- acquisition by Emeco of a relevant interest in more than 20% of Emeco's issued capital by virtue of the Lock-Up
- the Underwriters of the Pro-rata Rights Offer acquiring a relevant interest of 20% or more of Emeco's issued capital
- the potential for Black Diamond to acquire a relevant interest in more than 20% of Emeco's issued capital.

Emeco will also have a relevant interest of more than 20% of Emeco's issued capital during the Lock-Up period. Under Section 608(3) of the Act, a relevant interest arises where a person has the power to control the disposal of securities (for example, as a result of the Lock-Up arrangements in the Proposed Transaction). Section 608(9) of the Act provides that a body corporate can have a relevant interest in its own securities.

Accordingly, Emeco is seeking Shareholder approval for the issue of Shares as a result of the Proposed Transaction.

ASIC Regulatory Guides

ASIC Regulatory Guide RG 111 *Content of expert reports* and ASIC Regulatory Guide RG 76 *Related party transactions* ('RG 76') provide guidelines for an expert preparing an independent expert report. RG 112 *Independence of experts* deals with the independence of the expert.

We confirm that we are independent under the requirements of RG 112.

RG 111 provides guidance in relation to the content of independent expert's reports for a range of transactions. It notes that an expert should focus on the economic substance rather than the legal mechanism of the transaction. Recent correspondence from ASIC indicates that in a transaction where shareholders will be left with a diluted interest in an expanded entity and forego the possibility of receiving a control premium in the future, and where the transaction consists of shares being issued in exchange for vending in a business, the transaction should be analysed as if it were a scrip takeover bid.

In considering the Proposed Transaction, we have had regard to the economic substance of the Proposed Transaction, and that they are inter-conditional. As such, the series of transactions comprising the Proposed Transaction must be considered together as it is not possible for one to occur without any of the others.

To assess whether the Proposed Transaction is fair and reasonable to Non-Associated Shareholders, we have considered whether the Proposed Transaction is either fair and reasonable, not fair but reasonable, or neither fair nor reasonable, as provided by RG 111. In respect of takeover bids, RG 111 provides that:

- the criteria to analyse a control transaction should consider if the offer is 'fair' and if it is 'reasonable'. 'Fair and reasonable' is not regarded as a compound phrase
- an offer is considered to be 'fair' if the value of the consideration is equal to or greater than the value of the securities subject to the offer
- the comparison should be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash
- the expert should not consider the percentage holding of the 'bidder' or its associates in the 'target' when making this comparison
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 recommends that we consider the Proposed Transaction as follows:

- the Proposed Transaction is fair, if the value of a Share in the Company before the Proposed Transaction (on a control basis) is equal to or less than the value of a Share in the Company after the Proposed Transaction (on a minority interest basis)
- the Proposed Transaction is reasonable if it is fair, or despite not being fair, after considering the other significant factors, there are sufficient reasons for Non-Associated Shareholders to vote for the Proposed Transaction in the absence of any alternative transaction.

2.3. Our approach

Although this IER is not required under the Act or under the ASX Listing Rules, we have followed the guidance of the relevant Regulatory Guides in the preparation of this Report.

Fairness

The approach set out in RG 111 recommends that the independent expert should assume that Non-Associated Shareholders are:

- 'selling' their Shares in Emeco
- 'receiving' new Shares after the Proposed Transaction.

In 'selling' their Shares, Non-Associated Shareholders are ceding control. Therefore RG 111 recommends the valuation of the Shares before the Proposed Transaction to be undertaken on a control basis. In the Non-Associated Shareholders receiving new Shares after the Proposed Transaction, we are to assume that the Non-Associated Shareholders will no longer have control, and therefore have a minority interest in Emeco. Consequently, the valuation of the Shares after the Proposed Transaction is to be undertaken on a minority interest basis.

The approach of RG 111 recommends the Proposed Transaction be assessed as a takeover. However:

- no part of the Proposed Transaction will result in Non-Associated Shareholders being offered consideration
- the business operations of Emeco will not change in any material respect, aside from the acquisition of Orionstone and Andy's and the effect of expanding Emeco's operations
- after the Proposed Transaction, Non-Associated Shareholders will still hold their Shares in Emeco, being the combined group of Emeco, Orionstone and Andy's businesses ('Combined Group'), although the value and the likely trading price may change, as they will be impacted by the Proposed Transaction.

Whilst this approach is in line with the guidance of ASIC, it may not necessarily be the only approach Non-Associated Shareholders should consider when assessing the Proposed Transaction.

We have also had regard to other potential approaches in assessing the merits of the Proposed Transaction, as part of our reasonableness assessment. This considers other factors relevant to the Proposed Transaction from the perspective of Non-Associated Shareholders.

We have also considered whether Emeco Noteholders, Emeco and the Underwriters will be paying any premium for control.

Reasonableness

In forming our opinion, we have considered the advantages and disadvantages to the Shareholders if the Proposed Transaction proceeds. ASIC suggests the factors that an expert should consider when determining whether an offer is reasonable, should include the following:

- substance of the Proposed Transaction
- the level of the underwriting fee
- the financial situation and solvency of the entity
- opportunity costs
- the alternative options available to the Company and the likelihood of those options occurring
- the entity's bargaining position
- whether there is selective treatment of any security holder, particularly the related party
- implications of the Proposed Transaction on leverage, complexity of the capital structure, Share price and earnings per Share
- alternatives available to Non-Associated Shareholders
- other factors related to capital structure and opportunities for growth of the Company.

RG 111.15 states that the value of the securities that comprise the offer should be determined ignoring that the target may be in financial distress.

RG 76 recommends an independent expert assess a related party transaction as if it was a control transaction. Therefore, where an independent expert assesses whether or not a related party transaction is 'fair and reasonable' (whether for the purposes of Chapter 2E of the Act or ASX Listing Rule 10.1), there should be a separate assessment of whether the transaction is 'fair' and 'reasonable'.

2.4. Definition of value

Fair market value

The assessment of whether the Proposed Transaction is fair and reasonable to Shareholders, as a whole, necessarily involves determining the fair market value of the issued Shares of Emeco.

For the purposes of our opinion, the term "*fair market value*" is defined as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser, and a knowledgeable, willing, but not anxious vendor, acting at arm's length".

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependent on the exercise of individual judgment. Therefore, there is no indisputable value and we normally express our valuation opinion as falling within a likely range.

Special value

We have not considered special value in forming our opinion. Special value is the amount that a potential acquirer may be prepared to pay for an asset in excess of the fair market value. This premium represents the value to the potential acquirer of various factors that may include potential economies of scale, reduction in competition, other synergies and cost savings arising from the acquisition under consideration not available to likely purchasers generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchasers.

2.5. Valuation date

Our opinion expressed in this Report is as at 30 December 2016 ('Valuation Date').

2.6. Shareholders' decision

This IER has been prepared specifically for the Directors and the Shareholders. PPB and PPB Advisory, including any members or employees thereof, are not responsible to any person, other than the Non-Associated Shareholders and Emeco, in respect of this report, including for any errors or omission however caused.

This Report constitutes general financial product advice only and in undertaking our assessment, we have considered the likely impact of the Proposed Transaction to Shareholders as a whole. We have not considered the potential impact of the Proposed Transaction on individual Shareholders.

Individual Shareholders have different financial circumstances and it is neither practicable nor possible to consider the implications of the Proposed Transaction on individual Shareholders.

The decision of whether or not to approve the Proposed Transaction is a matter for Shareholders based on their own views as to the value of Emeco and their expectations about future market conditions, Emeco's performance, and risk profile and investment strategy.

If Shareholders are in doubt as to the action they should take in relation to the Proposed Transaction, they should seek their own professional advice.

PPB has prepared a FSG in accordance with the Act. The FSG is included as Part 1 of the Report.

2.7. Consent and other matters

This IER is to be read in conjunction with the Explanatory Memorandum and Notice of Meeting, and is prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Transaction. This Report should not be used for any other purpose.

PPB's opinion is based on economic, market and other external conditions prevailing at the date of this Report. These conditions can change significantly over a relatively short period of time.

This Report has been based on financial and other information provided by Emeco in relation to the Proposed Transaction. PPB has considered and relied upon this information.

PPB consents to the issue of this Report in its form and context and consents to its inclusion in the Explanatory Memorandum and Notice of Meeting.

Refer to Section 15 for limitations and disclosures regarding the basis of preparation and use of this Report.

2.8. Sources of information

In preparing this Report, we have relied on information as summarised in Appendix B, some of which was provided by Emeco and some was obtained from public sources.

All documents relied on in support of our opinion are either referred to in the body of this Report, identified by way of footnote, or are referred to in the appendices to this Report.

We have had discussions with management of Emeco ('Management') in relation to the Proposed Transaction, operations, financial position and outlook for Emeco.

3. Overview of Emeco

3.1. Brief history

Emeco was founded in 1972 in West Australia as a local earth moving equipment supplier. The business grew to establish its presence in Australia and is now a global earthmoving equipment rental business with operations in Australia, Chile and Canada.

Emeco's key business milestones and expansion into new locations are summarised in Table 2.

Table 2: Summary key milestones

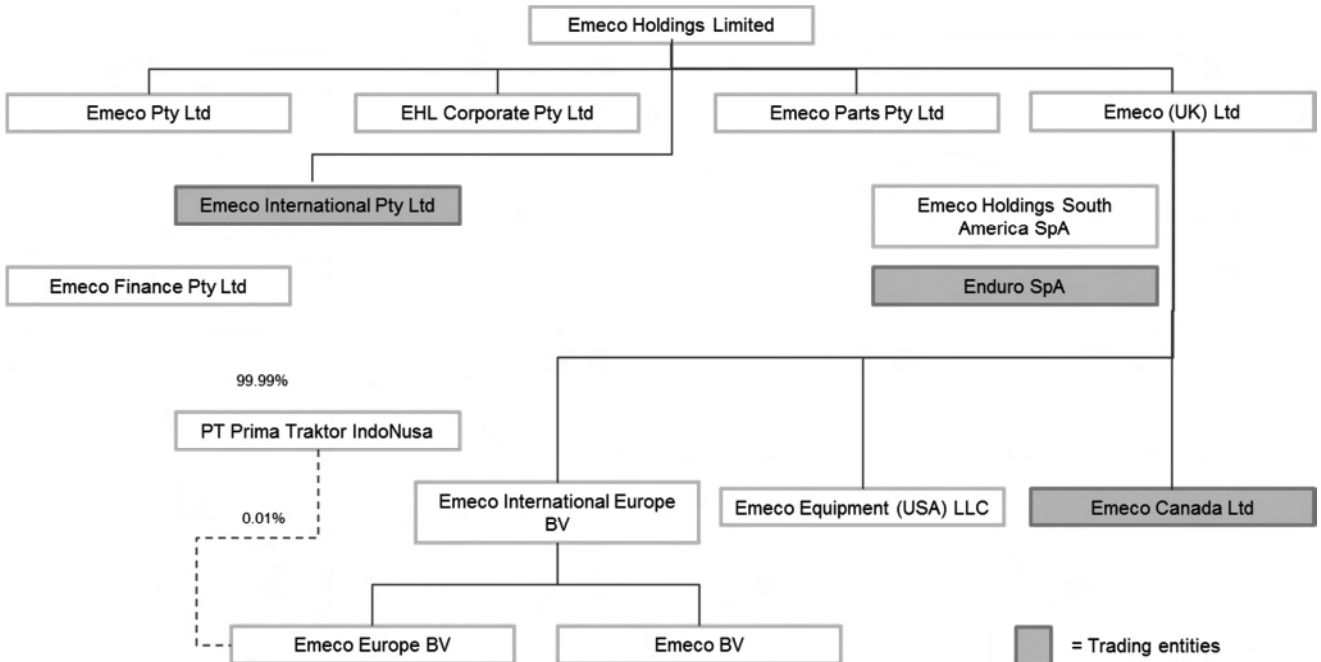
Date	Key milestones
1972	Emeco (Earth Moving Equipment Company)
1985	New South Wales business established
1992	Operations established across Australia
1997	Darr Equipment Company, a United States equipment and forklift company based in Texas, acquired Emeco
2000	Established operations in Indonesia
2003	Established operations in United States
2004	Established operations in Netherlands
2005	Acquired businesses in Canada and Europe, and expanded activities in the United States
2006	Listed on the ASX
2007	Acquired independent earthmoving equipment rental, sales and parts companies in Europe, Australia and the United States
2010	Closure of under-performing assets as a result of a global strategic review
2012	Established operations in Chile
2014	Closure of business in Indonesia
2015	Ian Testrow appointed as Managing Director and Chief Executive Officer
2016	Peter Richards appointed as Chair

Source: Emeco group website (<http://www.emecogroup.com/view/about-emeco/history>) 12 January 2016

3.2. Group structure

The Emeco group structure is summarised in Figure 2.

Figure 2: Group structure



Source: Management
 (all entities are 100% owned unless otherwise stated)

3.3. Business operations

Emeco is an equipment rental business, specialising in earthmoving solutions to mining companies and contractors. The business sells under-utilised equipment in addition to its two main equipment rental offerings.

Maintained dry rental

Emeco supply the equipment as well as a supporting maintenance team. The maintenance service is either provided onsite full-time or through a field service arrangement.

Dry rental

Emeco supply's the equipment, which join the customer's existing fleet and are maintained by the customer's existing maintenance team.

Equipment for sale

In addition to equipment rental, Emeco sells its machines, where they are no longer required, to businesses operating in the civil construction and mining industries.

3.4. Historical financial performance

The audited consolidated financial performance of Emeco for the financial year ended 30 June 2014 ('FY14'), 30 June 2015 ('FY15') and FY16 is summarised in Table 3.

Table 3: Summary of Emeco's financial performance

\$'000	FY14 Audited	FY15 Audited	FY16 Audited
Rental revenue	205,368	206,718	177,744
Equipment sales	8,145	2,788	5,472
Maintenance services	27,582	31,925	23,348
	241,095	241,431	206,564
Change in machinery and parts	(14,443)	(11,780)	(8,921)
Repairs and maintenance	(84,727)	(99,216)	(70,967)
Employee expenses	(42,931)	(43,608)	(33,995)
Hired-in equipment and labour	(13,142)	(22,411)	(21,102)
Gross profit	85,852	64,416	71,579
Other income	1,084	512	1,791
Other expenses	(20,872)	(32,072)	(25,770)
EBITDA	66,064	32,856	47,600
Impairment of assets	(201,543)	(30,836)	(179,609)
Depreciation & amortisation expense	(78,128)	(98,804)	(69,342)
Finance income	6,081	2,781	79,345
Finance expense	(48,632)	(52,260)	(55,455)
Foreign Exchange ('FX') gain/(loss)	4,781	(16,332)	(42,002)
Profit/(Loss) before tax	(251,377)	(162,595)	(219,463)
Tax benefit/(expense)	27,206	39,464	(5,926)
Net profit/(loss) after tax	(224,171)	(123,131)	(225,389)

Source: Emeco annual report for the years ended 30 June 2014, 30 June 2015 and 30 June 2016

Our comments on the audited historical financial performance of Emeco are as follows:

Revenue

Revenue for each of Emeco's service offerings is summarised in Table 4.

Table 4: Summary revenue

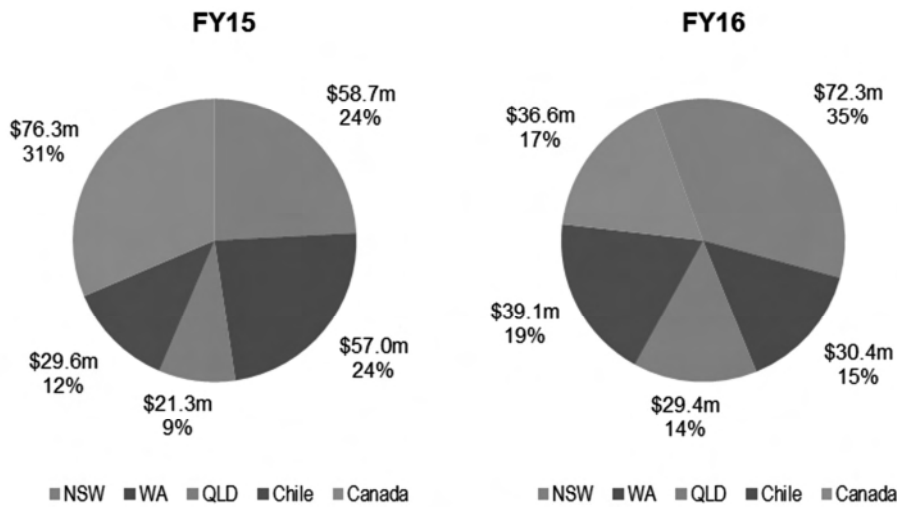
	FY14 \$'000	FY15 \$'000	FY16 \$'000	FY15 v FY14 %	FY16 v FY15 %
Rental revenue	205,369	206,718	177,744	0.66%	(14.02%)
Equipment sales	8,145	2,788	5,472	(65.77%)	96.27%
Maintenance services	27,582	31,925	23,348	15.75%	(26.87%)
Total revenue	241,096	241,431	206,564	0.14%	(14.44%)

Source: Emeco annual financial report for the years ended 30 June 2014, 30 June 2015 and 30 June 2016

Revenue declined during FY16 as Emeco's customers shifted their focus towards maximising efficiencies and reducing costs because of:

- challenging market conditions caused by the decline in commodity prices
- sustained low global oil prices impacting demand for ancillary services and equipment hire.

Figure 3: Revenue by region



Source: 2016 full year results information pack dated 31 August 2016

Australia

Australian operating revenues decreased by \$4.9 million (3.6%) to \$132.1 million (FY15: \$137.0 million). This was due to a material decline in revenues from WA operations (\$26.6 million or 46.7%), following the completion of major projects during FY15 and an inability to continue this work in the competitive market.

Largely offsetting the decline in WA’s revenue was strong growth in both NSW and QLD of \$13.6 million (23.2%) and \$8.1 million (38%) respectively. NSW growth is attributed to contract extensions with several major customers and increased operating utilisation from 56% in FY15 to 59% in FY16. QLD growth relates to the full year benefit of contracts won late in FY15 and improving operating utilisation.

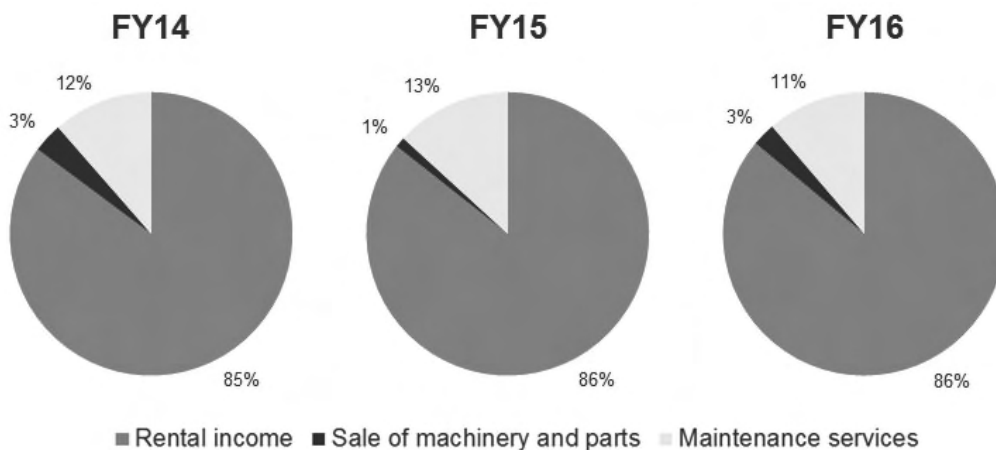
Canada

Canadian revenues halved in FY16 (\$76.3 million to \$36.6 million), following the sustained lower oil price, which caused oil sands producers to delay reclamation works. Additionally, during the second half of FY16 Canada was adversely affected by bushfires and this caused the oil sands industry to close for two months.

Chile

Revenues (commenced in July 2015) in Chile improved following the formation of a new partnership to complete a five year project at Antofagasta Minerals’ Encuentro mine, leading to a \$9.5 million or 32.1% increase in revenues (FY16: \$39.1 million).

Figure 4: Relative revenue contribution by service line



Source: Emeco annual financial report for the years ended 30 June 2014, 30 June 2015 and 30 June 2016

Revenue mix remains relatively unchanged between FY14 and FY16 in each of Emeco's service lines.

Operating costs

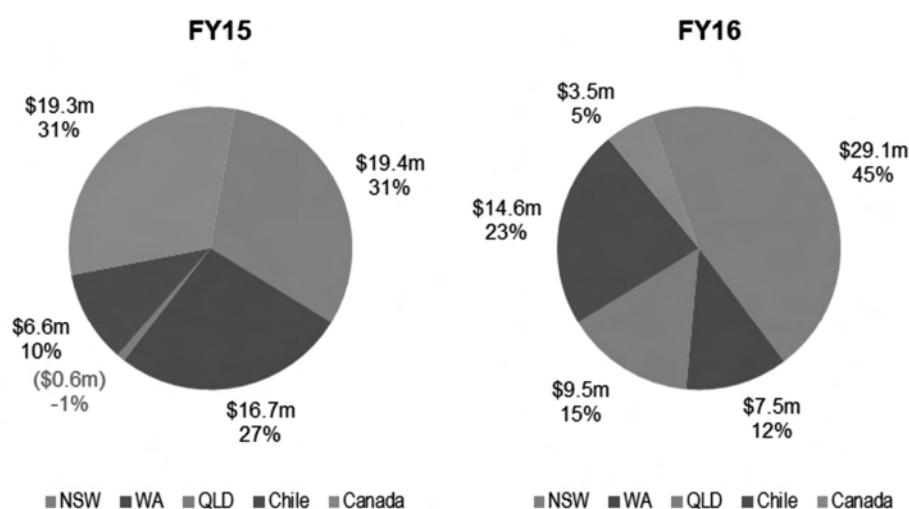
Phase two of Project Fit, a cost saving initiative, led to a further reduction in operating costs of \$13.1 million during FY16. Total sustainable annual cost reductions from Project Fit are estimated to be \$26.7 million per annum.

Repairs and maintenance expenditure in FY16 reduced by 28.4% to \$71.0 million (FY15: \$99.2 million), this decline was partly attributed to a \$14.1 million one-off cost incurred during FY15 to prepare assets for rental.

Employee costs also reduced by 22.0% during FY16 to \$34.0 million (FY15: \$43.6 million), following a reduction of 82 employees to 254.

EBITDA

Figure 5: EBITDA by region



Source: Emeco annual financial report for the years ended 30 June 2014, 30 June 2015 and 30 June 2016

Australia

Australian EBITDA improved by almost 30% during FY16 to \$46.1 million (FY15: \$35.5 million) as a result of improving operating efficiencies and overall reduction in operating costs.

Canada

Canadian operations saw EBITDA reduce by \$15.8 million (81.9%), attributed to the sustained low oil price and closure of the oil sands industry for almost two months due to severe bushfires in the region.

Chile

Chile generated a positive EBITDA of \$9.5 million in FY16, following a loss in FY15 of \$0.6 million. The improvement in performance is attributed to increased revenues of \$9.5 million and overall improved margins (greater cost efficiencies).

Impairment of intangible assets

Emeco carried out impairment testing during FY16 as a result of continued challenging market conditions, which led to impairments totaling \$179.6 million. Impairments comprised an \$11.5 million write-down of inventory and a \$168.2 million impairment of property, plant and equipment ('PP&E').

The total impairment recognised to the three cost generating units was \$163.2 million, specifically:

- \$23.4 million – Australian rental
- \$97.4 million – Canada rental
- \$42.4 million – Chile rental.

The impairments reflect increased discount rates (which reduces the present value of estimated future cash flows), designed to reflect current market conditions. Additionally, Canada's large impairment takes into account the restructure of operations in response to sustained low oil prices.

Other

Finance income increased significantly as a result of hedge gains of \$47.0 million (FY15: \$2.5 million) and discounts on repurchased debt of \$31.7 million. Foreign exchange losses increased by \$25.7 million to \$42.0 million, which is mostly attributable to unrealised foreign exchange movements.

3.5. Historical financial position

The consolidated financial position of Emeco as at 30 June 2014, 30 June 2015 and 30 June 2016 is summarised in Table 5.

Table 5: Summary of Emeco's financial position

\$'000	30-Jun-2014 Audited	30-Jun-2015 Audited	30-Jun-2016 Audited
Current assets			
Cash	41,830	27,800	24,854
Trade receivables	78,154	60,272	37,734
Derivatives	5	12,761	6,315
Inventories	8,161	20,931	5,333
Assets held for sale	39,922	32,328	30,728
Other current assets	3,066	2,134	1,832
Total current assets	171,138	156,226	106,796
Non-current assets			
Trade and other receivables	772	5,375	6,234
Derivatives	2,749	38,282	12,629
Intangibles and goodwill	175	1,641	2,344
Property, plant and equipment	573,528	482,351	280,182
Deferred tax	0	24,880	19,507
Total non-current assets	577,224	552,529	320,896
Total assets	748,362	708,755	427,692
Current liabilities			
Trade and other payables	53,095	45,363	38,035
Derivative financial instruments	2,546	0	883
Interest bearing liabilities	4,316	5,484	4,579
Provisions	2,694	3,652	3,469
Total current liabilities	62,651	54,499	46,966
Non-current liabilities			
Derivative financial instruments	10,187	1,663	0
Interest bearing liabilities (Notes)	339,458	418,487	373,239
Deferred tax	11,025	10,884	0
Provisions	1,069	1,751	1,490
Total non-current liabilities	361,739	432,785	374,729
Total liabilities	424,390	487,284	421,695
Net assets	323,972	221,471	5,997

Source: Emeco consolidated financial statements for the year ended 30 June 2014, 30 June 2015 and 30 June 2016

We make the following comments in relation to the financial position of Emeco.

Net assets declined by 32% between 30 June 2014 and 30 June 2015, and a further 97% between 30 June 2015 and 30 June 2016. The decline is mostly attributable to the decrease in the book values of property, plant and equipment as discussed below.

Property, plant and equipment decreases by \$293.3 million to \$280.2 million between 30 June 2014 (\$573.5 million) and 30 June 2016. This can be attributed to:

- significant impairment losses recognised across FY15 (\$23.9 million) and FY16 (\$168.2 million) as a result of challenging market conditions
- Emeco divesting its fleet to improve its capacity usage and a decrease in fleet utilisation
- disposals totalling \$14.0 million in FY15 and \$0.4 million in FY16. Additionally, assets held for sale in FY15 and FY16 were \$14.6 million and \$24.2 million
- other movements relate to depreciation, additions and foreign exchange movements.

Independent equipment valuers, Hassalls, performed desktop valuations on Emeco's fleet as at 23 June 2016, as required by the ABL facility. Hassalls confirmed in a letter dated 3 January 2017 that there has been no material change in the value of the plant since their 23 June 2016 valuation. The combined fair market value of Emeco's fleet was assessed as \$270.8 million. After taking into account plant and equipment purchases and disposals after 23 June 2016, the adjusted fair market value of Emeco's fleet is \$265.2 million at the Valuation Date, summarised in Table 6. We note the book value of plant and equipment as at 30 June 2016 was \$280.2 million, which is set out in Table 7.

Table 6: Adjusted fair market value of Emeco's fleet at Valuation Date

\$'000	Fair market value
Hassalls valuation as at 23 June 2016	270,788
<i>Plus: purchases</i>	18,959
<i>Less: disposals</i>	(24,545)
Adjusted fair value of the fleet	265,202

Source: Management and Hassalls' valuation dated 23 June 2016

After adjusting for the fair market value of the fleet of \$265.2 million, based on Hassalls' valuation, the total fair market value of Emeco's plant and equipment at the Valuation Date is \$280.7 million.

Table 7: Summary property plant and equipment

\$'000	Book value	Fair market value
Freehold land and buildings	2,142	2,142
Leasehold improvements	934	934
Plant and equipment	264,637	265,202
Leased plant and equipment	9,198	9,198
Furniture, fixtures and fittings	62	62
Office equipment	340	340
Motor vehicles	1,127	1,127
Sundry plant	1,742	1,742
Total property, plant and equipment	280,182	280,747

Source: Emeco consolidated financial statements and Hassalls' valuation report dated 23 June 2016

Cash balances declined as a result of operating losses reported in each period and financing. The majority of the cash earned from operations has been used to pay interest. It is factually incorrect to just refer to operating losses that include non-cash amounts.

Derivative assets (current and non-current) increased \$48 million to \$51 million between 30 June 2014 and 30 June 2015 and reduced to \$18.9 million at 30 June 2016. This was a result of Emeco entering into USD currency interest rate swap facilities to hedge its exposure to foreign exchange risk from its operations in Australia given the debt is USD denominated. The decrease in swap value between 30 June 2015 and 30 June 2016 was a result of Emeco partially closing out the mark-to-market interest rate swaps to buy back bonds.

Table 8 summarises Emeco's financial indebtedness (interest bearing liabilities) as at Valuation Date.

Table 8: Summary of Emeco's interest bearing liabilities

Interest bearing liability	\$'000
Current liabilities	
Current interest bearing liabilities	3,648
Non-current liabilities	
Notes issued – secured (net of borrowing costs)	368,886
Lease liabilities	2,899
Borrowing costs	(1,051)
Total interest bearing liabilities	374,382

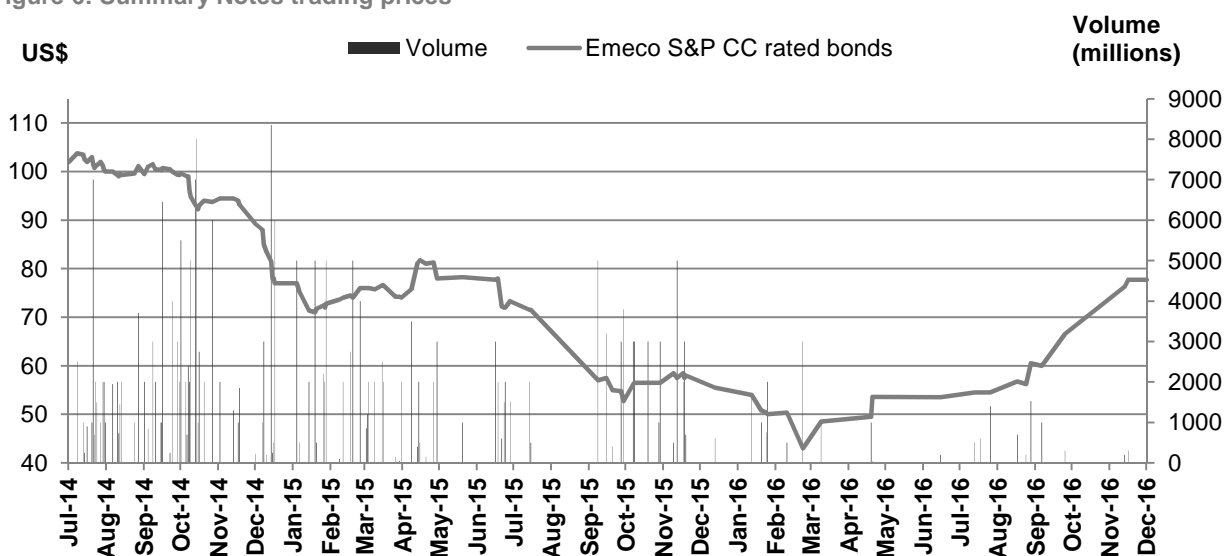
Source: Management

Emeco raised USD 335 million in the 144A bond market in FY14. The value of these bonds fluctuated between 30 June 2014 and 30 June 2016 due to the decline in value of the AUD against the USD.

During the year ended 30 June 2016, Emeco closed out some of its interest rate swaps for \$48.2 million which was recognised as a gain on derivatives sold. The funds were used to purchase USD 52.8 million face value of bonds for USD 29.8 million resulting in a \$31.6 million gain on purchase.

Before the announcement of the Proposed Transaction, the Notes were trading as low as USD 43, and the day immediately preceding the announcement of the Proposed Transaction at USD 78 (up from USD 60 on the day immediately preceding the announcement of the Initial Transaction). To the extent that the Proposed Transaction is not implemented, we would expect the pricing of the bonds to decrease well below the pre-announcement prices, implying zero equity value and very material concerns in the marketplace with Emeco's ability to continue to trade.

Figure 6: Summary Notes trading prices



Source: Bloomberg

Emeco also has an ABL Facility for \$75 million. However, as at 30 June 2016, the facility was not drawn (although \$11.5 million of bank guarantees were utilised).

3.6. Audit report

The auditors provided unqualified audit opinions for Emeco's 30 June 2014, 30 June 2015 and 30 June 2016 financial statements.

3.7. Forecast financial performance

Emeco has not provided any formal guidance in respect of expected EBITDA for FY17. However, Management has implied, during investor meetings, that an EBITDA of around \$60 million would be achievable in FY17.

3.8. Business outlook

In the challenging market conditions, Emeco has declared its main objectives are to pursue efficiency gains and strictly manage its capital. Generally, Emeco has stated that its focus is to:

- reduce maintenance costs (eg by extending component life and improving labour productivity)
- improve market share (eg through use of technology investments and through strategic partnerships).

More specifically in each market, Emeco has cited the following business performance initiatives and market conditions in the short to medium term:

Australia

Utilisation of \$21.5 million of equipment transferred or swapped from Canada to meet demand in Queensland and New South Wales.

Continued oversupply of equipment in the market means a recovery in rental rate is unlikely in the medium term.

Canada

Stabilise operations following a business restructure and aim to improve equipment utilisation as a result of a partnership with one of Emeco's peers.

Market conditions not expected to improve in the medium term and while oil prices remain low.

Chile

Leverage the shift of fleet back to the Encuentro mine in Chile during FY17 to generate continuing operations for an additional three years.

Potential opportunities as capital constrained copper miners look to outsource their fleet requirements.

3.9. Directors

Table 9 summarises the experience of the Directors of Emeco as at 30 December 2016.

Table 9: Directors

Name	Position	Brief resume
Peter Richards	Chairman and Independent Non-Executive Director	Appointed Independent Non-Executive Director in June 2010. Appointed Chairman in January 2016. Over 35 years of international business experience with global businesses
Ian Testrow	Managing Director and Chief Executive Officer	Joined Emeco in October 2005 and appointed Managing Director in August 2015. Over 20 years' experience in mining and civil sector, including building Emeco's presence in Canada
John Cahill	Independent Non-Executive Director	Appointed Independent Non-Executive Director in September 2008. Over 25 years' experience working across various positions in the energy utility sector
Dr Erica Smyth	Independent Non-Executive Director	Appointed Independent Non-Executive Director in December 2011. Over 40 years' experience in the mineral and petroleum industries. Awarded lifetime achievement award for contribution as part of the Women in Resources Awards 2010 by the Chamber of Mines and Energy Western Australia
Thao Pham	Company Secretary	Appointed Company Secretary and General Counsel in July 2014. Several years as a corporate/commercial lawyer in Australian law before joining Emeco

Source: Data room provided by Emeco, Emeco's legal advisors and corporate advisors, and Emeco's website (<http://www.emecogroup.com/view/about-emeco/board>) 10 January 2017

3.10. Capital structure

Emeco had 600 million ordinary Shares on issue at Valuation Date. Table 10 summarises Emeco's performance shares on issue as at Valuation Date.

Table 10: Emeco's performance shares on issue

Long term incentive plan	Issued	Number of instruments	Exercise price	Contractual life of performance shares/rights
Performance shares/rights	2013 - 2015	10,677,087	Nil	3 years
Performance shares/rights	2016	38,612,893	Nil	3 years
	Total	49,289,980		

Employee share ownership plan	Issued	Number of instruments	Exercise price	Contractual life of performance shares/rights
ESOP	n/a	49,831	n/a	n/a

Source: Management, Emeco consolidated financial statements for the year ended 30 June 2016

3.11. Top 10 Shareholders

Table 11 summarises the top ten ordinary Shareholders of Emeco as at Valuation Date.

Table 11: Top 10 Shareholders

Rank	Shareholder	Number of Shares	% of total
1	First Samuel	116,880,170	19.49
2	Black Crane Investment Management	91,489,840	15.26
3	EHL ESOP Trust	31,327,614	5.22
4	American Securities	26,110,490	4.35
5	Realindex Investments	20,622,062	3.44
6	Mr Jeffery P Rose	14,000,000	2.33
7	Dimensional Fund Advisors	12,615,423	2.10
8	Franklin Templeton Investments	10,188,913	1.70
9	Mr Hong Keong Chiu & Ms Yok Kee Khoo	8,334,785	1.39
10	LSV Asset Management	7,828,694	1.31
	Subtotal	339,397,991	57.60
	Other Shareholders	260,277,716	43.40
	Total Shares on issue	599,675,707	100.00

Source: Management, listing dated 17 October 2016

(the above table only uses the legal ownership and not beneficial ownership)

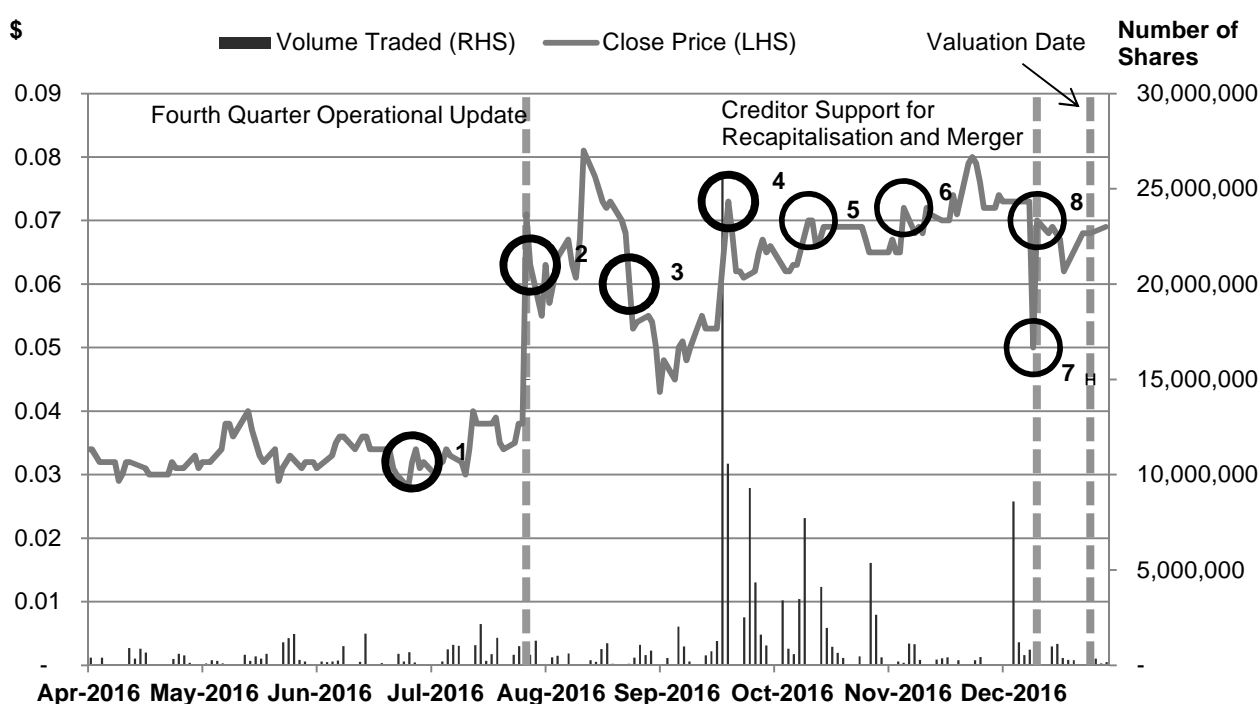
We also note that Management and the Directors own 6.05% of the issued Shares.

3.12. Share price performance

Figure 7 illustrates the movements in the Share price and volumes traded during 11 April 2016 and 13 January 2017 (approximately a nine month period). Emeco's closing Share price was in the range of 2.8 cents to 8.1 cents during this period.

Following the announcement of the Proposed Transaction, Emeco's Share's closed higher, increasing from 5.0 cents to 7.0 cents. This increase was consistent with the change in the closing Share price upon announcement of the Initial Transaction (5.3 cents to 7.3 cents). After the Initial Transaction's announcement, Emeco Shares traded between 6.1 cents and 8.0 cents, before closing at 5.0 cents following the announcement that the Initial Transaction would not proceed (refer to Figure 7 and Table 12 for an overview of Share price and volume movements and ASX announcements).

Figure 7: Emeco's historical Share performance



Source: Capital IQ

The key events impacting the Share price are as follows:

Table 12: Key events related to historical Share performance

Date	Volume traded	Price change	Title of ASX announcement	Label
3-Jan-17	30,000	1.5%	Revised Restructuring Support Agreement Signed	
16-Dec-16	1,702,580	40.0%	Creditor Support for Recapitalisation and Merger	8
15-Dec-16	1,056,400	-31.5%	Recapitalisation and Merger Transaction Update	7
14-Dec-16	-	0.0%	Reinstatement to Official Quotation	
			Results of Annual General Meeting	
			Managing Director's Annual Address to Shareholders	
			Chairman's Address to Shareholders	
			Results of Creditors' Scheme Meeting	
			Chairman's Address - Adjourned Annual General Meeting	
			Further Adjournment of Scheme Creditors Meeting	
			Suspension from Official Quotation	
			Adjournment of Scheme Creditors Meeting	

13-Dec-16	-	0.0%	Adjournment of Scheme Creditors Meeting Creditors Scheme Meeting Supplemental Disclosure	
12-Dec-16	-	0.0%	Chairman's Address to Shareholders Trading Halt	
1-Dec-16	269,330	-3.8%	Recapitalisation and Merger Update	
29-Nov-16	311,370	1.3%	Appendix 3B	
22-Nov-16	595,870	0.0%	Emeco Agreement Reached to Defer Payments and Reduce Mining	
11-Nov-16	811,300	10.8%	Emeco welcomes ACCC decision	6
10-Nov-16	-	0.0%	ASX Waiver Granted Notice of 2016 Annual General Meeting 2016 Annual Report	
8-Nov-16	50,000	3.1%	Emeco Creditors' Scheme Meeting	
4-Nov-16	220,210	0.0%	Change in Date - 2016 Emeco Annual General Meeting	
2-Nov-16	124,750	-3.0%	Response to Media Speculation	
24-Oct-16	47,070	0.0%	Chief Financial Officer Appointed	
17-Oct-16	1,156,420	11.1%	First Quarter Operational Update	5
13-Oct-16	152,790	1.6%	2016 Annual General Meeting	
6-Oct-16	273,010	-3.0%	Approval of Extension of Time to Hold AGM	
4-Oct-16	1,115,870	4.8%	Fitch Credit Rating Downgrade	
27-Sep-16	1,203,890	-6.8%	S&P Credit Rating Downgrade - Response to Press Speculation	
26-Sep-16	8,587,590	37.7%	S&P Credit Rating Downgrade Presentation: Recapitalisation and Merger	4
21-Sep-16	-	0.0%	Trading halt	
6-Sep-16	124,930	-1.8%	Fitch Credit Rating Downgrade	
31-Aug-16	5,368,460	-11.8%	2016 Full Year Results Presentation Emeco Reports FY16 Operating EBITDA of \$54.2 million 2016 Corporate Governance Statement 2016 Annual Report to shareholders Appendix 4G - Key to Corporate Governance Appendix 4E - FY16 Preliminary Final Report	3
4-Aug-16	25,667,270	86.8%	Fourth Quarter Operational Update	2
2-Aug-16	725,000	8.6%	Appendix 3Y - Change of Director's Interest Notice - Ian Testrow	
5-Jul-16	488,780	14.3%	Resignation of Executive Director, Finance	1

Source: Capital IQ and PPB analysis, Emeco website, ASX website

Table 13 summarises the cumulative change in Share price since the Initial Transactions announcement up to the date of this Report.

Table 13: Quoted Share price increase since announcement of Initial Transaction

Date	Traded days	High price (\$)	Low price (\$)	Close price (\$)	% change from 23/09/2016	Comment
23/09/2016	0	-	-	0.0530	-	Announcement date, Shares didn't trade due to trading halt
26/09/2016	1	0.0840	0.0600	0.0730	38	First day of trading after announcement
15/12/2016	52	0.0550	0.0480	0.0500	(6)	Emeco announces creditors' scheme not approved
03/01/2017	60	0.0690	0.0690	0.0690	30	Announcement of Proposed Transaction
13/01/2017	68	0.0720	0.0690	0.0720	36	Most recent period of trading since announcement

Note: 'traded days' includes only days with volume traded

Source: Capital IQ, PPB analysis

Table 14 summarises Emeco's volume weighted average price ('VWAP') before the Valuation Date. Emeco's Shares had a 15 day VWAP of 6.2 cents prior to the announcement of the Proposed Transaction.

Table 14: VWAP analysis prior to 30 December 2016

Trading period to 30-Dec-16	VWAP (\$)	High price (\$)	Low price (\$)	Cumulative volume traded	% of issued Shares
5 days	0.0648	0.0680	0.0610	839,500	0%
10 days	0.0619	0.0750	0.0480	4,518,890	1%
15 days	0.0619	0.0760	0.0480	4,546,570	1%
30 days	0.0700	0.0840	0.0480	11,580,080	2%

Source: Capital IQ

Note: The Proposed Transaction was announced on 3 January 2017

Table 15: VWAP analysis after 30 December 2016

Trading period to 13-Jan-17	VWAP(\$)	High price (\$)	Low price (\$)	Cumulative volume traded	% of issued Shares
5 days	0.0687	0.0720	0.0670	1,881,380	0.3%
9 days	0.0686	0.0720	0.0670	2,715,590	0.5%

Source: Capital IQ

We note the quoted Share price both before and after the announcement of the Proposed Transaction may not reflect fair market value because:

- the volume of Shares traded indicates that the liquidity of Emeco's Shares was limited over the period considered
- the free float represents a maximum of 65% of total Shares on issue.

Emeco's last trading day prior to announcement of the Proposed Transaction was 28 December 2016. Accordingly, the quoted Share prices may not reflect all available information and the market sentiment immediately prior to the Valuation Date.

4. Overview of Orionstone

4.1. Brief history

Orionstone was incorporated in 2009 to supply earthmoving equipment solutions to businesses in Australia. The company has achieved significant growth since its incorporation, as a result of an investment by Advent Capital Pty Ltd and the acquisition of other related businesses.

Table 16 summarises key milestones in the last ten years.

Table 16: Summary of key milestones

Date	Key milestone
2003	Ironstone incorporated as a rental business in Mackay, Queensland
2009	Orionstone incorporated in Queensland as joint venture between Orion WA and Ironstone Group
2011	Advent Private Capital Pty Ltd \$68 million investment in Orionstone secured
2011	Acquired 100% of Orion WA and Ironstone Group
2013	Acquired Tracfin, a finance brokering business
2014	New \$154 million private placement debt secured
2015	Announced a proposal for a merger with Emeco Holdings Limited, which did not progress

Source: IBISWorld company report – Orionstone and Orionstone website (<http://www.orionstone.com.au/about-us>)

4.2. Group structure

Orionstone (parent entity) owns 100% of the shares in the following subsidiaries through its wholly owned subsidiary Orionstone Pty Ltd:

- Ironstone Group Pty Ltd (Australia)
- Orion (WA) Pty Ltd (Australia)
- RPO Australia Pty Ltd (Australia).

4.3. Business operations

Orionstone is a heavy earth moving equipment supplier, based in Mackay. It services the major mining regions in Australia, including Queensland, Western Australia and New South Wales.

Orionstone has a fleet of approximately 300 machines. The business provides equipment rental solutions to mining and construction businesses. The company also sells equipment no longer required and offers remote maintenance services to its customers.

The fair market value of Orionstone's equipment was \$93.8 million at the Valuation Date.

Orionstone's customers are diversified across a number of commodities, including copper, gold, metallurgical coal, thermal coal, manganese and aluminium. Customers are primarily miners and contractors to the mining industry, including:

- Rio Tinto
- Glencore Xstrata
- Chinova Resources
- BHP Mitsubishi Alliance
- HSE Group
- Downer EDI.

The company also services the infrastructure and oil and gas industries. Orionstone has held long-standing relationships with many of its customers and has a strong track record of repeat business due to high performance levels.

Orionstone's expenses principally comprise parts, labour and tooling associated with maintaining earthmoving equipment and providing services.

Its capital expenditure primarily consists of the purchase of equipment and replacement of major components over the life cycle of assets owned by the company.

The business operates a versatile fleet base of dump trucks, dozers, loaders, water carts, graders, excavators and other pieces of equipment with an average age of less than 16,500 hours and an approximate fair market value of \$93.8 million at the Valuation Date. The fleet is comprised of several recognised brands including Caterpillar, Hitachi and Komatsu.

4.4. Orionstone's fleet

Orionstone has a fleet by type that serves the mining sector comprising:

- 96 trucks between 50 tonne and 240 tonne
- 33 dozers between 35 tonne and 150 tonne
- 29 loaders between 150 kW and 1200 kW
- 14 excavators between 20 tonne and 200 tonne
- 19 graders between 120 kW and 200 kW.

4.5. Historical financial performance

The audited consolidated financial performance of Orionstone for the years ended FY14, FY15 and FY16 is summarised in Table 17.

Table 17: Summary of Orionstone's financial performance

\$'000	FY14 Audited	FY15 Audited	FY16 Audited
Rental revenue	73,253	65,253	54,342
Equipment sales	32,918	13,914	6,313
Maintenance services	5,344	4,315	25,890
	111,515	83,482	86,545
Change in machinery and parts	(33,629)	(13,453)	(7,574)
Repairs and maintenance	(11,109)	(6,231)	(28,049)
Employee expenses	(15,883)	(14,420)	(15,258)
Hired in equipment and labour	(2,329)	(1,109)	(1,269)
Gross profit	48,565	48,269	34,395
Other income	4,961	77	971
Other expenses	(11,523)	(8,760)	(9,130)
EBITDA	42,003	39,586	26,236
Impairment intangible assets	(12,738)	(3,418)	(73,064)
Depreciation & amortisation expense	(25,178)	(35,698)	(30,369)
Finance income	151	189	59
Finance expense	(15,767)	(20,416)	(18,403)
Gain/(loss) on sale of assets	(31)	59	-
Profit/(Loss) before tax	(11,560)	(19,698)	(95,541)
Tax benefit/(expense)	2,863	6,114	4,983
Net profit/(loss) after tax	(8,697)	(13,584)	(90,558)

Source: annual reports of Orionstone for years ending 30 June 2014, 30 June 2015 and 30 June 2016

We make the following comments on the consolidated financial performance of Orionstone.

Revenue for each of Orionstone's service offerings is summarised in Table 18 below and the revenue contribution to the group from each service is illustrated in Figure 8 immediately below.

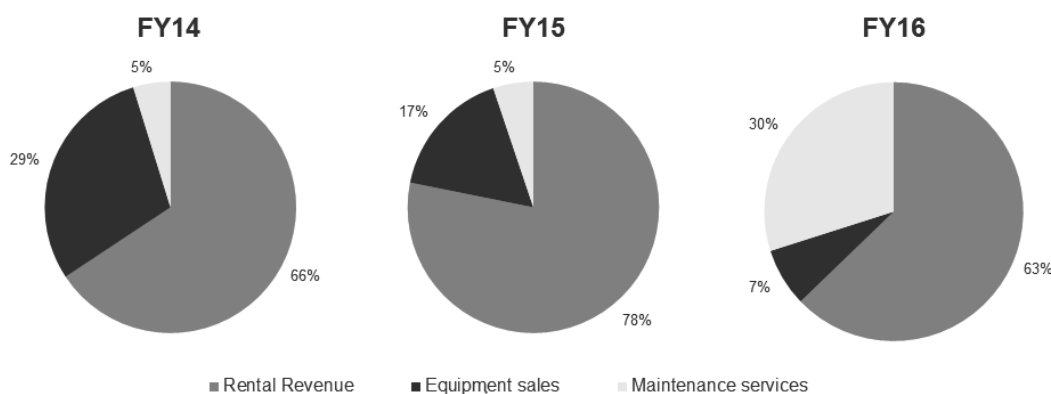
Table 18: Summary of revenue for each of Orionstone's service offerings

	FY14	FY15	FY16	FY14 v FY15	FY15 v FY16
	\$'000	\$'000	\$'000	%	%
Rental revenue	73,253	65,253	54,342	(10.92%)	(16.72%)
Equipment sales	32,918	13,914	6,313	(57.73%)	(54.63%)
Maintenance services	5,344	4,315	25,890	(19.26%)	500.00%
	111,515	83,482	86,545	(25.14%)	3.67%

Source: Management and PPB analysis

Revenue composition is as shown in Figure 8.

Figure 8: Revenue contribution for each of Orionstone's service offerings



Source: Financial information provided by Emeco for Orionstone and PPB analysis

Revenue decreased from \$112 million in FY14 to \$87 million in FY16, with the most notable change between FY14 and FY15. The decline in financial performance can be attributed to the economic slump in the mining industry.

Repairs and maintenance expenditure increased in FY16 by \$21.8 million to \$28.0 million (FY15: \$6.2 million). Due to the challenging market conditions within the mining industry, businesses have tended to invest in existing assets (increasing repairs and maintenance) in order to reduce large capital outlays for new equipment.

Additionally, due to the closure of mines in recent years the resale value of yellow goods reduced and therefore operators have held onto existing equipment for longer. This is highlighted by the reduction in revenue from equipment sales.

As a result of the above, EBITDA reduced from \$48.6 million in FY14 to \$26.2 million in FY16.

Impairments recognised in FY16 totalled \$73.1 million (FY15: \$3.4 million), comprising:

- \$68.9 million – plant and equipment
- \$4.2 million – goodwill.

Plant and equipment (fleet) assets reflect market price information and periodic independent asset valuations.

As a result of the above, operating losses were reported in each of the three periods.

4.6. Historical financial position

The audited consolidated financial position of Orionstone as at 30 June 2014, 30 June 2015 and 30 June 2016 is summarised in Table 19.

Table 19: Summary of Orionstone's financial position

\$'000	30-Jun-2014 Audited	30-Jun-2015 Audited	30-Jun-2016 Audited
Current assets			
Cash	1,980	8,051	4,283
Trade receivables	13,220	13,837	12,785
Inventories	3,794	3,681	2,902
Current tax asset	-	342	30
Other current assets	855	1,214	914
Total current assets	19,849	27,125	20,918
Non-current assets			
Intangibles and goodwill	4,222	4,222	-
Property, plant and equipment	280,276	260,837	171,040
Deferred tax	15,932	26,571	-
Other assets	1,164	601	224
Total non-current assets	301,594	292,231	171,264
Total assets	321,443	319,356	192,182
Current liabilities			
Trade and other payables	10,727	11,225	12,655
Borrowings	98,919	150,516	146,592
Tax liabilities	39	-	-
Provisions	615	599	694
Other current liabilities	226	-	-
Total current liabilities	110,526	162,340	159,941
Non-current liabilities			
Other payables	-	826	322
Borrowings	58,596	14,588	12,089
Deferred tax	27,050	31,058	-
Provisions	11	28	43
Total non-current liabilities	85,657	46,500	12,454
Total liabilities	196,183	208,840	172,395
Net assets	125,260	110,516	19,787
Equity			
Share capital	93,079	93,079	93,079
Reserves	32,181	-1,160	-1,331
Accumulated losses	-	18,597	-71,961
Total equity	125,260	110,516	19,787

Source: Orionstone consolidated financial statements for the year ended 30 June 2015 and 30 June 2016 (and prior year comparatives)

We make the following comments on the consolidated financial position of Orionstone.

Property, plant and equipment reduced by \$109 million between 30 June 2014 and 30 June 2016. This follows a similar trend to that observed in Emeco's fleet. The fall in value is primarily due to the following factors, which have also impacted earthmoving equipment rental businesses generally, over the past two years:

- impairment losses related to rental plant and equipment
- divestment of equipment, primarily under utilised or surplus machines to improve capacity usage due to a decrease in fleet utilisation
- reduction in capex.

Independent equipment valuers, Hassalls, performed desktop valuations on Orionstone's fleet as at 15 July 2016. Hassalls confirmed in a letter dated 3 January 2017 that there has been no material change in the value of the fleet since their 15 July 2016 valuation. The combined fair value of Orionstone's fleet was assessed at \$96.0 million. After taking into account plant and equipment disposals after 15 July 2016, the adjusted fair market value of Orionstone's fleet is \$93.8 million at the Valuation Date, summarised in Table 20. We note the book value of plant and equipment as at 30 June 2016 was \$171.0 million, which is set out in Table 21.

Table 20: Adjusted fair market value of Orionstone's fleet at Valuation Date

\$'000	Fair market value
Hassalls valuation as at 15 July 2016	95,976
Less: disposals	2,210
Adjusted fair market value of the fleet	93,766

Source: Management and Hassalls valuation dated 15 July 2016

After adjusting for the fair market value of fleet of \$93.8 million based on Hassalls' valuation, the total fair market value of Orionstone's plant and equipment at the Valuation Date is \$124.8 million.

Table 21: Summary of property plant and equipment

\$'000	Book value	Fair market value
Land & buildings	643	643
Plant & equipment - rental	139,969	93,766
Plant & equipment - other	25,990	25,990
Capital work in progress	4,438	4,438
Total property, plant and equipment	171,040	124,837

Source: Orionstone consolidated financial statements, independent valuation report

Orionstone reclassified the majority of its non-current borrowings during FY15. As such, current borrowings increased by 52% while non-current borrowings decreased by 75% during FY15. This reflects that in late March 2016 Orionstone and the lenders under its syndicated debt facility (\$144 million, excluding hedging), entered into a standstill agreement in early 2016.

The working capital ratio has reduced since 30 June 2014 from 0.18, 0.17 at 30 June 2015 and 0.13 as at 30 June 2016, the decline at 30 June 2016 is attributable to growth in current liabilities (borrowings) compared to 30 June 2014 and a decline in current assets during FY16 of \$6.2 million.

4.7. Forecast financial performance

Orionstone management has not prepared budgets or forecasts in respect of FY17, however is expecting to achieve EBITDA in the range of \$22.8 million.

4.8. Business outlook

Orionstone's financial results for FY16 show that the company may be facing some financial difficulty in meeting its short-term obligations. We note the following points in support of our observation:

- The breach of loan covenants in FY15 allows financiers to call their lending for repayment as per the terms of the agreement. The change in reclassification to current liabilities may alert unaffected financiers to call their lending for immediate repayment and further expose Orionstone to liquidity risk. If the Proposed Transaction does not proceed, Orionstone would need to rely on the willingness of the Orionstone creditors to entertain an alternative transaction or restructure in order to continue as a going concern.
- Property, plant and equipment owned by Orionstone (which comprise the majority of Orionstone's assets) had a fair market value of \$93.8 million, as at the Valuation Date (or \$68.4 million in a forced sale situation). The decline in revenue from equipment sales, coupled with impairment charges, suggests that Orionstone's assets may not be easily saleable at a price that represents fair value. Furthermore, Orionstone may struggle to generate the cash required to repay its obligations under its syndicated debt facility if it continues to experience financial difficulty, and if its lenders remove their support after the expiry of the current standstill arrangements.
- Orionstone has improved its inventory holding over the last three years and in FY16 was carrying \$2.9 million compared with \$3.7 million in FY15.

4.9. Directors

Table 22 summarises the experience of the directors of Orionstone as at 30 December 2016.

Table 22: Directors

Name	Position	Brief resume
Ashley Fraser	Managing Director, Chief Executive Officer and Secretary	Founder of Orionstone. Over 15 years of industry experience
Rupert Harrington	Non-Executive Chairman	Executive Chairman of Advent Private Capital. 11 years of general management experience in the United Kingdom and Australia and almost 30 years of experience in private equity
Richard Harding	Non-Executive Director	Non-Executive Director of Orionstone since 2009
Symon Vegter	Non-Executive Director	Executive Director of Advent Private Capital

Source: IBISWorld report – Orionstone, Advent Private Capital website, LinkedIn and ASIC current organisation extract for Orionstone Holdings Pty Ltd at 10 January 2017

4.10. Capital structure

The breakdown of the shareholding is set out in Table 23 and Table 24.

Table 23: Shares on issue

Class	Number held
Ordinary	179,149,312
Total	179,149,312

Source: ASIC current organisation extract for Orionstone Holdings Pty Ltd at 10 January 2017

Table 24: Summary shareholders

Name	Number of shares	% held
FGI Holdings Pty Ltd	42,772,985	23.9%
AMAF Securities Pty Ltd	42,772,985	23.9%
APC I Pty Ltd	32,828,244	18.3%
APC II Pty Ltd	28,995,146	16.2%
Fraser Family Securities Pty Ltd	14,223,640	7.9%
Richard Norman Harding	11,227,015	6.3%
APC III Pty Ltd	6,176,610	3.4%
Ashley Mark Fraser	152,687	0.1%
Total ordinary shares	179,149,312	100.0%

Source: ASIC current organisation extract for Orionstone Holdings Pty Ltd at 10 January 2017

5. Overview of Andy's

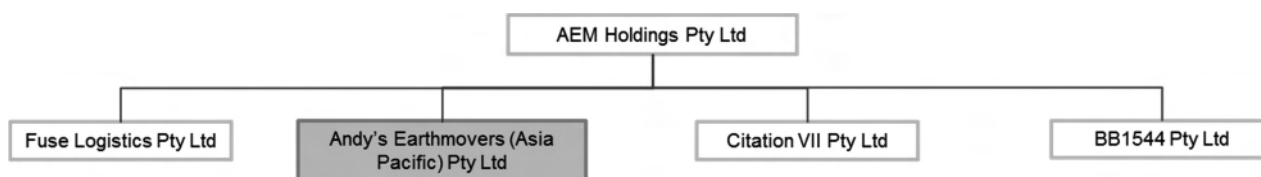
5.1. Brief history

Andy's is a privately owned company and was established in 1989 in Victoria as an equipment rental business. Since then, it has grown its operations to cover mining and civil customers. It has operations in South Australia, Victoria, New South Wales, Western Australia and the Northern Territory.

5.2. Group structure

The Andy's group structure is summarised in Figure 9.

Figure 9: Group structure



Source: Draft 'Project Sunrise' financial and tax due diligence report prepared by KPMG

5.3. Business operations

Andy's provides earth moving equipment rental across Australia. The head office is located at Big Hill, Victoria (10km south of Bendigo).

Andy's fleet of 145 machines is best suited to servicing mining and large scale earthworks projects. As well as equipment rental, Andy's supplies onsite workshops, refueling facilities and water trucks to assist on projects. The company sells equipment no longer required.

The fair market value of Andy's earthmoving equipment was \$70.4 million¹⁹ as at 30 December 2016.

Andy's revenue is derived from three major sources:

- equipment rental (which comprises the majority of Andy's revenue) - includes both dry rental hire and wet rental hire and the provision of a machine operator in addition to the equipment itself
- maintenance services – includes charging rental customers for the servicing of its own fleet or the servicing of a customer's fleet
- equipment sales - involves the sale of equipment when it is no longer required for the rental business or is being replaced by newer equipment.

Operating costs principally comprise parts, labour and tooling associated with maintaining earthmoving equipment.

Capex principally comprises the purchase of equipment and replacement of major components over the asset's life cycle while owned by Andy's.

Andy's has over 100 employees, including nine in administration and business development, 52 in rental operations, 33 in maintenance and seven in transport operations.

¹⁹ Based on a Hassalls valuation dated 2 August 2016

5.4. Andy's fleet

Andy's fleet largely services the civil construction sector and since 2010 has developed the capacity to provide earthmoving equipment to mining businesses by increasing the size of its equipment. Andy's fleet is currently comprised of over 145 machines located across the country including:

- 63 trucks between 50 tonnes and 150 tonnes
- 19 dozers between 25 tonnes and 100 tonnes
- 10 loaders between 150 kW and 500 kW
- 19 excavators between 20 tonnes and 300 tonnes
- 14 graders between 120 kW and 200 kW.

5.5. Historical financial performance

The audited consolidated financial performance of Andy's for the financial year ended FY14, FY15 and FY16 is summarised in Table 25.

Table 25: Summary of Andy's financial performance

\$'000	FY14 Audited	FY15 Audited	FY16 Audited
Rental revenue	62,838	65,240	49,752
Equipment sales	14,413	6,266	11,055
Maintenance services	5,025	3,820	2,613
Transport	3,280	2,144	531
	85,555	77,470	63,951
Cost of sales	(39,995)	(32,833)	(32,201)
Gross Profit	45,561	44,637	31,751
Other revenue	149	133	60
Other income	1,151	537	715
Other expenses	(14,035)	(17,164)	(23,678)
EBITDA	32,826	28,142	8,850
Depreciation & amortisation expense	(14,226)	(15,245)	(15,781)
Finance costs	(7,748)	(6,956)	(6,737)
Impairment of PP&E	-	-	(5,524)
Profit/(Loss) before tax	10,851	5,941	(19,191)
Tax benefit/(expense)	(3,256)	(1,778)	5,733
Net profit/(loss) after tax	7,595	4,163	(13,458)

Source: Andy's annual financial report for the year ended 30 June 2014, 30 June 2015 and 30 June 2016

We make the following comments in relation to the consolidated financial performance of Andy's.

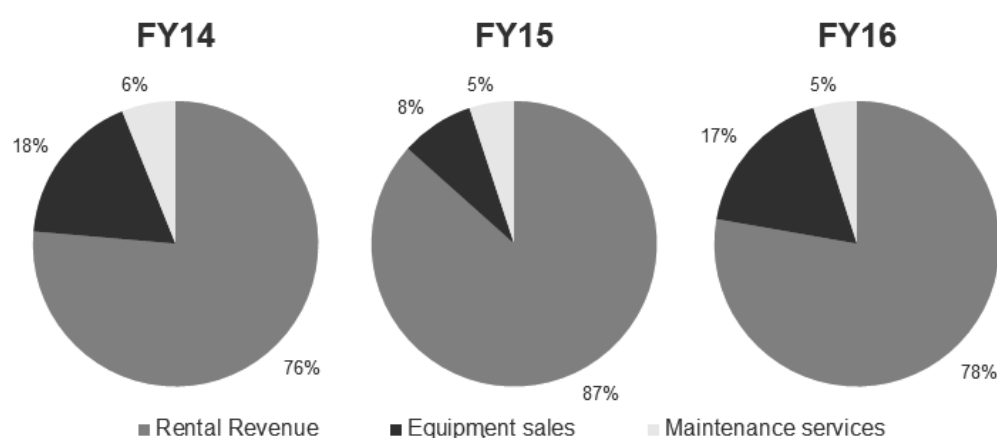
Revenue for each of Andy's service offerings is summarised in Table 26 and the relative revenue contribution from each service offering is illustrated in Figure 10.

Table 26: Summary of Andy's revenue

	FY14 \$'000	FY15 \$'000	FY16 \$'000	FY15 v FY14 %	FY16 v FY15 %
Rental revenue	62,838	65,240	49,752	3.82%	(23.74%)
Equipment sales	14,413	6,266	11,055	(56.53%)	76.43%
Maintenance services	5,025	3,820	2,613	(23.98%)	(31.60%)
Transport	3,280	2,144	531	(34.63%)	(75.21%)
	85,555	77,470	63,951	(9.45%)	(17.45%)

Source: Andy's annual financial report for the year ended 30 June 2014, 30 June 2015 and 30 June 2016

Figure 10: Relative revenue contribution by service line



Source: Andy's annual financial report for the year ended 30 June 2014, 30 June 2015 and financial information provided by Emeco for Andy's

The rental revenue generated by Andy's has reduced from \$62.8 million in FY14 to \$49.8 million in FY16. This is attributed to the decline in the mining industry over the same period, which has reduced demand for rental equipment and placed downward pressure on prices.

Cost of sales reduced from \$40.0 million in FY14 to \$32.2 million in FY16 however the gross profit margin decreased over the same period from 53% to 50%.

However, due to a 76% increase in administrative expense and the existence of impairments in FY16, Andy's EBITDA decreased by 90% from \$32.8 million in FY14 to \$3.3 million in FY16.

Andy's reported profits after tax in FY14 and FY15, and a loss after tax in FY16.

The decline in Andy's financial performance can be attributed to similar trends noted in our analysis of Emeco and Orionstone.

5.6. Historical financial position

The audited consolidated financial position of Andy's as at 30 June 2014, 30 June 2015 and 30 June 2016 is summarised in Table 27.

Table 27: Summary of Andy's financial position

\$'000	30-Jun-2014 Audited	30-Jun-2015 Audited	30-Jun-2016 Audited
Current assets			
Cash	1,621	1,962	392
Trade receivables	21,950	20,187	15,773
Inventories	6,956	5,747	5,086
Assets held for sale	-	1,241	1,241
Current tax asset	362	865	1,169
Other current assets	853	1,040	110
Total current assets	31,742	31,042	23,770
Non-current assets			
Trade and other receivables	-	177	93
Property, plant and equipment	127,026	116,459	92,981
Deferred tax	385	417	4,932
Total non-current assets	127,411	117,053	98,007
Total assets	159,153	148,095	121,777
Current liabilities			
Trade and other payables	9,439	5,809	5,597
Bank loan secured	18,776	92,506	81,984
Lease liability secured	1,406	2,900	1,920
Debtor financing	-	-	1,261
Loans from directors	1,441	-	-
Provisions	1,029	1,126	979
Total current liabilities	32,091	102,341	91,741
Non-current liabilities			
Bank loan secured	87,131	5,929	4,933
Lease liability secured	2,900	-	-
Deferred tax	5,434	7,058	5,840
Provisions	139	147	101
Total non-current liabilities	95,604	13,134	10,874
Total liabilities	127,695	115,475	102,615
Net assets	31,457	32,620	19,162
Equity			
Share capital	5,000	5,000	5,000
Retained earnings	26,457	27,620	14,162
Total equity	31,457	32,620	19,162

Source: Andy's annual financial report for the year ended 30 June 2014, 30 June 2015 and 30 June 2016 (all audited)

We make the following further observations in relation to key changes in reported assets and liabilities.

Within current assets, trade receivables decreased by \$4.4 million between 30 June 2015 and 30 June 2016. Cash also decreased by \$1.5 million over the same period, inventories and payables remained relatively unchanged.

Property, plant and equipment decreased by \$34.0 million from \$127.0 million as at 30 June 2014 to \$93.0 million as at 30 June 2016. The decrease is attributed to the divestment of part of Andy's existing fleet as a result of weak market conditions.

Independent equipment valuers, Hassalls, performed desktop valuations on Andy's fleet as at 2 August 2016. Hassalls confirmed in a letter dated 3 January 2017 that there has been no material change in the value of the fleet since their 2 August 2016 valuation. The combined fair value of Andy's fleet was assessed as \$76.7 million. After taking into account plant and equipment purchases and disposals after 2 August 2016, the adjusted fair market value of Andy's fleet is \$70.4 million at the Valuation Date, summarised in Table 28. We note the book value of plant and equipment (earthmoving equipment) as at 30 June 2016 was \$93.0 million.

Table 28: Adjusted fair market value of Andy's fleet at Valuation Date

\$'000	Fair market value
Hassalls valuation as at 2 August 2016	76,725
<i>Plus: purchases</i>	450
<i>Less: disposals</i>	6,815
Adjusted fair market value of the fleet	70,360

Source: Management and Hassalls valuation dated 2 August 2016

After adjusting for the fair market value of fleet of \$70.4 million based on the Hassalls valuation, the total fair market value of Andy's plant and equipment at the Valuation Date is \$83.9 million.

Table 29: Summary property plant and equipment

\$'000	Book value	Fair market value
Earthmoving equipment	79,402	70,360
Motor vehicles	412	412
Office furniture and equipment	158	158
Other plant and equipment	6,333	6,333
Transport equipment	6,676	6,676
Total property, plant and equipment	92,981	83,939

Source: Andy's Annual Financial Report, independent valuation report

Andy's working capital ratio reduced significantly from 0.99 as at 30 June 2014 to 0.26 as at 30 June 2016, following non-current borrowings being reclassified in FY15. Borrowings remain classified as current, indicating that they are scheduled to fall due within the next 12 months.

5.7. Audit report

The audit report included an emphasis of matter where without modifying its opinion, Deloitte drew attention to total current liabilities as at 30 June 2015 exceeding total current assets by \$77 million.

5.8. Forecast financial performance

Andy's management has not prepared budgets or forecasts for FY17, however they are expecting to achieve EBITDA of approximately \$11.4 million.

5.9. Business outlook

Andy's financial performance and position suggests that it faces a significant challenge in meeting its future debt repayments as and when they fall due. We note the following observations in support of this observation:

- Andy's has historically breached lending covenants, which would enable its financiers to make a call under its facility agreements for immediate repayment of borrowings. Andy's reported a large balance under current borrowings in FY16 which is related to impending facility negotiations with financiers.
- Andy's has faced a substantial reduction in its working capital ratio due to the reclassification of its borrowings. We note that Andy's has lending facilities with several financiers, which may be affected by a decision to make a call under its facility agreements. In such circumstances, we would expect Andy's to struggle in raising the cash required to make repayments under its various lending facilities.
- Andy's has generated significant business from government contracts on civil projects and continues to target land developments, road infrastructure and energy projects (particularly renewable energy projects such as wind farms).
- Andy's has a strong pipeline of potential projects, particularly in the civil space and on mining projects where the company has a strong relationship with the miner and has been involved in development of the mine plan.

In summary, we expect that in a declining industry that is focussed on renting equipment to avoid large capital outlays, Andy may struggle in realising its assets in a timely manner to repay its financial obligations.

5.10. Directors and key management

Table 30 summarises the experience of the directors and key management at the Valuation date.

Table 30: Directors and key management

Name	Position	Brief resume
Andy Hoare	Executive Chairman and Managing Director	34 years of industry experience. Expertise in managing fully maintained mining operations and large earthmoving projects
Barry Cook	Executive Director and Regional Manager	16 years' experience in the construction and earthmoving industries. Joined Andy's in 2006

Source: Andy's website at 10 January 2010

5.11. Capital structure

Andy's has 20 million ordinary shares on issue.

AEM holdings Pty Ltd, a company associated with Andy Hoare (Executive Chairman and Managing Director of Andy's), holds 100% of the ordinary shares on issue.

6. Industry overview

We have referred to the latest applicable IBISWorld reports²⁰ and other publically available market publications as sources for our commentary on the earthmoving machinery and equipment rental industry in Australia as summarised in this section.

6.1. Introduction

The services provided by Emeco, Orionstone and Andy's are directly impacted by the mining and machinery rental and site preparation services industries.

In the mining industry, demand is primarily driven by the demand for haulage of commodities eg iron ore. The Australian mining industry has experienced a period of decline, as a result of reduced demand from China and India. This created an excess in supply and led to decline in commodity prices.

However, the industry is forecast to grow by 5.5% per annum between calendar year 2016 and 2021, as the demand for commodities returns.

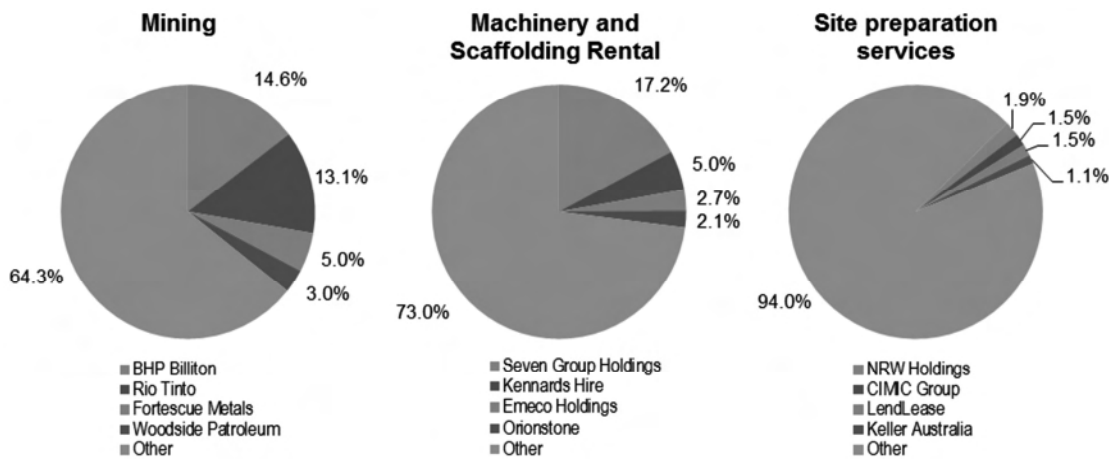
Machinery rental and site preparation services demand is largely driven by infrastructure projects and large scale development projects. In recent times, demand for site preparation services in the building industry has been subdued. However, demand from road and bridge construction projects is projected to increase by 2.9% over the next five years.

Overall, the industry is expected to contract in 2015-16 by 5.5%, with subdued growth forecast over the next five year growth of 1.2% per annum.

Figure 11 summarises the players in each of the industries in which Emeco, Andy's and Orionstone operate, and their respective market shares.

Figure 11: Summary of key industry players

²⁰ IBISWorld reports – Mining in Australia Industry report – September 2016, IBISWorld reports – E3212 Site Preparation Services in Australia Industry report – June 2016 and IBISWorld reports – L6631 Machinery and Scaffolding Rental Mining in Australia Industry report – May 2016



Source: IBISWorld and PPB analysis

We have provided a brief commentary on each of these industries and factors which may impact growth.

6.2. Mining

Emeco, Orionstone and Andy's provide wet and dry equipment rental services to businesses in the Australian mining industry. The Australian mining industry has been experiencing a period of decline, with mining companies reducing production on the back of declining commodity prices. This has resulted in some mining companies moving away from expansionary programs and towards rebalancing of their portfolios and implementing cost-reduction initiatives.

This has adversely impacted businesses such as Emeco, Orionstone and Andy's, as they rely on the mining and construction industries to utilise their equipment. However, IBISWorld forecast the mining industry to return to growth over the next five years.

6.3. Machinery rental and site preparation services

The decline in the mining industry has reduced the demand for earthmoving equipment in recent years. Furthermore, demand from the building construction market has also been subdued and is projected to remain flat during 2016.

There is significant diversity in the 'machinery and scaffolding rental' and 'site preparation services' industries. The largest four businesses providing site preparation services (NRW Holdings Limited: 1.9%, CIMIC Group Limited: <1.5%, LendLease Group: <1.5% and Keller Australia: 1.1%) contribute less than 10% of industry revenue.

IBISWorld projected machinery rental industry revenues to grow by an annualised 2.0% to \$5.1 billion by FY16. The forecast growth being largely predicated on commodity demand returning and an investment in large infrastructure projects.

7. Relevant economic factors

7.1. Introduction

Key economic factors which directly impact on the performance of Emeco, Orionstone and Andy's are:

- changes in commodity prices, and
- exchange rates.

These macroeconomic factors directly affect the mining industry ie their key customer base.

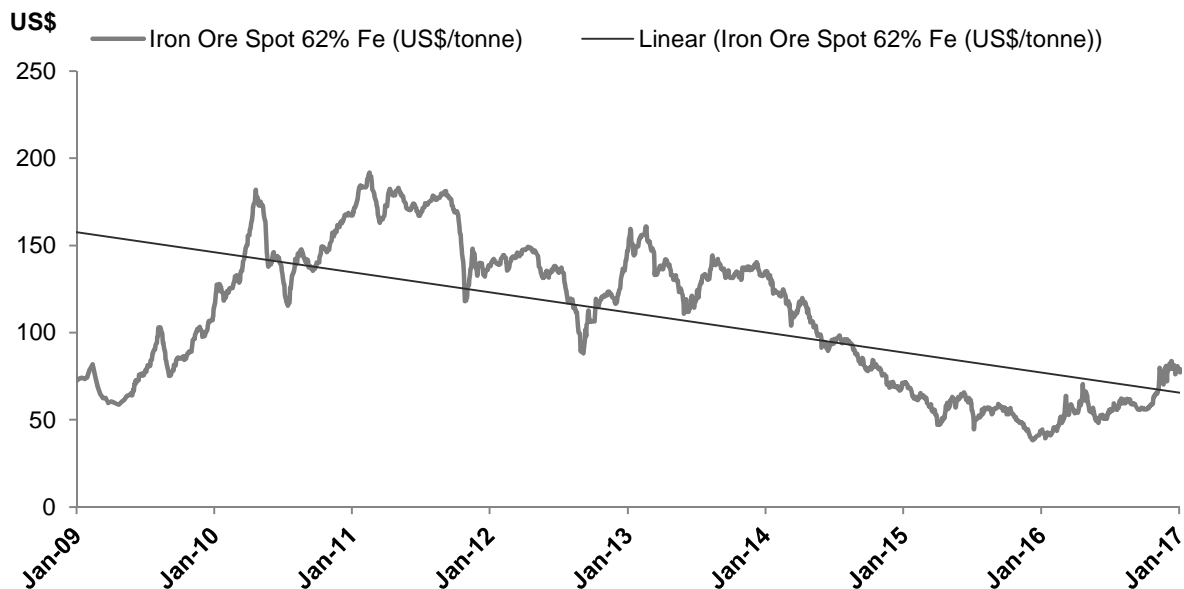
7.2. Commodity prices

Australia's resource (mineral, hydrocarbon and non-mineral reserves) rich land has historically allowed mining businesses in Australia to be price-competitive on a global scale. The mining industry in Australia has declined in recent years (particularly iron ore), due to a reduced demand from China (Australia's largest trading partner) and India. During the last 12 months, Australia's four major exports materially reduced in value²¹:

- iron ore (~50%)
- coking coal (~40%)
- thermal coal (~20%)
- LNG (~60%).

The reduction in demand from China and India has resulted in global oversupply and led to a decline in commodity prices, as highlighted in the Iron ore spot price graph below.

Figure 12: Summary iron ore prices



Source: Bloomberg

²¹ Explanatory Memorandum

The decline in commodity prices has led to some mining businesses reducing production volumes and implementing temporary production halts to curb losses. Additionally, a number of smaller mining producers have exited the market. This has directly and negatively impacted Emeco, Orionstone and Andy's businesses, by reducing demand (fleet and equipment utilisation) and ultimately profitability.

The demand outlook for commodities by large economies, such as China and India, is forecast to increase beyond 2016 and this should help to improve fleet utilisation and profitability.

The price of oil also affects Emeco, as it provides services into the oil sands industry. In the event the price of oil reduces, businesses within the oil sands industry receive less for the oil they extract, reducing profitability. This occurred during FY16 with the price of oil materially declining from approximately USD 60/barrel to a low close in January 2016 of USD 25/barrel and remaining low during FY16. This negatively impacted the oil-sands industry and Emeco was forced to restructure its Canadian operations to curb losses.

Compounding the sustained lower oil prices in Canada, was the severe bush fires which forced the closure of the industry for two months during the fourth quarter of FY16.

7.3. Exchange rate movements

Commodity prices are typically denominated in USD, therefore, a depreciation of the AUD against the USD has two key benefits:

- demand for exports increase, and
- local exporters receive higher revenues for sales denominated in USD.

In recent times, the AUD has weakened against the USD, however, this has been insufficient to offset the large decline in commodity prices. IBISWorld is forecasting the AUD to increase against the USD at a compound annual rate of 1.9% over the next five years, which may reduce export demand.

Emeco also has operations in Canada (extracting oil sands) and Chile (extracting copper), which accounted for \$74.8 million (26%) of FY16 revenues and is therefore exposed to fluctuations in exchange rates between the Australian dollar, Canadian dollar, Chilean peso and US dollar.

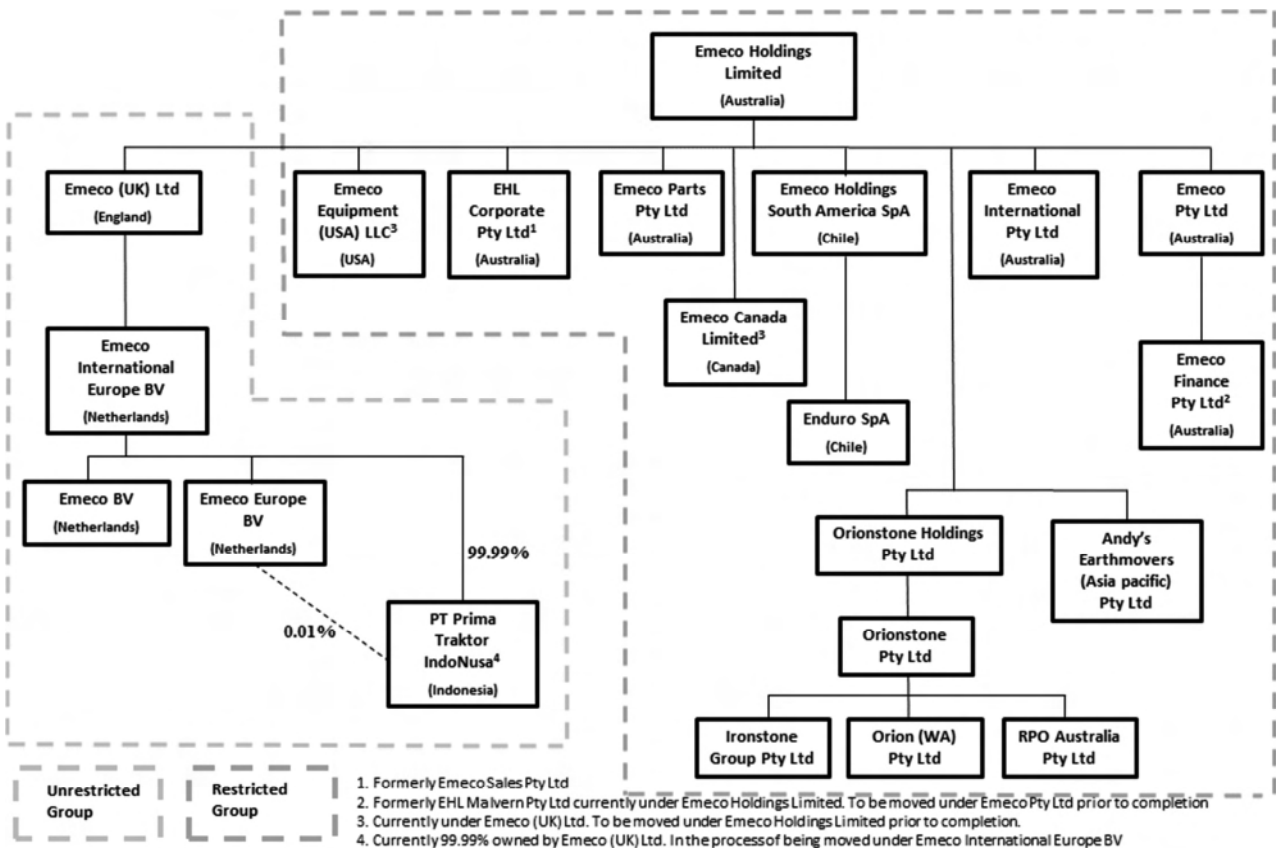
8. The Combined Group

8.1. Proposed Combined Group structure

If the Proposed Transaction proceeds, the Company will remain listed on the ASX and will become the ultimate holding company for Orionstone and Andy's.

Figure 13 below illustrates the group structure after the Proposed Transaction:

Figure 13: Summary Combined Group structure



Source: Explanatory Memorandum

The strategy for the Combined Group is to become an efficient and competitive equipment rental provider with a sustainable capital structure with the appropriate leverage and interest coverage.

The branding of the Combined Group is expected to be reviewed to reflect the strategy of the business, operational excellence and innovation.

Pro forma FY16 EBITDA of the Combined Group was \$95.4 million (excluding potential synergies) and pro forma FY16 adjusted EBITDA generated by the Combined Group was approximately \$110.4 million. The Combined Group will have approximately 800 machines in its rental fleet, with a fair market value as at the Valuation Date of \$429.3 million (see Section 13.7 for details) reflecting prevailing market conditions.

The Combined Group is expected to have approximately \$483 million of gross debt on completion²², significantly reducing the Emeco's current leverage. It is expected to be 4.4 times pro forma adjusted FY16 EBITDA²³ compared to 7.2 times before the Proposed Transaction, with further deleveraging expected over time assisted by significant capex savings.

8.2. Shareholdings of the Combined Group

The shareholdings in the Combined Group, after the Pro-rata Rights Offer and before the management incentive plan, is summarised in Table 31.

Table 31: Summary shareholdings

	Shareholder <i>does not participate</i> in Pro-rata Rights Offer		Shareholder <i>does participate</i> in Pro-rata Rights Offer	
	Number of Shares millions	% Interest	Number of Shares Millions	% Interest
Shareholders (excluding Underwriters)	391	15.5%	545	21.5%
Underwriters (excluding Black Diamond)	334	13.2%	298	11.8%
Black Diamond	527	20.8%	409	16.2%
Emeco Noteholders (excluding Black Diamond)	520	20.6%	520	20.6%
Orionstone Shareholders	179	7.1%	179	7.1%
Orionstone creditors	318	12.6%	318	12.6%
Andy's Shareholders	116	4.6%	116	4.6%
Andy's creditors	144	5.7%	144	5.7%
Total	2,531	100%	2,531	100%

Source: PPB analysis

May not add due to rounding

Table 32 summarises the shareholdings of Emeco Noteholders in the Combined Group, after the Pro-rata Rights Offer and before the management incentive plan.

Table 32: Summary of Emeco Noteholders shareholdings

Emeco Noteholder	Number	% of Total
Black Diamond	257,220,404	10.2%
Other Emeco Noteholders	520,157,306	20.6%
Total	777,377,710	30.7%

Source: Management

Table 33 summarises the shareholdings of the Underwriters in the Combined Group, after the Pro-rata Rights Offer and before the management incentive plan.

²² Including finance leases of approximately \$15.0 million

²³ Pro forma FY16 EBITDA is calculated as actual FY16 EBITDA for each company, plus estimated cost synergies of \$15 million

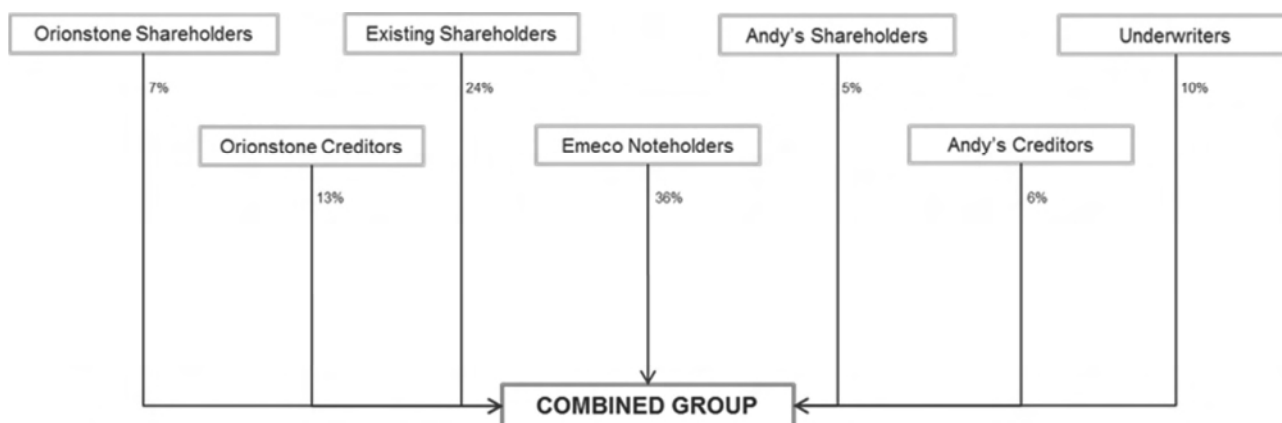
Table 33: Summary of Underwriters shareholdings

Underwriters	Pro-Rata Rights Offer - Nil Take Up		Pro-Rata Rights Offer - Full Take Up	
	Number	% of Total	Number	% of Total
First Samuel				
Shares held at Valuation Date	116,880,170	4.6%	162,755,840	6.4%
Underwriting Fee	6,590,465	0.3%	6,590,465	0.3%
Shares issued from subscription shortfall	94,149,504	3.7%	-	-
Total - First Samuel	217,620,139	8.6%	169,346,305	6.7%
Black Crane				
Shares held at Valuation Date	91,489,840	3.6%	127,399,762	5.0%
Underwriting Fee	1,647,616	0.1%	1,647,616	0.1%
Shares issued from subscription shortfall	23,537,376	0.9%	-	-
Total - Black Crane	116,674,832	4.6%	129,047,378	5.1%
Black Diamond				
Shares held at Valuation Date	-	-	-	-
Underwriting Fee	8,238,082	0.3%	8,238,082	0.3%
Shares issued from subscription shortfall	117,686,880	4.7%	-	-
Black Diamond Initial Placement	126,526,615	5.0%	126,526,615	5.0%
Black Diamond Top Up	17,333,401	0.7%	17,333,401	0.7%
Equity Exchange from Emeco Notes	257,220,404	10.2%	257,220,404	10.2%
Total - Black Diamond	527,005,381	20.8%	409,318,501	16.2%
Combined Total - Underwriters	861,300,352	34.0%	707,712,185	28.0%

Source: PPB analysis

Figure 14 below illustrates the ownership structure of the Proposed Transaction below:

Figure 14: Summary group structure



Source: Emeco ASX Release dated 3 January 2017

Shareholding percentages shown above are before the impact of the management incentive plan, are subject to adjustments prior to transaction completion under the terms of the RSA and are also dependent on the Pro-rata Rights Offer take-up.

8.3. Business operations

The Directors believe that there are considerable potential strategic and financial benefits for the Combined Group that include:

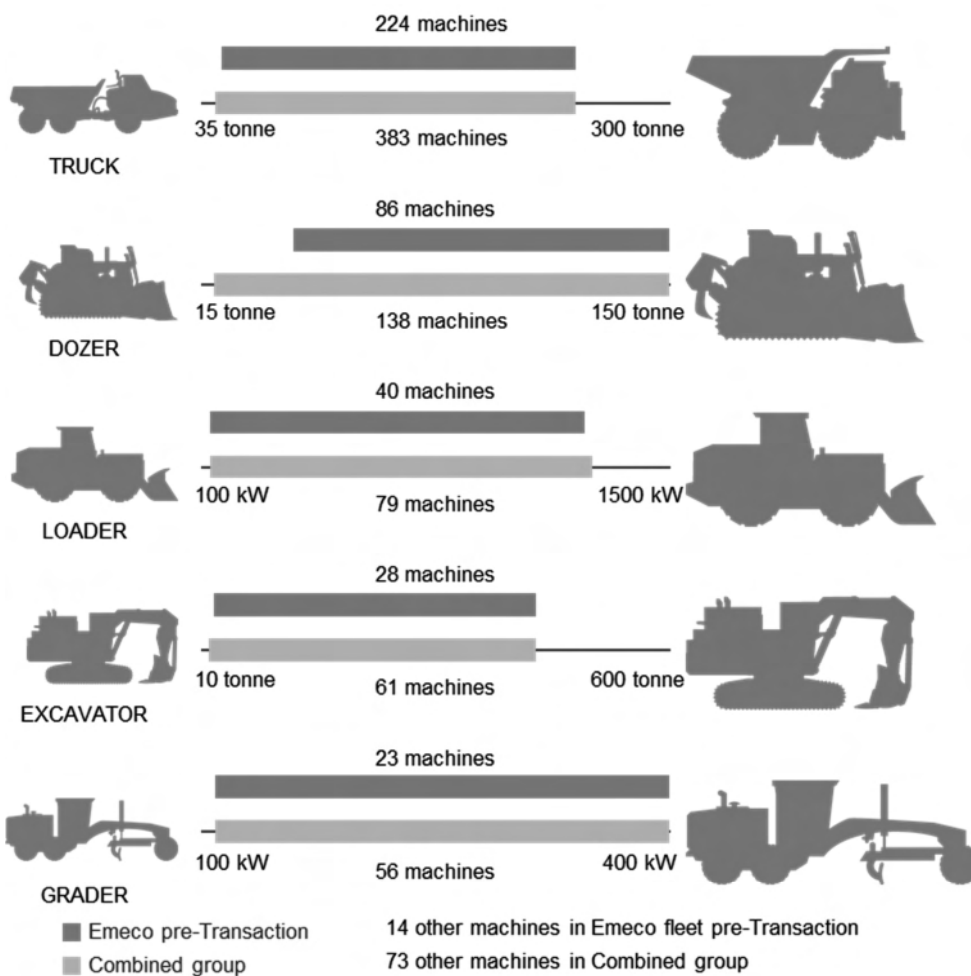
- valuable expertise in the rental space and deep customer relationships contributed by Orionstone and Andy's
- significant cost synergies and capital expenditure savings
- enhanced geographic and end market exposure
- increased fleet capabilities and refreshed fleet age, improving the Combined Group's capability to create project opportunities. Specifically, the Proposed Transaction will bring improvements to the age and condition of Emeco's current fleet.

The average age of Emeco's fleet is 23,353 hours, as compared to 15,819 hours for Orionstone and 10,269 hours for Andy. The average age of the after the Proposed Transaction fleet will be 18,003 hours.

There are 14 other major machines in the Emeco fleet before the Proposed Transaction. There will be 73 in the Combined Group.

Figure 15 illustrates the structure of fleet in the Combined Group, which will consist of approximately 800 machines:

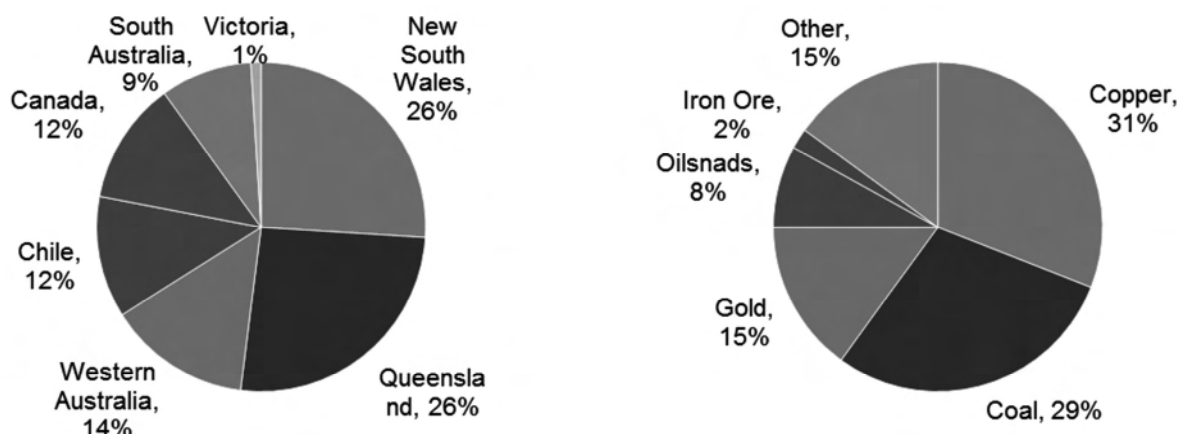
Figure 15: Combined Group fleet profile



Source: Emeco ASX Release dated 23 September 2016

Emeco has provided an indicative illustration of the revenue by geography and commodity in the Combined Group, which is summarised in Figure 16.

Figure 16: Indicative pro forma revenue by geography and commodity (FY16)



Source: Emeco ASX Release dated 23 September 2016

8.4. Strategy

It is intended the merger will enable the Combined Group to provide a greater variety of vehicles across all ages, sizes and types. The Combined Group will have a more diversified exposure to customers, commodities and regions.

It is expected the Combined Group will use Emeco's Operating System technology across the Combined Group's fleet, meaning potential benefits for existing customers of Orionstone and Andy's.

The combined management experience may offer new revenue opportunities as existing relationships are shared.

Emeco will also be able to avoid certain replacement capital expenditure through utilising Andy's younger fleet.

8.5. Cost synergies

The Directors have estimated that there are potential cost and implementation synergies to be achieved over time through the acquisition of Orionstone and Andy's mainly due to expected cost savings of \$15 million per annum. These will be achieved primarily through cost and capital expenditure savings, but potentially also through incremental revenue opportunities.

Earnings synergies

Table 34 summarises the earnings synergies estimated by the Directors in the pro forma year (FY16), which are consistent in the years following the Proposed Transaction.

Table 34: Summary of pro forma year earnings synergies

\$'000	Combined Group
Headcount rationalisation	8,897
Footprint optimisation	3,156
Overheads	2,409
Other	336
Total	14,797

Source: Management, PPB analysis

Capex synergies

The Directors have identified annual capex synergies of between \$11 million and \$24 million, as set out in Table 35.

Table 35: Summary of Management estimated capex synergies

\$'000	FY17	FY18	FY19	FY20	FY21
Fleet rationalisation	6.9	13.7	13.7	6.9	-
Fleet optimisation	4.5	5.4	10.5	9.0	10.6
Total	11.3	19.1	24.2	15.8	10.6

Source: Management

Management's capex synergy forecasts are estimates based on base case machine utilisation assumptions.

Acquisition of Orionstone

The Directors have identified earnings costs savings through consolidating:

- existing premises of the two entities in Mackay and certain depots
- the employee base
- overheads
- cross hire of machines.

The Directors have also identified capex savings as a result of the integration of Orionstone's younger fleet of machines.

The average age of Orionstone's fleet is 16,500 hours, which compares favourably with Emeco's 23,353 hours.

Acquisition of Andy's

The Directors have similarly identified earnings costs savings through consolidating:

- existing premises of the two entities in Mackay and Bendigo
- the employee base
- overheads
- cross hire of machines.

The Directors have also identified capex savings from Emeco being able to avoid certain replacement capital expenditure by using Andy's machines at the end of their life, rather than replacing those machines.

The average age of Andy's fleet is 10,269 hours, which compares favourably with Emeco's 23,353 hours.

8.6. Pro forma financial performance

Table 36 summarises the earnings before and the pro forma earnings after the Proposed Transaction.

The Combined Group unaudited pro forma financial performance has been presented as the aggregation of the historic profit and loss for Emeco, Orionstone and Andy's.

The Combined Group unaudited pro forma financial performance does not include the:

- reduction in costs as a result of the potential pre-tax cost and implementation synergies generated by the Combined Group of \$15 million
- transaction costs incurred by Emeco, Orionstone and Andy's of approximately \$35 million after 30 June 2016 which have been treated as pre-acquisition expenses of the Proposed Transaction.

Table 36: Summary of the pro forma earnings of Combined Group

\$'000	Emeco	Orionstone	Andy's	Combined unaudited pro forma
Rental revenue	177,744	54,342	49,752	281,838
Equipment sales	5,472	6,313	11,055	22,840
Maintenance services	23,348	25,890	3,146	52,384
	206,564	86,545	63,953	357,062
Changes in machinery and parts	(8,921)	(7,574)	(10,731)	(27,226)
Repairs and maintenance	(70,967)	(28,049)	(15,532)	(114,548)
Employee expenses	(33,995)	(15,258)	(5,290)	(54,543)
Hired in equipment and labour	(21,102)	(1,269)	(5,941)	(28,312)
Gross profit	71,579	34,395	26,459	132,433
Other income	1,791	971	775	3,537
Other expenses	(25,770)	(9,130)	(18,384)	(52,284)
EBITDA	47,600	26,236	8,850	86,686

Source: Management, Explanatory Memorandum and Notice of Meeting, PPB analysis

EBITDA figures included in the table above differ from pro forma FY16 EBITDA shown in Section 8.1 due to normalisation adjustments for non-operating expenses and income

8.7. Pro forma financial position

Table 37 summarises the balance sheet before and the pro forma balance sheet and after the Proposed Transaction.

Table 37: Summary of the pro forma balance sheet after the Proposed Transaction

\$'000	Emeco balance sheet	Orionstone balances recognised on acq'n	Andy's balances recognised on acq'n	Debt refinancing and capital raising	Swap close out and management incentive plan	Combined Unaudited Pro forma
Current assets						
Cash	24,854	4,283	392	(14,922)	15,350	29,957
Trade receivables	37,734	8,286	5,904	-	-	51,924
Derivatives	6,315	-	-	-	(6,315)	-
Inventories	5,333	2,902	5,086	-	-	13,321
Other current assets	1,832	3,596	1,279	-	-	6,707
Assets held for sale	30,728	-	1,241	-	-	31,969
Total current assets	106,796	19,067	13,902	(14,922)	9,035	133,878
Non-current assets						
Trade and other receivables	6,234	224	-	-	-	6,458
Derivatives	12,629	-	-	-	(12,629)	-
Intangibles and goodwill	2,344	-	-	-	-	2,344
PP&E	280,182	155,112	78,484	-	-	513,778
Deferred tax	19,507	-	4,932	-	148	24,587
Total non-current assets	320,896	155,336	83,416	-	(12,481)	547,167
Total assets	427,692	174,403	97,318	(14,922)	(3,446)	681,045
Current liabilities						
Trade and other payables	38,035	11,646	5,597	-	-	55,278
Held for sale liabilities	883	-	-	-	-	883
Tax liabilities	-	-	5,840	-	-	5,840
Interest bearing liabilities	4,579	1,802	72,649	(65,649)	-	13,381
Provisions	3,469	694	979	-	-	5,142
Total current liabilities	46,966	14,142	85,065	(65,649)	-	80,524
Non-current liabilities						
Interest bearing liabilities	373,239	148,198	4,359	(71,232)	-	454,564
Provisions	1,490	43	101	-	-	1,634
Total non-current liabilities	374,729	148,241	4,460	(71,232)	-	456,198
Total liabilities	421,695	162,383	89,525	(136,881)	-	536,722
Net assets	5,997	12,020	7,793	121,959	(3,446)	144,323
Equity						
Share capital	593,616	12,020	7,793	111,079	-	724,508
Reserves	12,505	-	-	-	(345)	12,160
Accumulated losses	(600,124)	-	-	10,880	(3,101)	(592,345)
Total equity	5,997	12,020	7,793	121,959	(3,446)	144,323

Source: Emeco, Explanatory Memorandum and Notice of Meeting, PPB analysis

Basis of preparation of the pro forma balance sheet after the Proposed Transaction

The pro forma balance sheet after the Proposed Transaction has been extracted from the Explanatory Memorandum and is based on the Combined Group unaudited pro forma statement of financial position. It has been prepared on a preliminary basis and presented using acquisition accounting principles as required by AASB 3 Business Combinations. The standard requires that all identifiable assets (including intangible assets and deferred tax balances) and liabilities that meet certain recognition criteria should be recognised in the Combined Group unaudited pro forma statement of financial position at fair value at the date of acquisition.

The figures in Table 37 may be different to those used in our valuation due to differences in assumptions such as exchange rates, expected pay down of debt and cash movements prior to the completion of the Proposed Transaction. Essentially, we used a forecast financial position, whereas the pro forma balance sheet uses actual at 30 June 2016 and other anticipated transactions recognised according to the accounting standards.

Comments on the pro forma balance sheet after the Proposed Transaction

- Adjustments have been made to certain Orionstone and Andy's trade receivables and plant, property and equipment to reflect fair market values. Adjustments have also been made to certain liabilities to reflect the expected liabilities at completion (as agreed by the parties).
- It is expected that debt of \$582 million will be exchanged for the issue of new debt in the form of \$468 million of Tranche B Notes and new Emeco Shares at 8.5 cents.
- Total transaction costs are expected to be approximately \$35 million.
- Emeco is expecting to raise \$20 million of cash, net of Share issue costs, through the issue of Shares at 8.5 cents. The issue price of the Pro-rata Rights Offer of 8.5 cents per Share is based on the implied transaction equity value as defined in the Explanatory Memorandum.
- Based on the number of Shares being issued and the fair market value of the Orionstone net assets of \$12.020 million and Andy's net assets of \$7.793 million, the implied price per Share is approximately 6.7 cents.

8.8. Directors and key management

The board of the Combined Group will consist of five directors, including:

- Peter Richards (who will continue as Chairman)
- Ian Testrow (who will continue as Chief Executive Officer and Managing Director)
- three members selected by Emeco and Orionstone creditors.

The Management team of the Combined Group will retain leaders of the three separate entities. A summary of each leader's experience is detailed in Table 38.

Table 38: Directors and key management

Name	Position	Brief resume
Ian Testrow	Chief Executive Officer and Managing Director in Combined Group	Currently Chief Executive Officer and Managing Director of Emeco. 20 years of industry experience. Joined Emeco in October 2005.
Ashley Fraser	General Manager, Business Improvement in Combined Group	Current Chief Executive Officer and founder of Orionstone. Over 15 years of industry experience.
Andy Hoare	General Manager, Business Development in Combined Group	Current Managing Director and founder of Andy's. 34 years of industry experience.

Source: Management

8.9. Management incentive plan

There will be a management incentive plan (on terms to be determined by the new directors) effective on or following the implementation date. About 10% of the fully diluted equity of the Combined Group will be

reserved for the management incentive plan. Ian Testrow may be issued up to 50% of the management incentive plan, but will subsequently have this ownership diluted by the corresponding number of Shares issued in connection with the Black Diamond Top Up (refer Section 1.2 for details of the Black Diamond Top Up).

8.10. Change in risk profile

Emeco Shareholders are currently exposed to risks specific to Emeco's underlying business operations. The Proposed Transaction is expected to change the risk profile of Emeco such that Emeco Shareholders are expected to:

- benefit from the enlarged asset and earnings base of the business and increased market presence in the Australian and overseas mining services sector
- benefit from the reduced leverage from 7.2 times net debt to EBITDA to 4.4 times following the Proposed Transaction. The reduced leverage will alleviate one of the biggest market concerns for Emeco before the Proposed Transaction, and likely allow Emeco to source further funding on more favourable terms going forward, reducing its financing risk
- benefit from the consolidation of Orionstone and Andy's and the aligned interest between the entities following the Proposed Transaction, rather than compete for each-others customers
- benefit from the cost synergies arising from the consolidation of the three businesses. Potential revenue synergies are also anticipated to be realised but have not been included in the synergy analysis
- be able to leverage Emeco's global presence, intellectual property, customer base, global reach and insights and enhance the businesses of Orionstone and Andy's
- extend the life of Emeco's aging rental fleet and utilise the excess capacity present in the Orionstone and Andy's businesses.

As such, Emeco shareholders will benefit from the anticipated lower risk of the Combined Group owing to its larger scale, aligned interests, more efficient operational structure, and stronger ability to access the capital market following the Proposed Transaction.

9. Valuation methodologies

9.1. Introduction

In forming our opinion as to whether the Proposed Transaction is fair and reasonable to the Shareholders. We have valued Emeco, Orionstone and Andy's assuming they are going concern businesses on a fair market value basis. Business valuers typically define fair market value as:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay to the seller part, or all, of the special value that they expect to realise from the acquisition.

Our valuation has had regard to potential additional value resulting from estimated corporate cost savings that would generally be available to a pool of purchasers, both financial and trade. It does not include any other strategic or operational synergies that may be unique to Emeco, Orionstone and Andy's. Accordingly, our range of values has been prepared independent of the specific circumstances of any potential bidder.

9.2. Valuation methodologies

RG 111 sets out the valuation methodologies that a valuer should generally consider when valuing assets or securities for the purposes of, amongst other things, share capital returns, selective capital reductions, schemes of arrangement, takeovers and prospectuses. The following methodologies are included:

- discounted cash flow ('DCF') method and the estimated fair market value of any surplus assets
- capitalisation of future maintainable earnings ('CFME') method, capitalising the estimated future maintainable earnings or cash flows of the entity, using an appropriate earnings multiple, and adding any surplus assets
- net asset ('NA') method, being the amount available for distribution to security holders on an orderly realisation of assets
- quoted price for listed securities, when there is a liquid and active market. This method is typically used as a cross check to any of the above methods
- 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. This method is typically used as a cross check to any of the above methods.

Each of these methodologies may be appropriate in certain circumstances. The decision as to which method to apply generally depends on the nature of the business being valued, the availability of appropriate information and the methodology most commonly adopted in valuing such a business. Further details on these methodologies are set out in Appendix D to this report.

RG 111 does not prescribe the above methodologies as the method(s) that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert's skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information.

9.3. Methodology selected to value Emeco, Orionstone and Andy's

In determining the appropriate methodology to value Emeco, Orionstone and Andy's (all on a stand-alone basis), we have considered:

- whether they are going concern businesses
- the available valuation methodologies (refer Section 9.2)
- the nature of the operations of the companies
- the quality and availability of forecast financial information

- the actual financial performance for the financial years ended 30 June 2015 and 30 June 2016.

We have selected the CFME method as our primary valuation methodology because:

- the earnings are sufficient to justify a value exceeding the value attributable to the underlying net assets
- the businesses are operating as a going concern
- we have not been provided with robust long term financial forecasts
- the businesses are mature and have reported relatively consistently positive EBITDA.

We have used the following methodologies to cross check the reasonableness of our CFME assessment:

- quoted Share price (Emeco)
- NA method (Emeco, Orionstone and Andy's).

We have not used the quoted Share price as our primary methodology to value Emeco, because the quoted Shares may not reflect the fair market value of the Company because:

- the Company's Shares are thinly traded
- the Company was exploring restructuring options which is likely to have been reflected in the Share price.

Refer to Section 3.12 for our analysis on Share price performance.

We have not used the NA method as our primary methodology because this methodology generally provides a minimum value for a business. The NA method is relevant where:

- a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation
- it is a holding company
- all its assets are liquid (such as listed Shares) or it holds significant property and plant and equipment or is considered 'asset rich'
- businesses are being segmented and divested
- assets are surplus to the core operating business.

We do not have the fair market values for all of the assets of the companies at the Valuation Date. The companies have been generating profits, although their profitability, in recent years, has been impacted by the volatility of the mining sector in Australia. Therefore the NA method would not represent the fair market value of the business as a going concern.

9.4. Selection of earnings metric

The CFME method can be applied to a number of different earnings or cash flow measures, including, but not limited to, EBITDA, earnings before interest and tax ('EBIT') and net profit after tax ('NPAT'). EBITDA and EBIT multiples are commonly used in the context of control transactions where the capital structure is in the hands of the acquirer. In this regard, we have selected EBITDA as an appropriate measure of earnings for Emeco, Orionstone and Andy's as earnings multiples based on EBITDA are less sensitive to different financing structures, depreciation and amortisation, accounting policies and effective tax rates than multiples based on EBIT or NPAT.

9.5. Selection of valuation methodology for the Combined Group

As discussed in Section 1, the Proposed Transaction is to be evaluated as a control transaction where Non-Associated Shareholders will ultimately continue to hold Shares in Emeco, being the Combined Group of Emeco, Orionstone and Andy's.

Accordingly, whilst we have determined the value of an Emeco Share before the Proposed Transaction on a stand-alone and control basis, we have determined the value of an Emeco Share after the Proposed Transaction in the Combined Group on a minority basis. As such, we have deducted a minority interest discount from the controlling valuation to reflect a minority (portfolio) interest.

We have assessed the value of the Combined Group using the CFME method described above. Using this approach, we have determined the value of the Combined Group by:

- aggregating the fair market value of Emeco, Orionstone and Andy's businesses
- aggregating the fair market value of any other separately valued assets and liabilities
- excluding the estimated synergies and cost savings which may arise specifically from the Proposed Transaction, as appropriate
- deducting net debt.

As a cross check to our value derived using our primary valuation methodology, we have had regard to the trading prices of Emeco Shares after the announcement of the Proposed Transaction. It is arguable that the Share trading price of Emeco after the announcement may reflect the market value of the Shares in the Combined Group, having regard to the public release of the terms of the Proposed Transaction and subsequent approvals by FIRB, and other regulatory bodies of the transaction.

9.6. Reliance on specialist plant and equipment valuer

In determining the values of Emeco, Orionstone and Andy's, we have relied on the assessment and valuation undertaken by Steve Wall of Hassalls in relation to the value of the earthmoving equipment (rental fleet). In relying on the valuation, PPB has satisfied itself that Steve Wall, who was responsible for the preparation of the assessment and valuation report, has the required qualifications and experience to provide the valuation opinion contained herein, and has no pecuniary interest in the mining companies associated with the mining interest or associated entities.

PPB has obtained written consent from Steve Wall to refer to his assessment and valuation in this Report.

9.7. Selection of valuation methodology for plant and equipment

Hassalls adopted the market approach to determine the value of Andy's plant and equipment and placed greatest emphasis on the market (sales) for the valuation of Orionstone and Emeco plant and equipment.

9.8. Summary of plant and equipment valuations

Approach for the valuation of Andy's plant and equipment

Opinion:

Fair market value (as at 2 August 2016): \$76.7 million (rounded)²⁴.

Orderly liquidation value (as at 2 August 2016): \$55.8 million (rounded).

Definitions used:

Fair market value – is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.

Orderly liquidation – is an opinion of the gross amount, expressed in terms of money, that typically could be realised from a liquidation sale, given a reasonable period of time (more than 6 months) to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.

The valuation was carried out on a 'desktop' valuation, meaning the appraisal relied on listings provided by Emeco and the assets were not physically inspected.

²⁴ From 2 August 2016 till the Valuation Date there has been fair market value \$0.5 million of purchases and \$6.8 million of disposals

Approaches:

Approaches considered:

- Market approach – based upon the collection and analysis of recent sales and offering prices of similar pieces of machinery and equipment. If comparable sales are not exactly similar to the asset being appraised, adjustments must be made to bring them as closely in line as possible with the subject machinery and equipment.
- Cost approach – based on the current replacement cost new, less adjustments for various elements of deterioration, technical obsolescence, functional deterioration and economic obsolescence.
- Income approach – also referred to as the income stream approach, is used to measure the present worth of the anticipated future economic benefits (including income) of the ownership of a group of assets, usually in the form of an ongoing business.

After consideration of the above approaches, the valuer used the market approach.

Approach for the valuation of Orionstone and Emeco plant and equipment

Orionstone

Opinion:

Fair market value (as at 15 July 2016): \$96.0 million (rounded)²⁵.

Orderly liquidation value (as at 15 July 2016): \$70.0 million (rounded).

Emeco

Opinion:

Fair market value (as at 23 June 2016): \$270.8 million (rounded)²⁶.

Orderly liquidation value (as at 23 June 2016): \$202.8 million (rounded).

Definitions used:

Fair market value – is considered to be broadly synonymous with market value or fair market value as commonly used by valuers. Property, plant and equipment valuers typically adopt the definition of market value contained within the International Valuation Standards published by the International Valuation Standards Council as follows:

Market value – the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Where there is an indication of impairment the appropriate basis of value may be fair value less costs to sell which is defined as:

Fair value less costs to sell – the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.

The valuer has specified the valuation was conducted in accordance with the requirements of AASB 136 Impairment of Assets, AASB 13 Fair Value Measurement and all relevant International Valuation Standards and Australian Property Institute Standards and technical advice.

Orderly liquidation – the probable price, expressed in terms of money, which could be expected from a sale of the appraised assets under forced orderly sale conditions. The timing of the sale would depend on the type and characteristics of the asset, but the sale 'window' of 180 days is generally assumed for a majority of these asset models, during which a proper marketing campaign would be conducted.

Approach:

The above approaches considered greater emphasis placed on the market (sales) approach.

²⁵ From 15 July 2016 till the Valuation Date there has been fair market value \$2.2 million of disposals

²⁶ From 23 June 2016 till the Valuation Date there has been fair market value \$19.0 million of purchases and \$24.5 million of disposals

10. Valuation of Emeco, before the Proposed Transaction

10.1. Summary

We have valued 100% of the issued Shares of Emeco to be in the range of \$0 to \$49.5 million or \$0 to \$0.083 (8.3 cents) per Share, on a control basis.

Table 39: Fair market value of an issued Share of Emeco

	Low \$	High \$
Selected FME (based on EBITDA)	60,000,000	60,000,000
Selected EBITDA multiple	6.0x	7.0x
Enterprise value	360,000,000	420,000,000
Less: Net debt	(370,518,609)	(370,518,609)
Equity value (control basis)	(10,518,609)	49,481,391
<i>Divided by: total Shares outstanding</i>	599,675,707	599,675,707
Fair market value per Share²⁷	\$0.000	\$0.083

Source: PPB analysis

We note that the range of the values for the enterprise value is 17% and 570% for the equity value. The substantial increase in the range is because of the adjustment for net debt to calculate the equity value. The magnitude of the net debt adjustment is significant. We believe that our range of enterprise values is appropriate given the risks and factors considered in the valuation of Emeco.

The valuation of Emeco was determined using a CFME method, based on maintainable EBITDA and a capitalisation multiple in the range of 6.0 times to 7.0 times. The basis for each of these assumptions is discussed in the sections below.

10.2. Maintainable earnings

We have assessed future maintainable earnings ('FME'), based on EBITDA, to be \$60.0 million.

FME represents the level of earnings that the business can sustainably generate in the future. In making this assessment, we have had regard to the following:

- recent financial performance of the business, including Emeco's normalised EBITDA for FY16 of \$54.2 million
- forecast EBITDA of at least \$60 million, as suggested by Management. This forecast indicates an expected improvement in performance in FY17 and possibly beyond
- outlook for the equipment hire and mining services industries at the Valuation Date
- the operations and prospects of Emeco
- the earnings profile, including consistency of earnings and risk factors
- operational insights provided by Management

²⁷ Because Emeco's net debt is greater than our assessed enterprise value in the low end of our range, the equity value is negative. Therefore the fair market value per Share is \$0, as Shareholders would not pay for a Share that has no residual claim on the value of the business

- non-recurring items such as acquisition, restructuring and impairment costs. Further detail in relation to Emeco's significant items is included in Section 3.4 of this Report.

We have held discussions with Management of Emeco regarding the expectations for FY17 and performance to date. Although Emeco has provided high level earnings guidance to investors for FY17, it has not formally released an FY17 forecast to the market. Management has advised that Emeco is on track to achieve EBITDA of \$60 million or above and therefore we have given more weighting to Emeco's FY17 earnings expectations in our selected FME.

There are a number of factors that indicate potential upside, including higher growth potential from the turnaround of the mining industry as discussed in Section 6.2.

Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We have not adjusted maintainable earnings for cost savings available to any potential acquirer of 100% of the Company, as Emeco has been undertaking a cost cutting exercise over recent years and reduced costs by \$26 million over the past 2 years. Management does not expect there to be capacity to cut further costs to any material extent. Emeco is, however, continuing to focus on operational excellence with the objective of reducing direct costs in repairs and maintenance and improving productivity.

10.3. Capitalisation multiple

We have selected an EBITDA multiple in the range of 6.0 times and 7.0 times.

The capitalisation multiple applied in a CFME should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, we considered:

- market evidence derived from listed comparable companies
- recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued
- key operational characteristics of Emeco.

Share market evidence

In selecting an earnings multiple for Emeco, we have considered earnings multiples derived from share market prices of listed companies with comparable operations to Emeco's businesses.

We have been unable to identify any companies listed on the ASX with operations that are directly comparable to Emeco. As a result, we have expanded our search to include ASX listed companies that operate in the broader mining services and equipment industries that are subject to similar risk factors to Emeco. We have also identified a number of internationally listed companies with operations in the broader mining services and equipment industries. Our analysis is summarised in the following table.

Table 40: Summary of potentially comparable listed company multiples

Company Name	Enterprise value at 30/12/16 \$ million	Revenue FY16 \$ million	EBITDA margin FY16 %	Revenue growth FY16 %	EBITDA multiple LTM times	EBITDA multiple NTM times
Emeco Holdings Limited	392	207	19%	(14%)	10.2x	6.5x ²⁸
Australian companies						
Average	550	1,146	12%	(18%)	8.0x	6.4x
Median	201	318	11%	(15%)	5.9x	5.7x
International companies						
Average	3,633	1,818	18%	1%	14.2x	8.8x
Median	827	584	15%	2%	13.6x	6.5x
Australian & international						
Average	2,605	1,594	16%	(5%)	12.1x	8.0x
Median	485	471	14%	(3%)	10.3x	6.5x

Source: Capital IQ and PPB analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash
2. Control premium of 30% has been applied to market capitalisation to calculate the multiples above
3. LTM = last twelve months; NTM = next twelve months; n/a = not available
4. Emeco figures have not been included in the calculations of average and median

We make the following comments with respect to our comparable trading analysis:

- Emeco's revenue decline in FY16 of 14% was consistent with the average decline of our potentially comparable ASX listed companies of 18%.
- The potentially comparable listed companies include mining services companies with much larger, more diversified operations servicing multiple markets and geographies. These companies typically trade at higher multiples than smaller, less diversified companies.
- The following companies in our analysis have dry hire operations (although not being their primary business) and compete in similar markets to Emeco:
 - Downer EDI Limited (FY16 EBITDA margin of 8% and LTM EBITDA multiple of 6.4 times)
 - Ausdrill Ltd (FY16 EBITDA margin of 18% and LTM EBITDA multiple of 5.4 times)
 - Macmahon Holdings Limited (FY16 EBITDA margin of 8% and LTM EBITDA multiple of 3.6 times)
 - NRW Holdings Limited (FY16 EBITDA margin of 14% and LTM EBITDA multiple of 8.4 times).
- Emeco's FY16 EBITDA margin of 19% is 58% higher than the average FY16 EBITDA margin of ASX listed companies of 12% and in line with the average of internationally listed companies of 18%.

The average multiples of potentially comparable international listed companies are higher than our selected range, most likely because many of them are larger and more diversified.

A detailed analysis of these comparable companies is set out in Appendix E.

²⁸ Calculated using an assumed FY17 EBITDA of \$60 million

When valuing Emeco on a control basis using market information, it is necessary to apply a control premium to the trading multiples of the potentially comparable listed companies. This is because the share trading price of these companies is based on transactions involving minority parcels of shares. When acquiring a majority interest in a company, an acquirer is typically willing to pay a premium above the minority trading price of the shares in order to obtain control over the operations and management of the company. The quantum of this premium will vary dependent on the specific circumstances of each transaction, including the equity share acquired, the negotiating position of the parties, competitive tension in the sales process, the availability of synergies and the extent to which a buyer would pay away these synergies to gain control of the target.

We consider it appropriate to apply a control premium to the trading price of our potentially comparable listed companies of 30%, based on our analysis of premiums observed in successful takeovers in Australia since 1 January 2012. Our analysis is included in Appendix H and summarised in Table 41

Table 41: Control premium analysis

Transactions analysed	178
Period analysed	1 January 2012 to 30 June 2016
Average control premium	33%
Median control premium	29%
Bottom quartile	9%
Top quartile	47%

Source: PPB analysis

Potentially comparable transaction multiples

In selecting an earnings multiple for Emeco, we have also considered the implied multiples paid to acquire companies with operations comparable to Emeco. The price paid in transactions is widely considered to represent the market value of a controlling interest in the target company (ie the prices include a control premium).

Table 42 summarises our analysis of the EBITDA multiples implied from our potentially comparable transactions analysis. A detailed analysis of these comparable companies is set out in Appendix E. We have only included transactions in our analysis where sufficient financial data is available to enable an EBITDA multiple to be observed.

Table 42: Summary of potentially comparable transactions since 2011

	Implied enterprise value \$ million	Target revenue (LTM) \$ million	Implied EBITDA multiple times
Australian and international companies			
Average	1,364	563	6.4x
Median	180	267	4.7x

Source: Capital IQ and PPB analysis

Notes:

1. LTM = last twelve months; NTM = next twelve months

Whilst the services provided by the target companies are broadly comparable to Emeco's business operations, in assessing the comparability of the implied multiples it is necessary to consider the particular attributes of the target companies and the specific circumstances surrounding each transaction, including:

- our analysis includes 19 potentially comparable transactions. There was a wide range of EBITDA multiples observed of between 1.7 times to 18.4 times
- there is a clear correlation between the size of the target company and the implied EBITDA multiple. The average EBITDA multiple of seven transactions greater than \$400 million was 11.0 times, compared to an average EBITDA multiple for 12 transactions less than \$400 million of 3.5 times

- we consider the Best Tractor transaction to be the most comparable, but the multiple achieved of 3.3 times may be considered low in the current economic environment.

We note that the transaction multiples included in our analysis are likely to include synergistic value. In accordance with RG 111, we have not included the value of synergies or special benefits in our selected multiple.

Key operational characteristics of Emeco

In addition to our analysis of potentially comparable listed companies and transactions, we have also had regard to the key operational characteristics in our selection of an appropriate earnings multiple for Emeco, including (but not limited to) the following:

- the impact of the decline in the mining and resources industry and the exposure of Emeco's business to the mining and resources industry through its customers
- Emeco's recurring revenue stream and track record of winning new contracts
- Emeco's recent cost reduction program (as discussed in Section 3.4)
- Emeco's recent financial difficulties, significant impairment charges and its declining net assets as at the Valuation Date.

10.4. Surplus assets

Emeco had no surplus assets held for sale at the Valuation Date²⁹.

10.5. Net debt

Emeco's net debt position on the Valuation Date is summarised in Table 43.

Table 43: Emeco net debt on the Valuation Date

	\$
144A Notes ³⁰	(390,685,462)
Less: Other interest bearing debt	(3,648,152)
Plus: Cash and equivalents	23,815,005
Net debt	(370,518,609)

Source: Management and PPB analysis

10.6. Number of Shares on issue

Emeco had 599,675,707 Shares on issue as at Valuation Date. Refer to Section 3.11.

In addition there were:

- 49,289,980 performance rights shares on issue as at 30 June 2016, held by key management personal and senior employees of Emeco
- 49,831 employee share options under the employee share ownership plan.

We have assumed based on Emeco's recent performance and our review of the 30 June 2016 annual financial report that these rights and options will not vest and they have not been included our valuation analysis.

²⁹ Source: Emeco FY16 annual report

³⁰ We have calculated the value of the 144A Notes on the Valuation Date as USD282.7 million divided by the AUD/USD exchange rate on the Valuation Date of 0.7236 (as reported by the RBA).

10.7. Valuation cross check

Analysis of trading price of Emeco Shares cross check

We have cross checked the primary valuation methodology by analysing recent trading prices of Emeco Shares. Refer to Section 3.12 for the Share trading to 13 January 2017.

In assessing the Share price at which an Emeco Share may trade in the absence of the Proposed Transaction, we have considered the following:

- the closing price on the last trading day prior to the Valuation Date was 6.8 cents
- trading prices for Shares in Emeco were positively impacted by the release of operational results on 4 August 2016, increasing from 3.8 cents to 7.1 cents on the back of the announcement. Between 4 August 2016 and the Valuation Date, Emeco Shares have traded at between 4.3 cents and 8.1 cents, with an average VWAP of 5.9 cents
- the VWAPs of Emeco Shares calculated over a 5, 10, 15 and 30 day period prior to the Valuation Date are summarised in Table 44
- the volume of Emeco Shares traded is limited with the cumulative volume of Shares traded in the 30 days prior to the Valuation Date representing only 2% of total issued Shares.

Table 44: Emeco's VWAP before 30 December 2016

Trading period to 30-Dec-16	VWAP (\$)	High price (\$)	Low price (\$)	Cumulative volume traded	% of issued Shares
5 days	0.0648	0.0680	0.0610	839,500	0%
10 days	0.0619	0.0750	0.0480	4,518,890	1%
15 days	0.0619	0.0760	0.0480	4,546,570	1%
30 days	0.0700	0.0840	0.0480	11,580,080	2%

Source: Capital IQ PPB analysis

Share prices of listed companies typically reflect the price of portfolio interests in the underlying company and are commonly assumed to exclude a premium for control. Therefore, as a high-level crosscheck, we calculated the implied control premium by comparing our control value for Emeco to the VWAPs of an Emeco traded Share leading up to the announcement date, summarised in Table 45.

Table 45: Comparison of assessed fair market value with Emeco Share price on a control basis

	\$ Low	\$ High
PPB assessed fair market value range	0.000	0.083
	VWAP plus 30% control premium	
Trading period to 30-Dec-16		
5 days		0.084
10 days		0.080
15 days		0.080
30 days		0.091

Source: Capital IQ, PPB analysis

The VWAP analysis supports our assessed value of an issued Share of Emeco of \$0 to \$0.083 (8.3 cents) per share, on a control basis, derived using our primary valuation methodology.

Analysis net assets cross check

We have assessed Emeco's net asset value on the Valuation Date to be 3.6 cents per Share. Our analysis is summarised in Table 46.

Table 46: Net asset value on the Valuation Date

	\$'000
Reported net assets at 30 June 2016	5,997
Adjustments	
Less: Intangibles and goodwill	(2,344)
Less: Book value of rental fleet	(264,637)
Plus: Change in value of 144A Notes as a result of AUD/USD exchange rate movement ³¹	17,446
Plus: Appraised fair market value of rental fleet at June 2016	270,788
Plus: Fair market value purchases of rental fleet since June 2016 till the Valuation Date	18,959
Less: Fair market value disposals of rental fleet since June 2016 till the Valuation Date	(24,545)
Total adjustments	15,667
Adjusted net tangible assets	21,664
Shares outstanding	599,675,707
Adjusted NA per Share (\$)	0.036

Source: Emeco FY16 annual report and PPB analysis, Capital IQ, Hassalls Valuation Dated 23-Jun-16, Management

The NA per Share of 3.6 cents is within our assessed valuation range of \$nil to \$0.083 (8.3 cents) per Share, on a control basis. The net asset valuation methodology typically provides a minimum value for a going concern business, therefore the net assets as a cross check supports our assessed valuation range.

³¹ Reported value of 144A Notes at 30 June 2016 was AUD373,239. We have calculated the value of the 144A Notes on the Valuation Date as USD 282.7 million divided by the AUD/USD exchange rate on the Valuation Date of 0.7236 (as reported by the RBA).

11. Valuation of Orionstone

11.1. Summary

We have valued the business of Orionstone to be in the range of \$138.0 million to \$161.0 million.

Table 47: Fair market value Orionstone

	Low \$	High \$
Selected FME (based on EBITDA)	23,000,000	23,000,000
Selected EBITDA multiple	6.0x	7.0x
Enterprise value	138,000,000	161,000,000

Source: PPB analysis

The valuation of Orionstone was determined using a CFME method, based on maintainable EBITDA and a capitalisation multiple of 6.0 times to 7.0 times. The basis for each of these assumptions is discussed in the sections below:

11.2. Maintainable earnings

Maintainable earnings represent the level of earnings that the business can sustainably generate in the future. We have selected a maintainable EBITDA for Orionstone of \$23.0 million. In making this assessment, we have had regard to the following:

- earnings volatility: Although FY15 performance was affected by wider macroeconomic pressures within the Australian market, as detailed in Section 7, the full performance also captured various business specific challenges faced within the businesses
- non-recurring items: Underlying EBITDA in historical periods excludes the impact of one-off significant items such as settlement and restructuring costs.

We have had discussions with Management regarding the FY17 performance to date and earnings expectations. Orionstone's normalised EBITDA was \$26.3 million³² in FY16, however it is expected to decline to approximately \$22.8 million³³ in FY17. Given the variability in historical earnings of Orionstone, we have placed more weight on the FY17 EBITDA forecast in selecting maintainable earnings.

There are a number of factors that indicate potential upside for Orionstone, including a turnaround of the business post the restructuring. Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We have not adjusted maintainable earnings for cost savings available to any acquirer of 100% of a company because Orionstone has been under financial pressure for some considerable time, and it is expected that Orionstone's management would have implemented all possible cost cutting initiatives available.

³² Source: Management

³³ Ibid

11.3. EBITDA multiple

The multiple applied in a CFME method should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, we have considered:

- market evidence derived from listed comparable companies
- recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued
- key operational characteristics of Orionstone.

Given the similarities between the business operations of Emeco and Orionstone, we believe it is appropriate to use a consistent list of comparable companies and transactions in the selection of an appropriate multiple range. Discussions of the listed companies and transactions are detailed in Appendix F.

Selected multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined in Section 10.3, we have selected a multiple range of 6.0 times to 7.0 times to apply to our selected future maintainable earnings. In selecting a consistent multiple range in our valuation of Emeco, we have had regard to the following:

- Orionstone and Emeco largely provide a similar range of services to its customers, albeit Orionstone is only focussed on the Australian mining industry and is somewhat smaller in size than Emeco. However Orionstone is slightly more profitable than Emeco.
- Both companies operate predominately within the Australian market and therefore are subject to broadly the same macroeconomic as well as industry wide pressures. In the absence of acquisitions and specific initiatives, growth expectations would be similar between the two companies.
- Orionstone's rental fleet is newer and of a higher quality than Emeco's rental fleet.

Emeco is slightly larger than Orionstone in terms of revenue and EBITDA. Orionstone's EBITDA margin in FY16 is 30.4% compared to Emeco of 26.2% (both on a normalised basis).

11.4. Valuation cross check

Analysis net assets cross check

We have assessed the fair market value of Orionstone on an enterprise value basis. We have cross checked our assessed fair market value with the net assets, on an ungeared basis³⁴, of Orionstone at Valuation Date. Our assessed net assets, on an ungeared basis of \$129.1 million is below the low end of our assessed enterprise value for Orionstone of between \$138.0 million and \$161.0 million. The net asset valuation methodology typically provides a minimum value for a going concern business, therefore the net assets as a cross check supports our assessed valuation range. Our net assets analysis is summarised in Table 46.

³⁴ Net assets on an ungeared basis represents the net assets of the business after excluding debt

Table 48: Net tangible asset value on the Valuation Date

	\$'000
Reported net assets at 30 June 2016	19,787
Adjustments	
Less: Book value plant and equipment - rental	(139,969)
Plus: Appraised fair market value of rental fleet at July 2016	95,976
Less: fair market value disposals of rental fleet since July 2016 till the Valuation Date	(2,210)
Total fair market value adjustments	(46,204)
Adjusted net tangible assets	(24,417)
Plus: Interest bearing debt	159,291
Less: Cash and equivalents	(3,726)
Total equity adjustments	155,565
Net assets (ungeared)	129,149

Source: Orionstone unaudited FY16 annual report, Hassalls valuation dated 15 July 2016, PPB analysis and Management

12. Valuation of Andy's

12.1. Summary

We have valued the business of Andy's to be in the range of \$66.0 million to \$78.0 million.

Table 49: Fair market value Andy's

	Low \$	High \$
Selected FME (based on EBITDA)	12,000,000	12,000,000
Selected EBITDA multiple	5.5x	6.5x
Enterprise value	66,000,000	78,000,000

Source: PPB analysis

The valuation of Andy's was determined using a CFME method, based on maintainable EBITDA and a capitalisation multiple of 5.5 times to 6.5 times. The basis for each of these assumptions is discussed in the sections below:

12.2. Maintainable earnings

Maintainable earnings represent the level of earnings that the business can sustainably generate in the future. We have selected a maintainable EBITDA for Andy's of \$12.0 million. In making this assessment, we have had regard to the following:

- earnings volatility: although FY15 performance was affected by wider macroeconomic pressures within the Australian market, as detailed in Section 7, the full performance also captured various business specific challenges faced within the businesses. We note that one of Andy's largest customers was placed into administration during FY16 which will impact future earnings of the business
- non-recurring items: underlying EBITDA in historical periods excludes the impact of one-off significant items such as settlement and restructuring costs.

We have had discussions with Management regarding the FY17 performance to date and earnings expectations. Andy's normalised EBITDA was \$14.9 million³⁵ in FY16, however it is expected to decline to approximately \$11.4 million³⁶ in FY17. Given the variability in historical earnings of Andy's, we have placed more weight on the FY17 forecast in selecting maintainable earnings.

There are a number of factors that indicate potential upside for Andy's, including a turnaround of the business post the restructuring. Accordingly, these factors, as well as any potential downside risks to future profitability, such as competition and margin compression, have been captured in our selection of the appropriate multiple by reference to the growth profile expected for comparable companies.

We have not adjusted maintainable earnings for cost savings available to any acquirer of 100% of a company that has operations in Australia, as these types of general synergies are commonly subsumed within a premium for control that is reflected in our selection of the appropriate multiple.

³⁵ Source: Management

³⁶ Ibid

12.3. EBITDA multiple

The multiple applied in a CFME method should reflect the return expected by an investor in the business. Returns are dependent on various factors including a business' operational risks, growth profile, profitability, size and external environment, amongst others.

In selecting the multiple range to be applied, we considered:

- market evidence derived from listed comparable companies
- recent transactions involving comparable businesses/assets, with an appropriate adjustment to reflect the specific characteristics of the business being valued
- key operational characteristics of Andy's.

Given the similarities between the business operations of Emeco and Andy's, we believe it is appropriate to utilise a consistent list of comparable companies and transactions in the selection of an appropriate multiple range. Discussions of the listed companies and transactions are detailed in Appendix F.

Selected multiple range

Based on our analysis of the implied multiples of comparable companies and transactions as outlined in Section 10.3, we have selected a multiple range of 5.5 times to 6.5 times forecast FY17 EBITDA. In selecting a lower multiple range compared to our valuation of Emeco, we have had regard to the following considerations:

- Andy's and Emeco largely provide a similar range of services to its customers, however Andy's is only focussed on the Australian mining industry and is smaller in size than Emeco
- Andy's rental fleet is newer and of a higher quality than Emeco's rental fleet
- Emeco is larger than Andy's in terms of both revenue and EBITDA and Andy's reported a lower EBITDA margin in FY16 of 5.23% compared to 26.2% for Emeco (both on a normalised basis).

12.4. Valuation cross check

Analysis net assets cross check

We have assessed the fair market value of Andy's on an enterprise value basis. We have cross-checked our assessed fair market value with the net assets on an ungeared basis³⁷ of Andy's at Valuation Date. Our assessed ungeared net assets of \$88.1 million (summarised in Table 50) is higher than the top end of our assessed enterprise value for Andy's of between \$66.0 million and \$78.0 million. We note that the net asset valuation methodology typically provides a minimum value for a going concern business, however we believe our assessed valuation range for Andy's is reasonable on the basis that Andy's currently has significant surplus capacity in its rental fleet.

The significant surplus capacity in Andy's rental fleet is evidenced by the 18% decline in revenue between FY15 and FY16 and a further decline of approximately 30% forecast for FY17. A major reason for the decline in revenue in FY16 was a major customer of Andy's being placed into administration. Applying FY15 reported EBITDA of \$28.1 million³⁸ to our multiple range of 5.5 times to 6.5 times results in an enterprise value of between \$154.8 million and \$182.9 million³⁹ which is above the assessed net assets and indicates that the build-up of surplus fleet occurred during FY16 and the financial year to date.

³⁷ Net assets on an ungeared basis represents the net assets of the business after excluding debt

³⁸ Andy's FY15 financial accounts

³⁹ Calculated as \$28,142,181 times a multiple of 5.5 times (\$154.8 million) and 6.5 times (\$182 million) rounded

Table 50: Net tangible asset value on the Valuation Date

	\$'000
Reported net assets	19,162
Adjustments	
<i>Less:</i> Book value earthmoving equipment	(79,402)
<i>Plus:</i> Appraised fair market value of rental fleet at August 2016	76,725
<i>Plus:</i> Fair market value purchases of rental fleet since August 2016 till the Valuation Date	450
<i>Less:</i> Fair market value disposals of rental fleet since August 2016 till the Valuation Date	(6,365)
Total fair market value of adjustments	(8,592)
Adjusted net tangible assets	10,570
<i>Plus:</i> Interest bearing debt	80,009
<i>Less:</i> Cash and equivalents	(2,454)
Total equity adjustments	77,555
Net assets (ungeared)	88,125

Source: PPB analysis

13. Valuation of Combined Group, after the Proposed Transaction

13.1. Summary

By approving the Proposed Transaction, the Non-Associated Shareholders will ultimately hold a non-controlling interest in the Combined Group. Accordingly we have valued the Shares of the Combined Group on a minority basis. Based on our assessment, Table 51 shows the Combined Group equity value range is between \$94.2 million to \$167.2 million or \$0.037 (3.7 cents) to \$0.066 (6.6 cents) per Share.

Table 51: Summary valuation

	Low \$	High \$
Emeco FME	60,000,000	60,000,000
Selected EBITDA multiple	6.0x	7.0x
Enterprise value - Emeco	360,000,000	420,000,000
Orionstone FME	23,000,000	23,000,000
Selected EBITDA multiple	6.0x	7.0x
Enterprise value - Orionstone	138,000,000	161,000,000
Andy's FME	12,000,000	12,000,000
Selected EBITDA multiple	5.5x	6.5x
Enterprise value - Andy's	66,000,000	78,000,000
Enterprise value - Combined Group	564,000,000	659,000,000
Less: Net debt	(467,575,010)	(467,575,010)
Equity value – Combined Group (control basis)	96,424,990	191,424,990
Minority interest discount (23.1%)	(22,251,921)	(44,174,998)
Equity value – Combined Group (minority interest basis)	74,173,069	147,249,992
Plus: Capital raised from rights issue	20,000,000	20,000,000
Equity value after Pro-rata Rights Offer (minority interest basis)	94,173,069	167,249,992
Divided by: Total Shares outstanding	2,530,532,302	2,530,532,302
Fair market value per Share	\$0.037	\$0.066

Source: PPB analysis

Consistent with the standalone valuations of Emeco, Orionstone and Andy's (detailed in Section 10, Section 11 and Section 12), the valuation of the Combined Group was determined using the CFME method, based on maintainable EBITDA and a capitalisation multiple of 6.0 times to 7.0 times for Emeco and Orionstone and 5.5 times to 6.5 times for Andy's.

- The enterprise values have been determined on a going concern basis and include a premium for control. To obtain the equity value of the Combined Group on a minority basis we have applied a minority discount of 23.1%, which is the inverse of our selected control premium of 30%⁴⁰. Our analysis is based on the inputs described below.

⁴⁰ Minority interest discount has been calculated as follows: $1 - [1 / (1 + 30\% \text{ control premium})]$

13.2. Surplus assets

We have not identified any surplus assets of the Combined Group following the Proposed Transaction, other than those which are expected to arise from the duplication of assets. Any surplus assets that arise from duplication of assets are considered to be synergistic benefits and have not been taken into account in our valuation, in accordance with the requirements of RG 111.

13.3. Net debt

The pro forma net debt of the Combined Group after completion of the Proposed Transaction is \$467.6 million, as summarised in Table 52.

Table 52: Pro forma net debt of Combined Group

	\$
Interest bearing debt	468,361,022
<i>Plus:</i> Finance leases	14,672,342
<i>Less:</i> Cash and equivalents	(15,458,353)
Pro forma net debt of Combined Group	467,575,010

Source: Management

13.4. Number of Shares on issue

Following completion of the Proposed Transaction there will be 2.531 billion Shares on issue. The ownership of existing Emeco Shareholders is diluted to 23.7% of total Shares on issue in the Combined Group, as summarised in Table 53.

Table 53: Shares on issue after the Proposed Transaction

	Before Proposed Transaction		After Proposed Transaction	
	Number	% of total	Number	% of total
Current Emeco Shareholders	599,675,707	100.0%	599,675,707	23.7%
Orionstone Shareholders	-	-	179,400,112	7.1%
Andy's Shareholders	-	-	116,316,587	4.6%
Emeco supporting creditors	-	-	777,377,710	30.7%
Orionstone supporting creditors	-	-	318,325,554	12.6%
Andy's supporting creditors	-	-	143,726,694	5.7%
Black Diamond Initial Placement	-	-	126,526,615	5.0%
Black Diamond Top Up	-	-	17,333,401	0.7%
Shares issued - Pro-rata Rights Offer	-	-	235,373,759	9.3%
Shares issued as underwriting fee	-	-	16,476,163	0.7%
Total	599,675,707	100.00%	2,530,532,302	100.00%

13.5. Minority interest discount

Our valuation of an issued Share in Emeco before the Proposed Transaction has been undertaken on a control basis, and our valuation of an issued Share in Emeco after the Proposed Transaction has been undertaken on a minority interest basis, consistent with the requirements of RG 111.

The EBITDA multiples we have applied in our analysis are on a control basis. To obtain the equity value of the Combined Group on a minority basis we have applied a minority discount of 23.1%. Our selected minority discount is the inverse of our selected control premium of 30%⁴¹, as discussed in Section 13.1 and Appendix G.

13.6. Pro-rata Rights Offer

Emeco is proposing to raise \$20 million by way of a Pro-rata Rights Offer. The Pro-rata Rights Offer will be a non-renounceable rights offer and will be fully underwritten by Black Diamond, the largest Emeco Noteholder, and Emeco's two largest Shareholders Black Crane and First Samuel (15.3% and 19.5% shareholding respectively, prior to the Proposed Transaction). The underwriting fee will be 7% of the amount to be underwritten, paid in Shares based on the issue price. Our analysis, summarised in Table 54, is based on an issue price of 8.5 cents per Share and assumes that none of the Emeco Shareholders subscribe to the Pro-Rata Rights Offer.

Table 54: Fair market value after the Proposed Transaction

	Low \$	High \$
Equity Value – Combined Group (minority basis)	74,173,069	147,249,992
Plus: Proceeds from Pro-rata Rights Offer	20,000,000	20,000,000
Equity value after Pro-rata Rights Offer (minority basis)	94,173,069	167,249,992
<i>Divided by: Total Shares outstanding</i>	2,530,532,302	2,530,532,302
Fair market value per Share after Pro-rata Rights Offer	\$0.037	\$0.066

Source: PPB analysis

Following the Pro-rata Rights Offer, First Samuel will hold an interest in the Combined Group of between 6.7% and 8.6%, Black Crane will hold between 4.6% and 5.1% and Black Diamond will hold between 16.2% and 20.8%, as summarised in Table 55.

Table 55: Summary of Shareholdings after the Pro-rata Rights Offer

	Before Proposed Transaction		After Proposed Transaction (nil take up)		After Proposed Transaction (full take up)	
	Number	% of total	Number	% of total	Number	% of total
Emeco Shareholders (excl. Underwriters)	391,305,697	65.3%	391,305,697	15.5%	544,893,864	21.5%
First Samuel	116,880,170	19.5%	217,620,139	8.6%	169,346,305	6.7%
Black Crane	91,489,840	15.3%	116,674,832	4.6%	129,047,378	5.1%
Black Diamond	-	-	527,005,381	20.8%	409,318,501	16.2%
Orionstone Shareholders			179,400,112	7.1%	179,400,112	7.1%
Andy's Shareholders			116,316,587	4.6%	116,316,587	4.6%
Emeco Noteholders (excl Black Diamond)	-	-	520,157,306	20.6%	520,157,306	20.6%
Orionstone creditors			318,325,554	12.6%	318,325,554	12.6%
Andy's creditors			143,726,694	5.7%	143,726,694	5.7%
Total	599,675,707	100.00%	2,530,532,302	100.00%	2,530,532,302	100.00%

⁴¹ Minority interest discount has been calculated as follows: $1 - [1 / (1 + 30\% \text{ control premium})]$

Source: Management, Explanatory Memorandum

13.7. Valuation cross check

Pro forma net assets of Combined Group

The pro forma net assets of the Combined Group at 30 June 2016 is \$144.3 million, as summarised in Section 8.7. We have adjusted the pro forma net assets to reflect the fair market value of the rental fleet. The net asset value per Share is 3.5 cents, which is below the range of our assessed fair market value of the Combined Group.

Table 56: Pro forma net assets of Combined Group

	\$'000
Pro forma net assets of Combined Group at 30 June 2016	144,323
PP&E adjustments for fair market value	(54,680)
Adjusted pro forma net assets of Combined Group	89,643
<i>Divided by:</i> Total Shares outstanding (number)	2,503,532,302
Net asset value per Share	\$0.035
Summary of PP&E adjustments for fair market value:	
Value recognised - Emeco	264,637
Value recognised - Orionstone	139,969
Value recognised - Andy's	79,402
Total book value of PP&E	484,008
Fair market value - Emeco	265,202
Fair market value - Orionstone	93,766
Fair market value - Andy's	70,360
Total fair market value of PP&E	429,328
Net adjustment for PP&E	(54,680)

Source: Management

14. Assessment of the Proposed Transaction

14.1. Conclusion

Based on our analysis, as set out above, PPB is of the opinion that, in the absence of a superior offer, and on the basis that a Non-Associated Shareholder does not participate in the Pro-rata Rights Offer, the Proposed Transaction is 'fair' and 'reasonable', and therefore 'in the best interests' of Non-Associated Shareholders, as a whole.

Since the debt for equity swap with the Emeco Noteholders, Orionstone's creditors and Andy's creditors, is subject to a Creditors Scheme and is part of the Proposed Transaction that we have assessed as being fair and reasonable, we are also of the view that the Creditors Scheme is in the best interest of Non-Associated Shareholders as a whole.

There are compelling reasons for Shareholders to approve the Proposed Transaction as they will be clearly better off if the Proposed Transaction proceeds. In accordance with RG 111, the expert is to consider these reasons and the position of a Non-Associated Shareholder that does participate in the Pro-rata Rights Offer, as part of the reasonableness assessment of the Proposed Transaction.

Emeco has been experiencing significant financial pressures, mostly due to the decline in certain mining sectors in Australia, its significant levels of debt and aging rental fleet. The Company's current ABL Facility is due to expire in December 2017 and the Notes expire in March 2019. Emeco requires a substantial reduction in its debt and additional capital if it is to generate any meaningful recovery in the business. Both will occur if the Proposed Transaction proceeds.

14.2. Approach

Fairness

The Proposed Transaction will be fair to Shareholders if the fair market value of an issued Share after the Proposed Transaction (on a minority interest basis) is equal to or greater than the fair market value of an issued Share before the Proposed Transaction (on a control basis).

Therefore, for the purpose of assessing the fairness of the Proposed Transaction, we have assessed and compared the fair market value of an issued Share in Emeco:

- before the Proposed Transaction, on a controlling interest basis
- after the Proposed Transaction, on a minority interest basis.

In accordance with RG 111, we are required to assess the fairness of the Proposed Transaction on the basis that a Shareholder *does not participate* in the Pro-rata Rights Offer.

Reasonableness

In assessing the reasonableness of the Proposed Transaction, we considered the advantages and disadvantages of the Proposed Transaction proceeding as well as any other factors that we identified. We have also considered the:

- existence of any premium for control
- likelihood of an alternative superior offer being made to the Shareholders.
- alternatives available to the Shareholders.

14.3. The Proposed Transaction is fair

We have assessed whether the Proposed Transaction is fair by comparing the fair market value of an issued Share in Emeco before the Proposed Transaction, on a control basis, to the fair market value of an issued Share after the Proposed Transaction, on a minority interest basis, assuming the Proposed Transaction is approved.

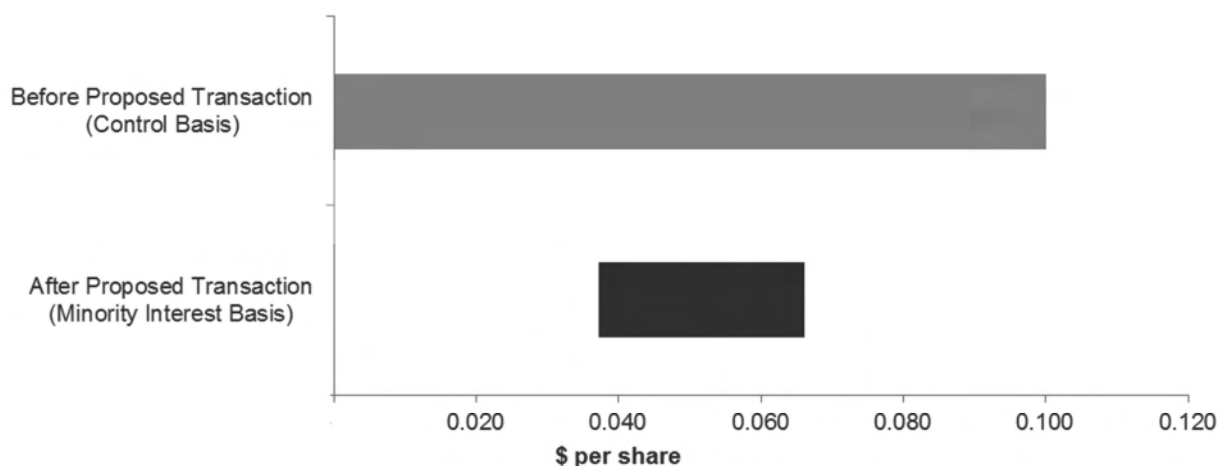
On the basis that a Shareholder *does not participate* in the Pro-rata Rights Offer, our fairness assessment indicates that the fair market value of an issued Share after the Proposed Transaction is within the range of the fair market value of an issued Share before the Proposed Transaction.

On the basis that a Shareholder does not participate in the Pro-rata Rights Offer, we have assessed the fair market value of an issued Share in Emeco:

- before the Proposed Transaction, on a control basis, to be in the range of \$nil to \$0.083 (8.3 cents)
- after the Proposed Transaction, on a minority interest and fully diluted basis, to be in the range of \$0.037 (3.7 cents) to \$0.066 (6.6 cents).

A summary of our fairness assessment is set out in Figure 17.

Figure 17: Fairness summary – Proposed Transaction



Source: PPB analysis

Our assessed fair market value of an issued Share after the Proposed Transaction is within the range of the fair market value of an issued Share before the Proposed Transaction. Therefore, we have determined that the Proposed Transaction is fair to a Non-Associated Shareholder that does not participate in the Pro-rata Rights Offer, according to RG 111.

RG 111 recommends that the Proposed Transaction is assessed on the basis that Emeco is subject to a change of control transaction. This reflects the possibility that Shareholders, in approving the Proposed Transaction, may give up the opportunity to realise a control premium.

Our assessment involves comparison of the underlying value with the 'consideration' to be received by Shareholders, where that consideration is deemed to be Shares in Emeco after the Proposed Transaction. For the purposes of the comparison, we have valued the Shares after the Proposed Transaction on a minority interest basis (trading value) and compared it to the value of the Shares before the Proposed Transaction which on a control basis.

We have assessed the value of the Shares after the Proposed Transaction using the sum of the parts approach, which assesses the value of each of Emeco, Orionstone and Andy's separately. Under this approach, each business is considered on the basis of similarities in service offering, growth prospects, and in some respects, demand drivers. The sum of the parts approach, therefore, provides a flexible valuation approach to take account of these factors, which are likely to vary across the different businesses. We have considered specific cost synergies available to the businesses, that could be available to any other potential bidders for the businesses. On the basis that Emeco, Orionstone and Andy's are all experiencing financial pressures due to their high gearing and cash constraints, we consider that they would have all undertaken significant cost cutting strategies already and hence any further cost synergies would be minimal, if there are any. RG 111.11 states that special value of the 'target' to a particular 'bidder' eg synergies that are not available to other bidders should not be taken into account.

We have applied a control premium of 30% in our analysis, however a control premium effectively represents the outcome of pricing decisions in change of control transactions. The trading price of Emeco Shares on the ASX will not incorporate a control premium, in the absence of any takeover offer.

The Lock-Up, that forms part of the Proposed Transaction, gives Emeco a relevant interest of 62.2% of the Shares on issue after the Proposed Transaction. The relevant interest is only for a period of 60 days after completion of the Proposed Transaction and relates only to the trading of the Shares and not any other rights attached to the Shares including the voting rights. As such, we consider that the impact on Non-Associated Shareholders is not material.

14.4. The Proposed Transaction is reasonable

We have summarised below some of the relevant factors associated with the Proposed Transaction. In assessing the reasonableness of the Proposed Transaction, we have considered the potential advantages and disadvantages to the Non-Associated Shareholders and considered whether the advantages outweigh the disadvantages in the context of the Proposed Transaction. Individual Shareholders may interpret these factors differently, depending on their circumstances.

We have assessed that the advantages and disadvantages of rejecting the Proposed Transaction are the inverse of accepting the Proposed Transaction.

The potential advantages and disadvantages to Non-Associated Shareholders arising from the approval of the Proposed Transaction are summarised below.

Advantages

Shareholder participation in Pro-rata Rights Offer

Non-Associated Shareholders will have the ability to participate in the Pro-rata Rights Offer that could result in them holding an interest of up to 21.5% of the issued Shares after the Proposed Transaction (compared to 65.3% before the Proposed Transaction).

In the event that the Pro-rata Rights Offer is not subscribed for by Shareholders, it will be fully subscribed for by the Underwriters. This could result in Shareholders holding up to 16% and the Underwriters holding up to 18.2% (excluding the Shares to be issued to Black Diamond by virtue of the Black Diamond Placements and Equity Exchange).

Shareholders are being offered favourable value for the debt to equity swap

The pricing of the debt to equity swap is favourable to Non-Associated Shareholders because the total value of the Shares being issued is at a discount of between 28% and 59% to the debt being swapped.

Reduced leverage

The Proposed Transaction offers an opportunity for Emeco to reduce financial leverage.

The Proposed Transaction will also result in net debt for the Combined Group reducing by \$113.2 million which would result in the Combined Group's:

- interest coverage ratio⁴² increasing from 1.3 times to 2.5 times FY16 pro forma EBITDA
- net debt to EV will decrease from 90% to 72% as compared to the average of its peers of 41%⁴³
- interest rate decreasing from 9.875% to 9.25%⁴⁴.

Whilst, in and of itself reduced financial leverage may not be beneficial in the current low interest rate environment, the lower leverage could allow Emeco to capitalise on growth opportunities that may emerge in the future.

Impact of Emeco's highly leveraged capital structure on its Share price

Our analysis suggests that Shares in Emeco are trading at a discount (this is also implied by our valuation per Share on a minority interest basis). Whilst it is difficult to definitively attribute this to any specific factor we assume that, like its peers, the market is downgrading Emeco due to its high level of gearing, cash flow constraints in the wake of the decline in commodity prices and pressures in the mining industry in Australia. As such, the Proposed Transaction could result in a re-rating of Emeco's Shares with the discounting being removed or reduced.

Condition of fleet assets

The age and condition of the fleet assets of Orionstone and Andy's being acquired by Emeco, are superior to Emeco's fleet assets. This will reduce Emeco's the need for capital expenditure compared to Emeco's capital expenditure requirements before the Proposed Transaction.

Alternative options

Our consideration of the alternatives suggests that the Proposed Transaction is the superior option available to Emeco as far as Non-Associated Shareholders are concerned. The Directors appointed advisers to evaluate the alternatives and considered:

- the sale of all or part of the Company
- scrip based acquisitions and strategic alliances
- a restructure of debt and equity raisings.

The Proposed Transaction allows the participation of Shareholders and enhances Emeco's operating platform through the acquisition of Orionstone and Andy's.

Continue as a Shareholder

Shareholders will continue to hold Shares in Emeco.

Earnings per Share accretive in the long term

We estimate that the Proposed Transaction will result in earnings per Share being diluted in the short to medium term but be accretive over the longer term. However, this is not unusual for a transaction of this type and doesn't result in a transfer of value so long as a Shareholder participates fully in the Pro-rata Rights Offer.

⁴² Calculated based on 30 June 2016 financial position

⁴³ Average calculated based on an 80% confidence interval

⁴⁴ Based on new senior secured notes per RSA

Alignment of interests of debt providers (Emeco Noteholders)

There is likely to be greater alignment between the interests of Emeco Noteholders and Non-Associated Shareholders through common ownership of the same instrument (ordinary Shares in Emeco).

From a control perspective, the Proposed Transaction does confer additional control, through their 31% interest and a seat on the board⁴⁵.

Cost synergies

Throughout the due diligence process undertaken by Emeco, Orionstone and Andy's, an extensive analysis has been undertaken on the potential synergies expected to be realised from the Proposed Transaction.

In assessing the value of the synergies, we have had regard to the type of synergies identified by Management as well as the timing of the realisation of the synergies. As described and itemised in Section 8.5, the synergies identified relate to cost synergies totaling at least \$15 million per annum, expected to be realised every year following completion of the Proposed Transaction.

In accordance with RG 111, we have not included the value of the cost synergies in our analysis. However, for information purposes only, the \$15 million synergies capitalised at an EBITDA multiple of 6.0 times to 7.0 times may contribute additional value to Shareholders of between 2.7 and 3.2 cents per share, as summarised in Table 57.

Table 57: Potential value of cost synergies

	Low	High
	\$	\$
Potential cost synergies	15,000,000	15,000,000
Illustrative EBITDA multiple	6.0	7.0
Potential additional value (control basis)	90,000,000	105,000,000
Minority interest discount (23.1%)	(20,769,231)	(24,230,769)
Potential additional value (minority basis)	69,230,769	80,769,231
Shares outstanding in Combined Group (assuming full subscription to Pro-rata Rights Offer)	2,530,532,302	2,530,532,302
Potential additional value per Share (minority basis)	\$0.027	\$0.032

Source: PPB analysis

The potential uplift through the realisation of synergies is based on the low end of Management's estimated synergies and reflects only the type of synergies which have been specifically identified and relate to cost categories. It is possible that additional incremental cost synergies and revenue synergies may be identified through further work by Management after the Proposed Transaction. Nevertheless, there is a risk that not all (if any) cost and other synergies will be achieved and there may be a delay in achieving them which would reduce the potential uplift value to Shareholders.

Further, Management has advised that approximately \$2.4 million in one-off costs are required to achieve the synergies.

Support of Emeco's major Shareholders

Emeco's largest two Shareholders, Black Crane (15.3%) and First Samuel (19.5%) indicate their support of the Proposed Transaction through their willingness to underwrite the Pro-rata Rights Offer to the extent of \$10 million.

⁴⁵ Black Diamond is allowed to appoint one nominee to the Emeco board

Emeco's third largest Shareholder, in its capacity as a note holder, Ascribe (4.4% before the Proposed Transaction) is supporting the Proposed Transaction through its agreement to a debt for equity swap for \$468 million⁴⁶ of New Notes at an interest rate of 9.25% for 31% of the issued Shares in Emeco.

Underwriting fee at market

The Pro-rata Rights Offer is being underwritten for a fee of 7% of the \$20 million underwritten amount, paid in Shares at the issue price. Based on our analysis of non-renounceable rights issues since January 2013, the underwriting fee is within the range of underwriting fees, albeit towards the higher end of the range.

The Underwriters will be paid in new Emeco Shares at the issue price equivalent to \$1.4 million, which equates to a total underwriting fee of 7% based on the \$20 million being underwritten.

In our opinion, this reflects the high level of perceived risk associated with the Proposed Transaction and the challenging financial positions of Emeco, Orionstone and Andy's. Our analysis is summarised in, Table 58 and Appendix H.

Table 58: Summary market non-renounceable rights issues

Transaction size		Number of transactions	Underwriting fee		
\$ million	\$ million		Average	Min	Max
0	10	343	4.9%	0.0%	25.9%
10	20	27	4.4%	1.0%	11.4%
20	30	8	4.5%	2.8%	6.0%

Source: Capital IQ, PPB analysis

Support of Emeco's largest noteholder

Black Diamond, Emeco's largest noteholder, has agreed to support the Proposed Transaction.

Recommendation of Independent Directors

In the Explanatory Memorandum, the Independent Directors state that they recommend the Proposed Transaction.

Disadvantages

Significant dilution

Non-Associated Shareholders' interests will be significantly diluted from 65.3% to between 15.5% and 21.5% after the Proposed Transaction as:

- Black Diamond may have an interest of up to 20.8% of the issued Shares
- Underwriters, excluding Black Diamond, may have an interest of up to 13.2% of the issued Shares
- Emeco Noteholders, excluding Black Diamond, may have an interest of up to 20.6% of the issued Shares
- Orionstone's and Andy's Shareholders may have an interest of up to 7.1% and 4.6% of the issued Shares, respectively
- Orionstone's and Andy's creditors may have an interest of up to 12.6% and 5.7% of the issued Shares, respectively.

⁴⁶ \$300 million in relation to Emeco, \$169 million in relation to Orionstone and Andy's

Significant shareholding by Black Diamond

Black Diamond may hold up to 20.8% of the total issued Shares in the Company and may be in a position to influence the decisions made by the Company, including in relation to the election of Directors, the appointment of new management and the potential outcome of matters requiring a Shareholder vote matters pertaining to a potential change of control in the Company.

Change in operating activities

By virtue of Emeco's acquisition of Orionstone and Andy's, the nature of the operating activities of Emeco will change. Shareholders that sought to invest in the equity of Emeco due to its specific risk profile and exposures, may need to re-evaluate their investment in Emeco compared to their criteria due to the changes in exposures presented by Emeco after the Proposed Transaction.

The Proposed Transaction may trigger termination rights under contracts entered into for the Company's business

There may be some counterparties to contracts with the Company or its subsidiaries that have rights to terminate their contracts as a result of the implementation of the Proposed Transaction. For example, the Company has a number of material customers that have a right to terminate their contracts with the Company if the Creditors Scheme is implemented, as a result of the Creditors Scheme falling within the definition of 'insolvency event' in the contract, or the customer having the right to terminate the contract for convenience. A similar risk extends to two of the Company's suppliers and one of its financiers. To the extent possible, the Company has discussed the rationale and impact of the Proposed Transaction with the relevant counterparty to mitigate this risk and sought confirmation where possible that they will not exercise their termination rights in respect of the contracts. To date, the Company has not received any indication that any counterparties will exercise such termination rights as a result of implementation of the Proposed Transaction.

No alternatives

If the Proposed Transaction is not approved, the Proposed Transaction will not proceed and there is a significant risk that the Company may be unable to source replacement funding for the Notes of USD 282.7 million (\$391 million at 30 December 2016 based on the RBA quoted AUD/USD exchange rate of 0.7236) that expires in March 2019 and the asset backed loan of \$75 million in December 2017. The asset backed loan is critical to operating liquidity of the business.

The Directors would need to immediately focus on a standalone restructuring solution and begin negotiations with the Emeco Noteholders. Based on the Directors' investigations to date, any other possible transaction may be materially more dilutive to Shareholders than the Proposed Transaction. In addition, implementing an alternative transaction may be extremely difficult given the challenging operating conditions and the uncertain timing of a mining industry's recovery.

The upcoming asset backed loan and bond maturities relative to Emeco's high leverage level and continually deteriorating asset values (due to underinvestment in capex caused by cash constraints) raise the concern whether Emeco has the ability to continue to meet its debt service requirements in the near term, and the Directors would need to continually consider this the cash flow constraints in advance of that timeframe.

If the Proposed Transaction is not approved, the Share price of Emeco may fall below the current Share price of \$0.072 per share on 13 January 2017.

Cost of the Proposed Transaction

The Directors have advised that the legal and adviser fees of approximately \$35 million will be borne by the Company. If the Proposed Transaction does not proceed, Shareholders will not benefit from any potential upside.

In addition, there is an underwriting fee of 7% of the total Shares issued in respect of the \$20 million Pro-rata Rights Offer being underwritten, regardless of the percentage take up by Shareholders.

Creditors Scheme

If the Creditors Scheme is approved by the Court, then any subordinate claims of existing Shareholders will be released under Section 411 5(A) of the Act. Subordinate claims are defined under the Act as:

- a claim for a debt owed by the Company to a person in the person's capacity as a member of the Company (whether by way of dividends, profits or otherwise)
- any other claim that arises from buying, holding, selling or otherwise dealing in Shares in the Company.

An implication of this release is that existing Shareholders will be unable to commence proceedings against the Company in relation to claims arising prior to the implementation of the Creditors Scheme.

Current Share price

We note that the Share price since the announcement of the Proposed Transaction has increased by 6%, from the closing price of 6.8 cents on the day prior to the announcement to closing at 7.2 cents on 13 January 2017 (as shown in Section 3.12 of the Report). If the Proposed Transaction does not proceed, it is likely that the Share price will fall.

Whilst the market currently implies a 6.5 times FY17 forecast EBITDA multiple⁴⁷ for Emeco, the upcoming ABL Facility and Notes maturities, Emeco's high degree of leverage and continually deteriorating asset values, (due to underinvestment in capex caused by cash constraints) put downward pressures on the future earnings potential of the Company.

Market price for the Notes

Before the announcement of the Proposed Transaction, the Notes were trading as low as USD 43, and the day immediately preceding the announcement of the Proposed Transaction at USD 78 (the Notes were trading at USD 60 the day immediately preceding announcement of the Initial Transaction). To the extent the Proposed Transaction is not implemented, one would expect the pricing of the bonds to decrease well below the pre-announcement prices, implying zero equity value and very material concerns in the marketplace with Emeco's ability to continue to trade.

Shareholders are being offered unfavourable pricing for the Pro-rata Rights Offer

The issue price of the Pro-rata Rights Offer of 8.5 cents per Share is at a 18% premium to the current Share price of 7.2 cents on 13 January 2017 and a 29% to 128% discount to our assessed value of the Combined Group.

Other factors

As mentioned above, if the Proposed Transaction is not approved, the Share price of Emeco may not rise from the current trading price because the Company has no alternative plans. The Directors will need to continue to investigate sources of alternative funding for the current ABL Facility that expires in December 2017 and the Notes for \$371 million with interest of 9.875% per annum expiring in March 2019. The ABL Facility is critical to operating liquidity of the business. Based on the Directors' investigations to date, any other possible transaction may be materially more dilutive to Shareholders than the Proposed Transaction.

All resolutions relating to the Proposed Transaction in the Explanatory Memorandum and Notice of Meeting are interdependent, including the Pro-rata Rights Offer.

⁴⁷ Based on assumed FY17 EBITDA of \$60 million

Alternatives

The Directors have investigated numerous options to alleviate the funding pressures, the aging fleet and cash constraints for much needed capex. The Directors have undertaken a lengthy process to seek alternative transactions that may have resulted in different outcomes for Shareholders. However, no suitable alternative was considered appropriate. Therefore the strategic review for debt restructuring commenced in February 2016 and resulted in the Proposed Transaction.

The Proposed Transaction is, in the view of the majority of the Directors, the most beneficial to Shareholders in the Company's current circumstances.

At the date of the report, there were no superior alternatives available to the Directors.

As stated in the Explanatory Memorandum, the Proposed Transaction is, in the view of the majority of the Independent Directors, the most beneficial to Shareholders in the Company's current circumstances.

14.5. Any premium for control

In accordance with RG 11.43, we considered whether any aspect of the Proposed Transaction is a control transaction and as such, whether the Non-Associated Shareholders should receive a premium for control. It is only Black Diamond that may obtain an equity interest of greater than 20% in the combined Group which may represent a meaningful level of 'control'.

In this regard, we note that:

- Black Crane and First Samuel, the other Underwriters of the Pro-rata Rights Offer, have existing ownership interests of 15.3% and 19.5% respectively, however each of their interests will be diluted to less than 10% of the Combined Group, after the Proposed Transaction
- the Emeco Noteholders as a whole, other than Black Diamond, will hold an interest of 20.6% after the Proposed Transaction, however no Emeco Noteholder will hold more than 10% individually.

Table 59 summarises our assessment of the control premium paid by Black Diamond for their interest by comparing:

- the value of the reduction in the Notes held by Black Diamond
- the value of the equity Black Diamond will receive in the Combined Group.

Table 59: Analysis of Black Diamond premium for control

Value of reduction in Black Diamond Notes

	\$ million
Before the Proposed Transaction	122.6
After the Proposed Transaction	99.1
Reduction in value of Notes	23.5

Value of Black Diamond equity in Combined Group

	Pro-Rata Rights Offer - Nil Subscription		Pro-Rata Rights Offer - Full Subscription	
	Low \$ million	High \$ million	Low \$ million	High \$ million
Number of Shares	527.0		409.3	
Price per Share	3.7 cents	6.6 cents	3.7 cents	6.6 cents
Value of equity (before subscription price)	19.6	34.8	15.2	27.1
Less: Subscription price of New Shares	10.0	10.0	-	-
Value of equity (after subscription price)	9.6	24.8	15.2	27.1
Premium for control	13.9	(1.3)	8.3	(3.6)
% Premium	59%	(6%)	35%	(15%)

Source: PPB analysis

14.6. Other considerations

This IER only provides general information. It does not take into account the Non-Associated Shareholders individual situation, objectives and needs. It is not intended to replace professional advice that should be obtained by individual Non-Associated Shareholders. Non-Associated Shareholders should consider whether this IER is appropriate for their circumstances, having regard to their individual situations, objectives and needs before relying on or taking action. Non-Associated Shareholders are encouraged to seek their own advice.

Whether or not individual Non-Associated Shareholders vote to implement the Proposed Transaction depends on their own circumstances, as well as each Non-Associated Shareholders view on the reasonableness factors summarised above.

14.7. Conclusion on the Proposed Transaction

In our opinion, in the absence of a superior offer, on the basis that a Non-Associated Shareholder does not participate in the Pro-rata Rights Offer, the Proposed Transaction is 'fair' and 'reasonable', and therefore 'in the best interests' of Non-Associated Shareholders, as a whole.

As part of assessing whether or not the Proposed Transaction is fair and reasonable to the Non-Associated Shareholders, PPB has assessed the value of an issued Share of Emeco before the Proposed Transaction on a control basis and compared it to the value of an issued Share of Emeco after the Proposed Transaction, assuming that the Proposed Transaction proceeds.

The alternative to the Proposed Transaction for Non-Associated Shareholders is to vote against the Proposed Transaction and continue to hold Shares in Emeco. As discussed above, given the financial position of Emeco, if the Proposed Transaction does not proceed, the Directors expect that they will need to source replacement funding for the Notes and the ABL Facility. This may be difficult given the challenging operating conditions and the uncertain timing of a market recovery. In addition, any other possible transaction may be more dilutive to Shareholders.

15. Limitations and disclosures

15.1. Qualifications

PPB holds an Australian Financial Services Licence (No. 344626) under the Act and its authorised representatives are qualified to provide this Report.

PPB provides a range of corporate advisory services and has advised on numerous takeovers, valuations, acquisitions and restructures.

This Report has been prepared by Fiona Hansen B Com, Hon Acc Science, CA, CA (SA) and a Partner at PPB Advisory. Fiona has over 20 years of experience in corporate finance advice including business valuations, preparing independent expert's reports, transaction advisory, financial due diligence and mergers and acquisitions.

This Report has also been prepared by Campbell Jaski BSc (Hons), MBA, FAusIMM, FFin, FCI Arb and a Director of PPB and Partner at PPB Advisory. Campbell has over 20 years of experience in management and corporate finance.

Based on their experience, Fiona and Campbell have the appropriate experience and qualifications to provide the advice offered.

15.2. Disclaimers

PPB previously prepared an independent expert's report for Shareholders under the Initial Transaction, a valuation of the debt under the Initial Transaction and an independent expert's report for Noteholders under the Proposed Transaction. We do not believe that any of these valuation engagements compromised our independence in the preparation of this Report.

This Report was not prepared for any other purpose or for use by any other person. PPB does not accept any responsibility to any person other than the Directors and Shareholders for the use of the Report outside the stated purpose without the written consent of PPB. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without our written consent, as to the form and context in which it may appear.

Approval or rejection of the Proposed Transaction are matters for individual Shareholders based on their expectations as to various factors including the value and future prospects of Emeco, the terms of the Proposed Transaction, market conditions and their particular circumstances, including risk profile, liquidity preference, portfolio strategy and tax position. Shareholders should carefully consider the documents. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their professional adviser.

15.3. Current market conditions

Our opinion is based on economic, market and other conditions prevailing at the Valuation Date. Such conditions can change significantly over relatively short periods of time. Changes in those conditions may result in any valuation or other opinion becoming quickly out dated and in need of revision. PPB reserves the right to revise any valuation or other opinion in the light of material information existing at the Valuation Date that subsequently becomes known to PPB.

15.4. Currency

All references to '\$' and 'dollars' are references to Australian dollars unless stated otherwise.

15.5. Independence

Prior to accepting this engagement, PPB considered its independence with respect to the Proposed Transaction with reference to the RG 112 and APES 110 Code of ethics for professional accountants issued by the Accounting Professional and Ethics Standards Board.

We have concluded that there are no conflicts of interest with respect to Emeco, Orionstone and Andy's involved in the Proposed Transaction.

PPB has no involvement with, or interest in, the outcome of the approval of the Proposed Transaction other than that of independent expert for the Shareholders and Emeco Noteholders. PPB is entitled to receive a fee based on commercial rates and including reimbursement of out-of-pocket expenses for the preparation of this Report and an independent expert report prepared for the Emeco Noteholders.

Except for these fees, PPB will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the issuing of this Report. The payment of this fee is in no way contingent upon the success or failure of the Proposed Transaction. PPB will receive no other benefit for the preparation of this Report.

15.6. Consents

PPB consents to issuing this Report in the form and context in which it is included in the Explanatory Memorandum and Notice of Meeting. Apart from the Report, PPB is not responsible for the contents of the Explanatory Memorandum and Notice of Meeting, or any other document or announcement associated with the Proposed Transaction. PPB acknowledges that its Report may be lodged with regulatory bodies.

15.7. Reliance on information

The statements and opinions contained in this Report are given in good faith and are based upon PPB's consideration and assessment of information provided by Emeco. PPB believes the information provided to be reliable, complete and not misleading, and we have no reason to believe that any material facts have been withheld.

The information provided has been evaluated through analysis, inquiry and review for the purpose of forming our opinion. The procedures adopted by PPB in forming our opinion may have involved an analysis of financial information and accounting records. This did not include verification work nor constitute an audit or review in accordance with Australian Auditing and Assurance Standards and consequently does not enable us to become aware of all significant matters that might be identified in an audit or review. Accordingly, we do not express an audit or review opinion.

It was not PPB's role to undertake, and PPB has not undertaken, any commercial, technical, financial, legal, taxation or other due diligence, or other similar investigative activities in respect of the Proposed Transaction. PPB understands that the Directors have been advised by legal, accounting and other appropriate advisors in relation to such matters, as necessary.

PPB does not provide any warranty or guarantee as to the existence, extent, adequacy, effectiveness and/or completeness of any due diligence or other similar investigative activities by the directors and/or their advisors.

An opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion, rather than an audit or detailed investigation and it is in this context that PPB advises that it is not in a position, nor is it practical for PPB, to undertake a detailed investigation or extensive verification exercise.

It is understood that, except where noted, the accounting information provided to PPB was prepared in accordance with generally accepted accounting principles (including adoption of Australian Equivalents to International Financial Reporting Standards) and prepared in a manner consistent with the method of accounting used by Emeco in previous accounting periods.

In accordance with normal practice, prior to finalising the Report, we confirmed facts with Emeco. This was undertaken by means of providing Emeco with a draft report. PPB obtained a representation letter from Emeco confirming that, to the best knowledge of Emeco, the information provided to, and relied upon by, PPB was complete and accurate, and that no significant information essential to the Report was withheld.

Emeco has agreed to indemnify PPB, including its related entities and their partners, directors, employees, officers and agents (as applicable) against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided to PPB by Emeco, which is false and misleading or omits any material particulars, or arising from failure to supply relevant documentation or information.

Appendices



Appendix A. Glossary of terms

Abbreviation	Definition
\$ or AUD	Australian dollars
ACCC	Australian Competition and Consumer Commission
AASB	Australia Accounting Standards Board
ABL Facility	the \$75 million asset backed loan facility
Act	The Corporations Act (<i>Cth</i>) 2001
AFSL	Australian Financial Services Licence
Andy's	Andy's Earthmovers (Asia Pacific) Pty Ltd (ACN 146 240 511)
Andy's Acquisition	the acquisition of Andy's through the exchange of 100% of the ordinary shares of Andy's for the issue of 5% of Shares in Emeco (on a post transaction basis)
Announcement Date	3 January 2017, being the date Emeco announced to the ASX the revised RSA had been signed
APES 225	Accounting Professional & Ethics Standard 225 Valuation Services
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited (ACN 008 624 691) and, where the context requires, the financial market that it operates
AUS	Australian
Black Crane	Black Asia Cranes Opportunities Fund
Black Diamond	Black Diamond Capital Management LLC and entities associated with it, Emeco's largest noteholder
Black Diamond Agreement	the agreement as part the Proposed Transaction between Emeco and Black Diamond dated 15 December 2016
Black Diamond Initial Placements	the private placement of Shares by Emeco to Black Diamond which represent 5.0% of the fully diluted issued capital of Emeco after the Pro-rata Rights Offer
Black Diamond Placement	the private placement of Shares by Emeco to Black Diamond which represent 5% of the fully diluted issued capital of Emeco following the Pro-rata Rights Offer
Black Diamond Top Up	an issue of Shares by Emeco to Black Diamond which represent 0.7% of the fully diluted issued capital of Emeco after the Pro-rata Rights Offer
capex	capital expenditure
CFME	capitalisation of future maintainable earnings
Combined Group	Emeco after the acquisition of Orionstone and Andy's
Creditors Scheme	the Proposed Transaction to be approved by Emeco Noteholders through a creditors scheme of arrangement under Part 5.1 of the Corporations Act
DCF	discounted cash flow
Directors	directors of Emeco
EBIT	earnings before interest and tax
EBITDA	earnings before interest tax depreciation and amortisation
Emeco or the Company	Emeco Holdings Limited (ACN 112 188 815)
Emeco Noteholders	holders of the Emeco Notes
EV	enterprise value
Equity Exchange	the New Notes and Shares referred to together
FIRB	Foreign Investment Review Board
Explanatory Memorandum and Notice of Meeting	Explanatory Memorandum and Notice of Meeting prepared by the Directors, to which the Report is attached

Abbreviation	Definition
First Samuel	First Samuel Limited (ACN 086 243 567)
FME	future maintainable earnings
FMV or fair market value	fair market value (underlying standard of value applied in this assessment)
FOS	Financial Ombudsman Service Limited
FSG	Financial Services Guide
FX	Foreign Exchange
FY	financial year ended or ending 30 June
FY14	financial year ended or ending 30 June 2014
FY15	financial year ended or ending 30 June 2015
FY16	financial year ended or ending 30 June 2016
FY17	financial year ended or ending 30 June 2017
IER or Report	this independent expert's report
Independent Directors	the directors of Emeco that are not associated with the Proposed Transaction, being all the directors other than Ian Testrow
Initial Transaction	the Proposed Transaction supersedes an earlier transaction announced by the Company on 23 September 2016, in substantially similar terms
k	thousand
Loan Restructure	collectively, the cancellation of all commitments, entry into a new revolving loan facility agreement and the restructure of existing and entry into new security arrangements
Licence	an Australian Financial Services Licence (No. 344626)
Lock-Up	any Shares in Emeco issued pursuant to the Equity Exchange will be subject to a voluntary escrow arrangement for a period of up to 60 days
m	million
Management	management of Emeco
NA	net assets or net asset value
New Notes	senior secured notes with extended maturity to 2022 financial year replacing the March 2019 144A Notes issued to Emeco Noteholders
Non-Associated Shareholders	Shareholders of Emeco that are not associated with the Proposed Transaction
Notes	USD denoted notes of \$282.7 million, 9.875% 144A notes due in March 2019. Converted to AUD 390.7 million based on the RBA exchange rate on 30 December 2016, or \$380.7 million converted at 30 June 2016.
NPAT	net profit after tax
Orionstone	Orionstone Holdings Pty Ltd (ACN 603 473 623)
Orionstone Acquisition	the acquisition of Orionstone through the exchange of 100% of the ordinary shares of Orionstone for the issue of 7% of Emeco's ordinary shares (on a post transaction basis)
PPB	PPB Corporate Finance Pty Ltd
PP&E	property, plant and equipment
Pro forma Number of Shares	the fair market value of an issued Share after the Proposed Transaction, on a pro forma fully diluted basis
Proposed Transaction	as described in the RSA and the subject of the Report
Pro-rata Rights Offer	non renounceable pro-rata rights offer to shareholders of Emeco to raise \$20 million, fully underwritten by the Underwriters

Abbreviation	Definition
RBA	Reserve Bank of Australia
RG	ASIC Regulatory Guide
RG 74	ASIC Regulatory Guide 74 Acquisitions approved by members
RG 111	ASIC Regulatory Guide 111 Content of experts reports
RG 112	ASIC Regulatory Guide 111 Independence of experts
RSA	restructure supporting agreement between Emeco and Emeco's Noteholders, Orionstone's creditors, Orionstone's Shareholders, Andy's creditors, Andy's Shareholders
Section 611	Section 611 of the Corporations Act 2001 (Cth)
Share	issued ordinary share in Emeco
Shareholder	a person who is registered as the holder of an Emeco Share in the Emeco Share register
Underwriters	Black Diamond, Black Crane and First Samuel
USD	US dollars
Valuation Date	30 December 2016
VWAP	volume weighted average share price

Appendix B. List of sources of information

In preparing this Report we have been provided with and considered the following sources of information:

Publicly available information

- audited annual reports of Emeco for years ending 30 June 2014, 30 June 2015 and 30 June 2016
- annual reports of Andy's for years ending 30 June 2014 (audited), 30 June 2015 (audited) and 30 June 2016 (audited)
- annual reports of Orionstone for years ending 30 June 2014 (audited), 30 June 2015 (audited) and 30 June 2016 (audited)
- ASIC Current Organisation Extract for Orionstone Holdings Pty Ltd at 10 January 2017
- reviewed interim report of Emeco for half-year ending 31 December 2015
- various Emeco ASX announcements and Shareholder presentations
- various public disclosure documents lodged by Emeco with the ASX
- Emeco's website
- financial information from Capital IQ
- Bloomberg for iron ore prices and Notes trading prices
- IBISWorld reports – Mining in Australia Industry report – September 2016
- IBISWorld reports – E3212 Site Preparation Services in Australia Industry report – June 2016
- IBISWorld reports – L6631 Machinery and Scaffolding Rental Mining in Australia Industry report – May 2016
- RBA website
- Various ASIC extracts and company returns

Non-public information

- Draft Explanatory Memorandum and Notice of Meeting
- Emeco board minutes
- Emeco business plan for FY16 and FY17
- Emeco economic group update
- discussions with Management, and the Company's advisers
- Hassalls independent property valuations and update
- Emeco sharetrak report
- Deed of cross guarantee
- Emeco corporate financial model
- Emeco Master Fleet Database dated 20 December 2016 in Excel format
- Amended RSA signed 30 December 2016
- CEO report dated November 2016

Appendix C. Independent plant and equipment valuation update



Tuesday, 3 January 2017

Stephen Crofts
General Manager Assets
Emeco
Locked Bag 1
Rutherford, NSW 2320

via email: stephen.crofts@emecogroup.com

Dear Stephen,

RE: Emeco, Orionstone & Andy's Earthmoving Valuations of 2016

Further to your request regarding the question 'has the Australian second hand market for mobile mining plant incurred any material change since June/July' our response is no, not materially.

We have observed positive increases in commodity pricing (Coking Coal and fluctuations in Iron Ore) and with this commodity price shift some assets in the above fleets may have incurred an increased demand in the used secondary market value but other assets, especially older or high hour units will still have natural value amortisation suggesting that the overall valuation would not be materially impacted.

If you have any questions please do not hesitate to contact the undersigned Valuer.

Yours sincerely,



Steve Wall
General Manager & Senior Valuer, Hassall's
Certified Practising Valuer (Plant & Machinery) # 267
USPAP Compliant 2013.



Appendix D. Valuation methodologies

To estimate the fair market value of Emeco, we have considered the common market practice and the valuation approaches recommended by RG 111, that provide guidance in respect of the content of independent expert's reports. The common valuation approaches are as follows:

- market based approach
- income based approach
- asset based approach.

Each approach is appropriate in certain circumstances. The decision as to which approach and specific methodology to apply generally depends on the nature of the company or asset being valued, the methodology most commonly adopted in valuing such companies or assets and the availability of appropriate information.

These approaches are summarised below:

Market based approach

Market based approach estimates the fair market value by considering the market price of transactions in its shares or the market value of comparable companies. The market based approach includes the following methods:

- capitalisation of earnings method
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of earnings method estimate the fair market value based on a company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings is appropriate where a company's earnings are relatively stable and it is assumed that the business will continue trading as a going concern indefinitely.

The most recent share trading history provides evidence of the market value of the shares of the company where they are publicly traded in an informed market.

Industry specific methods estimate the fair market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods, because they do not account for company specific factors. Industry specific methods are typically used as cross checks in specific industries.

Income based approach

Under the income approach, the discounted cash flow method estimates the fair market value by discounting a company's future cash flows to a net present value using an appropriate discount rate. The DCF method is appropriate where there are long term projections of future cash flows of at least five to ten years and the projections can be made with a reasonable level of confidence. DCF method is typically used where:

- the businesses' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy
- earnings or cash flows are expected to fluctuate significantly from year to year
- the business or asset has a finite life
- the business is in a 'start up' or in early stages of development
- the business has irregular capital expenditure requirements
- the business involves infrastructure projects with major capital expenditure requirements
- the business is currently making losses but is expected to recover.

Asset based approach

Asset based approach estimates the fair market value of a company's shares based on the realisable value of its identifiable net assets. The asset based approach includes the following methods:

- orderly realisation of assets
- liquidation of assets
- net assets on a going concern basis.

The orderly realisation of assets method estimates the fair market value of the net assets by estimating the amount that would be distributed to its shareholders after the payment of all liabilities are satisfied including realisation costs and taxation, assuming that the company is wound up in an orderly manner.

The liquidation of assets method is similar to the orderly realisation of assets method except that the liquidation method assumes that the assets are sold in a shorter timeframe. Since wind up or liquidation of the company may or may not be contemplated, this method in its strictest form may not necessarily appropriate.

The net assets on a going concern basis estimates the market value of the net assets of the company but does not take into account realisation costs.

The net asset value of a trading will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The assets based methods are relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business.

The net realisable assets method is also used as a cross check for the values derived using other methods.

Appendix E. Comparable trading company analysis

Comparable ASX listed companies – earnings and multiples

Company name	Country	Enterprise value at 30/12/16 \$ million	Revenue FY16 \$ million	EBITDA		Revenue growth FY16 %	EBITDA multiple		EBITDA multiple NTM times
				margin FY16 %	207		LTM times	9.9x	
Emeco Holdings Limited	Australia	383	207	19%	(14%)	9.9x	n/a	n/a	
Australian companies									
Ausdrill Ltd.	Australia	610	748	18%	3%	5.4x	4.9x	4.9x	
Boom Logistics Ltd.	Australia	99	152	7%	(26%)	11.5x	n/a	n/a	
Downer EDI Limited	Australia	2,821	6,850	8%	(2%)	6.4x	7.1x	7.1x	
Global Construction Services Limited	Australia	128	185	16%	23%	5.5x	4.9x	4.9x	
Macmahon Holdings Ltd.	Australia	62	347	8%	(47%)	3.6x	n/a	n/a	
MACA Limited	Australia	360	431	22%	(28%)	5.1x	4.7x	4.7x	
Mastermyne Group Limited	Australia	50	169	2%	(3%)	18.0x	10.3x	10.3x	
NRW Holdings Limited	Australia	273	288	14%	(63%)	8.4x	6.5x	6.5x	
Average		550	1,146	12%	(18%)	8.0x	6.4x	6.4x	
Median		201	318	11%	(15%)	5.9x	5.7x	5.7x	

Source: Capital IQ and PPB analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash
2. Control premium of 30% has been applied to market capitalisation to calculate the multiples above
3. LTM = last twelve months; NTM = next twelve months; n/a = not available
4. Emeco figures have not been included in the calculations of average and median

Comparable internationally listed companies – earnings and multiples

Company name	Country	Enterprise value at 30/12/16 \$ million	Revenue FY2016 \$ million	EBITDA margin FY2016 %	Revenue growth FY2016 %	EBITDA multiple LTM times	EBITDA multiple NTM times	
Emeco Holdings Limited	Australia	392	207	19%	(14%)	10.2x	n/a	
International companies								
Finning International Inc.	Canada	5,567	6,126	9%	(11%)	14.0x	12.2x	
Petrowest Corporation	Canada	128	184	6%	(31%)	19.3x	4.2x	
Kanamoto Company Ltd.	Japan	1,518	1,811	26%	9%	4.3x	4.1x	
MS Holdings Limited	Singapore	43	17	23%	2%	19.2x	n/a	
Tat Hong Holdings Ltd	Singapore	634	511	13%	(13%)	24.2x	6.6x	
Tiong Woon Corporation Holding Ltd	Singapore	164	139	18%	(4%)	6.3x	n/a	
Eqstra Holdings Limited	South Africa	243	270	7%	6%	13.6x	n/a	
Torre Industries Limited	South Africa	121	184	10%	52%	7.4x	n/a	
Ashtead Group plc	United Kingdom	17,748	4,893	46%	25%	9.6x	8.3x	
HSS Hire Group plc	United Kingdom	626	641	18%	10%	6.6x	5.4x	
Essex Rental Corp.	United States	317	126	16%	8%	13.7x	n/a	
H&E Equipment Services Inc.	United States	2,279	1,428	15%	(5%)	13.8x	6.5x	
HERC Holdings, Inc.	United States	4,297	2,304	14%	(5%)	20.4x	6.2x	
Neff Corp.	United States	1,069	527	26%	3%	8.3x	4.3x	
Titan Machinery, Inc.	United States	1,019	1,935	3%	(28%)	35.6x	31.9x	
United Rentals, Inc.	United States	22,350	7,988	32%	2%	10.9x	7.0x	
Average		3,633	1,818	18%	1%	14.2x	8.8x	
Median		827	584	15%	2%	13.6x	6.5x	

Source: Capital IQ and PPB analysis

Notes:

1. Enterprise value represents the sum of market capitalisation, preferred equity, minority interest and debt, less cash
2. Control premium of 30% has been applied to market capitalisation to calculate the multiples above
3. LTM = last twelve months; NTM = next twelve months; n/a = not available
4. Emeco figures have not been included in the calculations of average and median

Comparable company analysis – ASX listed company descriptions

Company	Country	Market cap (AUDm)	Description
Ausdrill Ltd.	Australia	393	Ausdrill Limited operates as an integrated mining and energy services company worldwide. It operates through Drilling Services Australia, Contract Mining Services Africa, Equipment Services & Supplies, and All Other segments. The company is involved in the reverse circulation, diamond drilling, rotary air blast, and air core drilling; geochemical and precious metals analysis; production and monitoring of bores, as well as depressurization and dewatering, and surface hole drilling; and procurement and supply of exploration equipment, parts, and consumables. It also engages in the drill and blast, and grade control drilling; earthmoving equipment rental business; mine development and civil works; grade control; manufacture and supply of drilling consumables, spares, drill rods, and DTH drilling equipment; manufacture of bulk explosives; and provision of blasting services. In addition, the company is involved in the clearing, pre-strip, access, and haul road construction, excavation, loading, hauling, dumping, and equipment hire; underground mining; design, manufacture, and maintenance of blast hole, RC and diamond drill rigs, and support and ancillary equipment; manufacture and supply of RC hammers, bits, drill rods, and other equipment; and sale and rental of pressure, flow, and well control equipment for the oil and gas industry. Further, it engages in the exploration and production drilling of coal seam gas and shallow oil and gas wells; servicing of oil and gas wells; design, drilling, installation, testing, and commissioning of telecom and underground power networks; and motel business. Ausdrill Limited was founded in 1987 and is based in Canning Vale, Australia.
Boom Logistics Ltd.	Australia	50	Boom Logistics Limited provides crane logistics and lifting solutions to the resources, energy, utilities, and infrastructure sectors in Australia. The company offers mobile and crawler cranes for wet and dry hire with short term and long term rental facilities; and tailored elevated work platform (EWP) solutions with a fleet of travel towers and access equipment. It also provides special hydraulic mobile cranes and low profile prime movers; access equipment, including boom lifts, knuckle booms, EWPs, and travel towers; and cranes and access equipment for export markets or refurbishments, as well as sells used equipment. In addition, the company offers heavy haulage vehicles to transport heavy and large equipment, as well as managed lifting solutions and engineering services. Its fleet comprises approximately 300 cranes and 20 travel towers. The company was formerly known as The Australian Crane Company. Boom Logistics Limited was incorporated in 2000 and is based in Southbank, Australia.
Downer EDI Limited	Australia	2,560	Downer EDI Limited provides various services to customers in the transportation, mining, energy and industrial engineering, utilities, communications, and facilities markets in Australia and internationally. The company's Transport Services segment offers transport infrastructure services, such as earthworks, civil construction, asset management, maintenance, surfacing and stabilization, supply of bituminous products and logistics, open space and facilities management, and rail track signaling and electrification works. Its Technology and Communications Services segment provides feasibility, design, civil and network construction, commissioning, testing, operation, and maintenance services for fiber, copper, and radio networks; data center services; and automated ticketing and intelligent transport technology systems. The company's Utilities Services segment offers lifecycle services to customers in the power, gas, water, and renewable energy industries. Its Rail segment provides rail asset solutions, including passenger and freight build, operation and maintenance, component overhauls, and after-market parts. The company's EC&M segment designs, engineers, constructs, and maintains greenfield and brownfield projects, such as feasibility studies; engineering design; civil works; structural, mechanical, and piping; electrical and instrumentation; mineral process equipment design and manufacture; commissioning; operations maintenance; shutdowns, turnarounds, and outages; strategic asset management; and decommissioning. Its Mining segment provides asset management, blasting, crushing, exploration drilling, mine closure and site rehabilitation, mobile plant maintenance, open cut mining, tire management, and underground mining services; manufactures and supplies explosives; undertakes civil projects; and trains and develops ATSI employees. The company is headquartered in North Ryde, Australia.

Company	Country	Market cap (AUDm)	Description
Global Construction Services Limited	Australia	114	Global Construction Services Limited provides equipment and on site specialised labor services in Australia. The company operates through Commercial; Residential; and Resource, Industrial, Oil & Gas segments. It supplies a range of specialized labor services and equipment, including hire and sale of scaffolding, formwork, material hoists, temporary site accommodation, and general plant hire. The company's products also include plant and equipment, such as compressors and air power tools, compaction equipment, generators, distribution boards and lighting towers, skid steers and excavators, materials handling equipment, hydraulic power tools, and others; formwork and concreting packages, which comprise formwork contracting, concrete pumping, concrete placement, wall formwork, falsework and propping, column formwork, timber and plywood, and others; and temporary site units, such as lunch rooms and site offices, first aid huts, ablation blocks, shower blocks, accommodation and change rooms, temporary fencing, storage containers, chemical toilets, and others. In addition, it provides delivery and pick up; installation and dismantling and related estimating; design and engineering; concrete supply and installation services. Further, Global Construction Services Limited offers specialized site services, such as rope access, HSE management, traffic management, specialized painting, and security services, as well as windows and facades. The company serves customers involved in the construction and maintenance of oil and gas, energy, infrastructure, offshore, mining, power generation, water treatment plant, decommissioning, shutdowns, and civil work projects; commercial and mixed-use developments; and single and multi-story residential developments. Global Construction Services Limited was founded in 2003 and is headquartered in Redcliffe, Australia.
Macmahon Holdings Ltd.	Australia	119	Macmahon Holdings Limited provides contract mining services to clients in Australia, New Zealand, South East Asia, and Africa. It operates through three segments: Surface Mining, Underground Mining, and International Mining. The company offers surface mining services, including mine planning and management, drilling and blasting, bulk and selective mining, crushing and screening, fixed plant maintenance, camp and mine management, train loadout management, and operation and maintenance of client equipment. It also provides underground mining services, such as mine management, underground development and production, portal establishment, raise drilling, cable bolting, shot creting, remote shaft lining, production drilling, and shaft sinking services. In addition, the company offers plant, maintenance, and engineering services, which include commissioning, shutdown, and maintenance management; operation and maintenance of client-owned plant and infrastructure; water management and tailings dam maintenance services; modification to existing plant to suit clients' needs; design, construction, commission, and maintenance of crushing and screening plants; fabrication, installation, and maintenance of structural, mechanical, mining, and electrical plant and equipment for surface and underground clients; and specialized engineering services. Macmahon Holdings Limited was founded in 1963 and is headquartered in Perth, Australia.
MACA Limited	Australia	402	MACA Limited operates as a mining, civil construction, and road infrastructure company in Australia and Brazil. The company offers loading and hauling services; and drilling and blasting services, including production drilling and blasting for surface mining operations or quarries, pre-split drilling, contour drilling and pioneering, blast hole sample drilling, probe drilling, pre-split and final wall blasting, drill and blast design, blasting solutions for civil construction, and controlled blasting. It also provides crushing and screening services to deliver tailored screening and sizing solutions, as well as materials handling solutions. In addition, the company offers civil road infrastructure and maintenance services, including roads and bridges construction and maintenance, and parks and gardens management services, as well as vegetation management, pavement and verge work, safety barrier, and specialist services to government and private organizations. MACA Limited was incorporated in 2002 and is headquartered in Welshepool, Australia.

Company	Country	Market cap (AUDm)	Description
Mastermyne Group Limited	Australia	38	Mastermyne Group Limited provides contracting services to the underground long wall mining operations in Australia. It operates through two segments, Mastermyne and Mastertec. The Mastermyne segment offers project management, labour and equipment hiring, underground roadway development, underground ventilation device installation, bulk materials handling system installation and relocation, and underground mine support services, as well as underground conveyor installation, extension, and maintenance services. The Mastertec segment provides a range of above-ground contracting services to ports, resources, industrial, and infrastructure sectors. Its services include scaffolding and rigging, blast and paint, pipeline services, sustainable capital works, fabrication and machining, training and engineering, and technical services. Mastermyne Group Limited was founded in 1996 and is headquartered in Mackay, Australia.
NRW Holdings Limited	Australia	214	NRW Holdings Limited, through its subsidiaries, provides civil and mining contracting services to resource and infrastructure sectors in Australia. It operates through three business divisions: NRW Civil & Mining, Action Drill & Blast (ADB), and AES Equipment Solutions (AES). The NRW Civil & Mining division delivers private and public civil infrastructure projects, mine development and contract mining, waste stripping, and ore haulage. This division's civil construction projects include bulk earthworks, rail formation, concrete installation, and construction of roads; and mining projects comprise work in iron ore, coal, and gold. The ADB division provides contract drill and blast services to mining sector, including iron ore, gold, coal, and lithium mines; and civil projects throughout Australia. The AES division offers maintenance services to the mining and resources sectors comprising the fabrication of water and service trucks. The company also sells plants and tires. NRW Holdings Limited was founded in 1994 and is headquartered in Belmont, Australia.

Comparable company analysis – internationally listed company descriptions

Company	Country	Market cap (AUDm)	Description
Finning International Inc.	Canada	4,551	Finning International Inc. provides, sells, and rents parts and services for equipment and engines in Canada, South America, the United Kingdom, and Ireland. It serves various industries, including mining, construction, petroleum, and forestry, as well as various power system applications. The company was formerly known as Finning Ltd. and changed its name to Finning International Inc. in April 1997. Finning International Inc. was founded in 1933 and is headquartered in Vancouver, Canada.

Company	Country	Market cap (AUDm)	Description
Petrowest Corporation	Canada	59	Petrowest Corporation provides construction services in Western Canada. It operates through five divisions: Construction, Civil Services, Transportation, Environmental Services, and Rentals. The Construction division offers industrial and civil infrastructure, land clearing, construction, and road building services; well site preparation and clean-up, restoration, and reclamation services; and commercial subdivision construction services. The Civil Services division engages in mobile rock and gravel crushing activities, including pit run crushing, quarry crushing, and stripping and cleaning of quarry pits; and in the provision of oilfield safety supervision services and safety equipment rentals for sour gas wells. The Transportation division provides various services comprising general heavy duty hauling, equipment transportation, log loading and hauling, and gravel and pipe hauling for the construction, forestry, and oilfield industries; and contaminated waste soils transportation services. The Environmental Services division owns a landfill site in northeastern British Columbia. The Rentals Division owns and rents heavy and oilfield equipment, such as articulated haulers, tracked excavators, crawler dozers, sidebooms, and earth compactors. This division provides heavy equipment to oil and gas companies; and contractors working in civil construction, oil and gas, mining, logging, and pulp and paper industries. The company was founded in 2006 and is headquartered in Calgary, Canada.
Kanamoto Company Ltd.	Japan	1,296	Kanamoto Company Ltd., through its subsidiaries, engages in the rental of construction equipment, engineering workstations, and computer peripherals; and sale of steel products in Japan. The company rents various hand tools and construction equipment, such as dump trucks and hydraulic excavators, as well as temporary housing materials, structures, and electrical generators. It also supplies steel products, such as steel bars and H-beams, sheet piles, and single-tube pipes. Further, it rents hardware products; and various network solutions. Additionally, Kanamoto Company Ltd. provides engineering-trained manpower services. The company was founded in 1964 and is headquartered in Sapporo, Japan.
MS Holdings Limited	Singapore	12	MS Holdings Limited, an investment holding company, provides crane rental services in Singapore. It rents mobile cranes and lorry cranes; trades in mobile cranes and related equipment; and provides project logistics management and services. The company has a fleet of approximately 33 mobile cranes and lorry cranes with lifting capacities ranging from 25 tons to 750 tons. It serves customers in construction, marine, logistics, oil and gas, and infrastructure industries. The company was incorporated in 2014 and is headquartered in Singapore.

Company	Country	Market cap (AUDm)	Description
Tat Hong Holdings Ltd	Singapore	207	<p>Tat Hong Holdings Ltd, an investment holding company, supplies cranes and heavy equipment to various industries worldwide. The company operates through four segments: Crane Rental, Tower Crane Rental, General Equipment Rental, and Distribution. It is involved in the rental of dry and wet hire cranes and equipment, earthmoving and civil construction plants, access equipment, air and power generation equipment, lighting towers, site accommodation equipment, handling and lifting equipment, welding and cutting equipment, and scaffolding equipment; and sale of crawler cranes, mobile cranes, tower cranes, earth-moving equipment, foundation equipment, excavators, loaders, tool carriers, compactors, milling and paving equipment, and graders. Tat Hong Holdings Ltd also offers lift execution, engineering, project and site management, rigging and crane erection, jacking and skidding, and equipment installation services, as well as offshore and marine services. In addition, the company provides transportation and logistics services; training courses and management consultancy work; technology consultancy and related technical services; plant hire, heavy haulage, and engineering services; and engages in the import, export, trade, lease repair, and maintenance of industrial and construction machinery and equipment. Further, it is involved in the reconditioning, repair, and testing of hydraulic pumps and motors; supply of scientific and precision equipment, heavy machinery and equipment, motor trucks, and motor lorries; rental of leasehold property; and lease of warehouses. Additionally, the company is involved in the distribution of heavy equipment and spare parts; and provision of lorry transport and crane services. It serves customers in the construction and engineering, infrastructure, oil and gas, power generation, and resources industries. The company was incorporated in 1991 and is based in Singapore.</p>
Tiong Woon Corporation Holding Ltd	Singapore	54	<p>Tiong Woon Corporation Holding Ltd, an investment holding company, provides integrated services primarily for the oil and gas, petrochemical, infrastructure, and construction sectors. It operates through four segments: Heavy Lift and Haulage, Marine Transportation, Engineering Services, and Trading. The company is involved in selling and hiring out of cranes and transport; leasing heavy haulage equipment, such as prime movers, low beds, self propelled modular trailers, tow trucks, and trailers; and supplying various models of tower cranes for sale and rent. It also provides heavy lift and haulage, marine transportation, and inland transportation services; equipment installation services for trays and structures; project engineering services for heavy lifting and haulage requirements; refurbish, delivery, maintenance, jack down, dismantle, and erection of tower cranes, as well as wall tie installation, foundation anchor, and jacking up services; and after sales services, which include maintenance and repair services. In addition, the company offers tug and barge services for various sea transportation projects; trades new and used equipment, such as crawler cranes, mobile cranes, and tower cranes; process and industrial plant engineering works for the marine, and oil and gas industries; and mechanical and infrastructure engineering services, and structural works. Further, it engages in the repair and up-slipping/launching of ships; management of marine and industrial plant projects; renovation and marine related activities; and freight forwarding and logistics related business. The company's fleet consists of 493 cranes and 291 haulage assets; and 7 tugboats and 12 barges. Tiong Woon Corporation Holding Ltd operates in Singapore, the Middle East, Malaysia, India, Indonesia, Thailand, China, and internationally. The company was founded in 1978 and is headquartered in Singapore.</p>

Company	Country	Market cap (AUDm)	Description
Eqstra Holdings Limited	South Africa	14	Eqstra Holdings Limited engages in the distribution, lease, and rental of mobile capital equipment; and provision of related value added annuity services in South Africa, the United Kingdom, and Ireland. It operates through Industrial Equipment, Fleet Management and Logistics, and Contract Mining and Plant Rental segments. The Industrial Equipment segment offers distribution, leasing, rental, and value-added services for industrial, materials handling, and agricultural equipment markets. This segment primarily serves blue chip clients in a range of sectors, including retail, manufacturing, ports and container handling, mining, warehousing, airports, fast-moving consumer goods, and agriculture. The Fleet Management and Logistics segment provides leasing, rental, logistics, and value-added services for passenger and commercial vehicles. This segment also offers fleet management solutions; and logistics solutions for the commodity and dry bulk sectors under the Eqstra Flexi Logistics brand, as well as provides transport and logistics solutions for work fleets. The Contract Mining and Plant Rental segment offers opencast mining services comprising drilling, blasting, loading, hauling, and rehabilitation services, as well as rents heavy earthmoving equipment. The company serves clients in the construction, mining, industrial, and commercial sectors. Eqstra Holdings Limited was founded in 1984 and is based in Kempton Park, South Africa.
Torre Industries Limited	South Africa	93	Torre Industries Limited, together with its subsidiaries, provides a range of equipment, parts, financing, and support services in Africa. It operates through Plant and Equipment, Services and Supplies, and Financial Solutions segments. The company engages in the sale and rental of heavy lifting and earth moving equipment for the mining, agriculture, and construction industries, as well as supplies parts and services. It is also involved in the supply of aftermarket spare parts to the automotive, construction, mining, and agriculture industries; and the provision financing solutions. The company was formerly known as SA French Limited. Torre Industries Limited was incorporated in 2012 and is based in Johannesburg, South Africa.
Ashtead Group plc	United Kingdom	13,422	Ashtead Group plc, an investment holding company, rents a range of construction and industrial equipment. The company offers equipment, which is used to lift, power, generate, move, dig, support, access, scrub, pump, direct, heat, and ventilate various works. It provides various types of construction equipment for non-residential construction markets; and facilities management equipment for the maintenance and repair of facilities. The company also provides disaster relief equipment, such as pumps and power generation equipment for various types of applications, such as assisting at times of flooding due to weather and burst water supply; power generation, lighting, and other equipment for management of events, such as super bowl events, sporting events, music concerts, and festivals; and climate control equipment, including cooling, heating, and dehumidification equipment. In addition, it offers scaffolding rental solutions, including installation solutions for access to the new or existing structures; and portable traffic systems to facilitate engineering projects and clean-up after an accident. The company offers equipment under Sunbelt Rentals brand in the United States and A-Plant brand in the United Kingdom. It serves construction, industrial, and homeowner customers, as well as government entities and specialist contractors. The company operates 546 stores in the United States, 13 stores in Canada, and 156 stores in the United Kingdom. Ashtead Group plc was founded in 1984 and is headquartered in London, the United Kingdom.

Company	Country	Market cap (AUDm)	Description
HSS Hire Group plc	United Kingdom	215	HSS Hire Group plc offers tool and equipment hire, and related services in the United Kingdom and the Republic of Ireland. It operates in two segments, HSS Core and HSS Specialist. The company provides tools, equipment, and hire-related services to businesses, and trade and DIY customers; supplies, fits, manages, and services diesel generators for power generation needs; provides cleaning equipment solutions for contract cleaners; and supplies specialist support for powered access equipment ranging from scissor lifts and telehandlers to propelled booms. It also provides specialist training services that cover technical and safety courses; provides heavy plant equipment, including excavators, diggers, and dumpers; sources and provides non-core, large plant and equipment; provides an online business management tool that offers account customers for the real-time control of their tool and equipment hire; and offers a range of skips for general waste management. The company serves 'business-to-business' customers in the 'fit-out, maintain, and operate' sectors of the tool and equipment hire market. Its rental customers also include construction contractors, utilities and facilities, management operators, government entities, retailers, infrastructure developers, and homeowners. As of December 31, 2015 the company operated a network of approximately 320 locations. HSS Hire Group plc was founded in 1957 and is based in Mitcham, the United Kingdom.
Essex Rental Corp.	United States	6	Essex Rental Corp., through its subsidiaries, rents and distributes lifting equipment to the construction industry in North America. The company operates in four segments: Essex Crane Equipment Rentals; Coast Crane Equipment Rentals; Equipment Distribution; and Parts and Service. It rents lattice-boom crawler cranes and attachments, and other related heavy lifting machinery and equipment. The company also rents, sells, and distributes used and new tower cranes, boom trucks, rough terrain cranes, terrain cranes, and other lifting equipment to customers in the infrastructure, energy, crane rigger/operator, municipal, and industrial construction sectors. In addition, it retails construction equipment products; and offers installation, maintenance, repair, and parts and services for equipment provided to customers and customer owned equipment. Further, the company supplies lifting solutions for construction projects related to power generation, petro-chemical, refineries, water treatment and purification, bridges, highways, hospitals, shipbuilding, offshore oil fabrication and industrial plants, and commercial and residential construction. It serves construction companies, industrial companies, municipalities, and contractors performing repair and maintenance to renovation projects for owners of commercial and industrial facilities. Essex Rental Corp. was founded in 1960 and is headquartered in Buffalo Grove, Illinois.
H&E Equipment Services Inc.	United States	1,143	H&E Equipment Services, Inc. operates as an integrated equipment services company. The company rents, sells, and provides parts and service support for hi-lift or aerial work platform equipment, cranes, earthmoving equipment, and industrial lift trucks. It offers heavy construction and industrial equipment for rent on a daily, weekly, and monthly basis. As of December 31, 2015, the company's rental fleet consisted of 27,597 pieces of equipment. It also sells new and used equipment and parts, as well as provides maintenance and repair services for the customers' owned equipment. In addition, it provides ancillary equipment support activities, including transportation, hauling, parts shipping, and loss damage waivers. The company provides its services to industrial and commercial companies, construction contractors, manufacturers, public utilities, municipalities, and maintenance contractors, as well as for other industrial accounts. It has a network of 77 full-service facilities serving approximately 37,700 customers across 22 states in the West Coast, Intermountain, Southwest, Gulf Coast, Southeast, and Mid-Atlantic regions of the United States. H&E Equipment Services, Inc. was founded in 1961 and is headquartered in Baton Rouge, Louisiana.

Company	Country	Market cap (AUDm)	Description
HERC Holdings, Inc.	United States	1,572	Herc Holdings Inc. operates as an equipment rental supplier in North America. It rents equipment, such as aerial, air compressors and tools, climate control, compaction and paving, concrete and masonry, earthmoving, floor care and surface preparation, material handling, power generation, procontractors, pumps, and trucks and trailers. The company also sells used equipment through online and provides financing and warranty services on the equipment. As of July 01, 2016, it operated approximately 280 company-operated branches. In addition, the company provides ProSolutions, an industry specific solutions-based service. It serves commercial and residential construction, industrial and manufacturing, refineries and petrochemicals, civil infrastructure, automotive, government and municipalities, energy, remediation, emergency response, facilities, entertainment, and agriculture markets. Herc Holdings Inc. is based in Bonita Springs, Florida.
Neff Corp.	United States	174	Neff Corporation, through its subsidiary, Neff Holdings LLC, operates as an equipment rental company in the United States. The company offers earthmoving equipment, including excavators, backhoes, loaders, bulldozers, mini-excavators, trenchers, sweepers and tractors, track loaders, and skid steers; and material handling equipment comprising reach forklifts, industrial forklifts, and straight-mast forklifts. The company also provides aerial equipment, such as personnel lifts, electric scissor lifts, dual fuel scissor lifts, articulating boom lifts, and straight boom lifts; and other rental equipment consisting of compaction and concrete equipment, trucks and trailers, sweepers, air equipment, generators, welders, lighting equipment, pumps, and other small equipment and tools. In addition, it is involved in the sale of used and new equipment; and sale of complementary parts, supplies, fuel, and merchandise, as well as offers repair and maintenance services. The company serves various industries, such as industrial and civil construction, manufacturing, public utilities, offshore oil exploration and drilling, refineries and petrochemical facilities, municipalities, golf course construction, shipping, and the military. Neff Corporation was founded in 1989 and is headquartered in Miami, Florida.
Titan Machinery, Inc.	United States	427	Titan Machinery Inc. owns and operates a network of full service agricultural and construction equipment stores in the United States and Europe. It operates through three segments: Agriculture, Construction, and International. The company sells new and used equipment comprising agricultural and construction equipment manufactured under the CNH family of brands, as well as equipment from various other manufacturers. Its agricultural equipment include application equipment and sprayers, combines and attachments, hay and forage equipment, planting and seeding equipment, precision farming technology, tillage equipment, and tractors for farming, and home and garden applications. The company's construction equipment comprise compact track loaders, compaction equipment, cranes, crawler dozers, excavators, forklifts, loader/backhoes, loader/tool carriers, motor graders, skid steer loaders, telehandlers, and wheel loaders for commercial and residential construction, road and highway construction, and mining applications. Titan Machinery Inc. also sells maintenance and replacement parts of equipment that it sells, as well as for other types of equipment. In addition, it provides repair and maintenance services consisting of warranty repairs, on-site repair services, and scheduling off-season maintenance services, as well as notifies customers of periodic service requirements; provides training programs to customers; and sells extended warranty services. Further, the company rents equipment; and provides ancillary equipment support services. As of April 13, 2016, it operated a network of 91 North American dealerships in North Dakota, South Dakota, Iowa, Minnesota, Montana, Nebraska, Wyoming, Wisconsin, Colorado, Arizona, and New Mexico, including 1 outlet store; and 17 European dealerships in Romania, Bulgaria, Serbia, and Ukraine. Titan Machinery Inc. was founded in 1980 and headquartered in West Fargo, North Dakota.

Company	Country	Market cap (AUDm)	Description
United Rentals, Inc.	United States	12,297	<p>United Rentals, Inc., through its subsidiaries, operates as an equipment rental company. It operates in two segments, General Rentals; and Trench, Power, and Pump. The General Rentals segment engages in the rental of general construction and industrial equipment, such as backhoes, skid-steer loaders, forklifts, earthmoving equipment, and material handling equipment; aerial work platforms, such as boom lifts and scissor lifts; and general tools and light equipment comprising pressure washers, water pumps, and power tools. This segment serves construction and industrial companies, manufacturers, utilities, municipalities, and homeowners. The Trench, Power, and Pump segment is involved in the rental of specialty construction products, including trench safety equipment, such as trench shields, aluminum hydraulic shoring systems, slide rails, crossing plates, construction lasers, and line testing equipment for underground work; power and HVAC equipment, which consists of portable diesel generators, electrical distribution equipment, and temperature control equipment; and pumps primarily used by energy and petrochemical customers. It serves construction companies involved in infrastructure projects, municipalities, and industrial companies. The company also sells new equipment, such as aerial lifts, reach forklifts, telehandlers, compactors, and generators; contractor supplies, including construction consumables, tools, small equipment, and safety supplies; and parts for equipment that are owned by the company's customers, as well as provides repair and maintenance services. It sells its used equipment through its sales force, brokers, and Website, as well as at auctions and directly to manufacturers. As of February 18, 2016, the company operated 897 rental locations in the United States and Canada. United Rentals, Inc. was founded in 1997 and is headquartered in Stamford, Connecticut.</p>

Appendix F. Comparable transaction company analysis

Target company name	Announcement date	Target country	Percentage acquired (%)	Implied enterprise value \$ million	Target revenue (LTM) \$ million	Implied EBITDA multiple	Target company description
Large transactions (>\$400m)							
TRACTEL S.A.S. Crestwood Midstream Partners LP	7/29/2015	France	80	442	NA	7.3x	TRACTEL S.A.S. develops, manufactures, sells, and rents lifting and handling, load measurement, suspended working platforms, and fall arrest safety equipment.
Compressor Systems Inc.	5/05/2015	United States	96	7,731	3,100	14.2x	Crestwood Midstream Partners LP provides gathering, processing, storage, and transportation solutions to customers in the crude oil, natural gas liquids (NGL), and natural gas sectors of the energy industry in the United States.
All America Latina Logistica S.A.	7/20/2014	United States	100	979	331	11.2x	Compressor Systems Inc. fabricates, sells, rents, and services natural gas compressors in the United States, Australia, Mexico, and internationally.
AMCOL International Corporation	2/24/2014	Brazil	100	7,125	1,728	8.5x	All America Latina Logistica S.A. operates as a logistics company in Latin America.
PVR Partners, L.P.	10/29/2013	United States	100	1,860	1,115	11.6x	AMCOL International Corporation is engaged in the development and application of minerals and technology products and services to various industrial and consumer markets.
Industrea Limited	10/09/2013	United States	100	5,829	1,159	18.4x	PVR Partners, L.P. gathers and processes natural gas; and manages coal and natural resource properties in the United States.
Average	5/15/2012	Australia	100	679	365	5.8x	Industrea Limited engages in the provision of mining products and services.
Median						11.0x	
Small transactions (<\$400m)						11.2x	
Kyosei Rentemu Co., Ltd.	07/25/2016	Japan	74	180	259	2.2x	Kyosei Rentemu Co., Ltd. imports, exports, rents, sells, and repairs construction and agricultural machinery instrumentation, household supplies, car classes, and telecommunications equipment in Japan.
UE E&C Ltd.	10/03/2014	Singapore	100	180	324	2.8x	UE E&C Ltd., an investment holding company, provides integrated building solutions.
Empire Tool Inc.	5/27/2014	Canada	100	9	4	3.3x	Empire Tool Inc. is an oilfield service company that rents drilling equipment to companies exploring for and developing oil & natural gas reserves.
Lone Star Tank Rental LP and KHM Rentals, LLC	2/28/2014	United States	100	116	50	NA	As of April 7, 2014, Lone Star Tank Rental LP and KHM Rentals, LLC was acquired by General Finance Corporation.
M&K Hotshot &	12/23/2011	United	100	49	38	3.5x	As of January 31, 2014, M&K Hotshot & Trucking, Inc. and M&K Rig Service, Inc. were acquired

Target company name	Announcement date	Target country	Percentage acquired (%)	Implied enterprise value \$ million	Target revenue (LTM) \$ million	Implied EBITDA multiple	Target company description
Trucking, Inc. and M&K Rig Service, Inc.	3	States					by Rodan Transport (U.S.A.) Ltd. M&K Hotshot & Trucking, Inc. and M&K Rig Service, Inc. represents the combined operations of M&K Hotshot & Trucking, Inc. and M&K Rig Service, Inc. in their sale to Aveda Transportation and Energy Services Inc. M&K Hotshot & Trucking, Inc. and M&K Rig Service, Inc. provides equipment rental services including trailers, conventional tractors, winch trucks and three cranes. M&K Hotshot & Trucking, Inc. and M&K Rig Service, Inc. are based in Williston, North Dakota.
Black Hawk Energy Services, Inc.	10/29/2013	United States	100	73	61	4.1x	Black Hawk Energy Services, Inc. provides well services related to the oil and gas industries in the New Mexico, Texas, and North Dakota regions.
Tysan Holdings Limited	8/19/2013	Hong Kong	87	246	487	3.1x	Tysan Holdings Limited, an investment holding company, engages in foundation piling; property investment, development, and management; and machinery leasing and trading activities in Hong Kong and the People's Republic of China.
Valla S.p.A.	11/07/2013	Italy	100	1	8	1.7x	Valla S.p.A. designs, develops, manufactures, sells, and rents mobile industrial cranes for customers worldwide.
Mancala Holdings Pty Ltd	10/09/2013	Australia	100	15	NA	5.4x	Mancala Holdings Pty Ltd. provides design, engineering, construction, excavation, and mining services to the mineral and civil construction industries in Australia.
Sparrows Offshore Group Limited	9/28/2012	United Kingdom	100	78	267	2.9x	Sparrows Offshore Group Limited provides engineered products and services in the areas of lifting and mechanical handling, cable and pipe lay, and fluid power to the energy industry.
Best Tractor Parts Pty Ltd.	7/11/2012	Australia	100	165	176	3.3x	Best Tractor Parts Pty Ltd. supplies, markets, and leases mining parts and equipment for mining companies, contractors, and government departments in Australia.
Portek International Pte Ltd	7/13/2011	Singapore	100	159	98	6.2x	Portek International Pte Ltd, an investment holding company, provides equipment, services, and solutions to the port industry.
Average						3.5x	
Median						3.3x	

Source: Capital IQ and PPB analysis

Notes:

1. Implied enterprise value represents the sum of the target's implied equity value (calculated using transaction value and stake) and debt, less cash
2. LTM = last twelve months; NTM = next twelve months; n/a = not available
3. Best Tractor Parts Pty Ltd. is a direct competitor to Emeco and has been assessed as the most comparable transaction (highlighted in grey)

Appendix G. Control premium analysis

Multiples applied in a CFME method are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for listed comparable companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular share. Accordingly, when valuing a business (i.e. 100%) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

Consistent with the requirements of RG 111, in valuing each of Emeco (on a standalone basis) we have assumed 100% ownership, and therefore included a premium for control when assessing the multiples implied by the trading prices for listed comparable companies.

Observations from transaction evidence indicate that takeover premiums generally range from 20 to 35% for completed takeovers depending on the individual circumstances. In transactions where it was estimated that the combined entity would be able to achieve significant synergies, the takeover premium was frequently estimated to be towards the high end of this range or greater. Takeover premiums can vary significantly between individual transactions. Takeover premiums can vary significantly between transactions as the final price paid will reflect to varying degrees:

- any pure control premium in respect of the acquirer's ability to utilise full control over the strategy and cash flows of the target entity
- the level of synergies available to all acquirers, such as the removal of costs associated with the target being a listed entity and/or costs related to duplicated head office functions
- the expected costs to integrate and the uncertainties associated with timing of realising the expected synergies
- synergistic or special value that may be unique to a specific acquirer
- the nature of the bidder i.e. financial investor vs trade participant
- the stake acquired in the transaction and the bidder's pre-existing shareholding in the target
- the stage of the market cycle and the prevailing conditions of the economy and capital markets at the time of the transaction
- desire (or anxiety) for the acquirer to complete the transaction
- whether the acquisition is competitive
- the extent the target company's share price already reflects a degree of takeover speculation

We have selected a control premium of 30% for the purposes of our assessment, based on an analysis of control premiums paid in Australian transactions since 1 January 2012.

A control premium represents the amount paid by an acquirer above the current trading price of a publicly listed company in order to obtain a controlling interest in that company.

Our control premium analysis was conducted using data from obtained S&P Capital IQ in relation to 178 transactions between 1 January 2012 and 30 June 2016. We have analysed the control premium by comparing the transaction value to the closing share price of the target company one day prior to the announcement date. The results of our control premium analysis are summarised below.

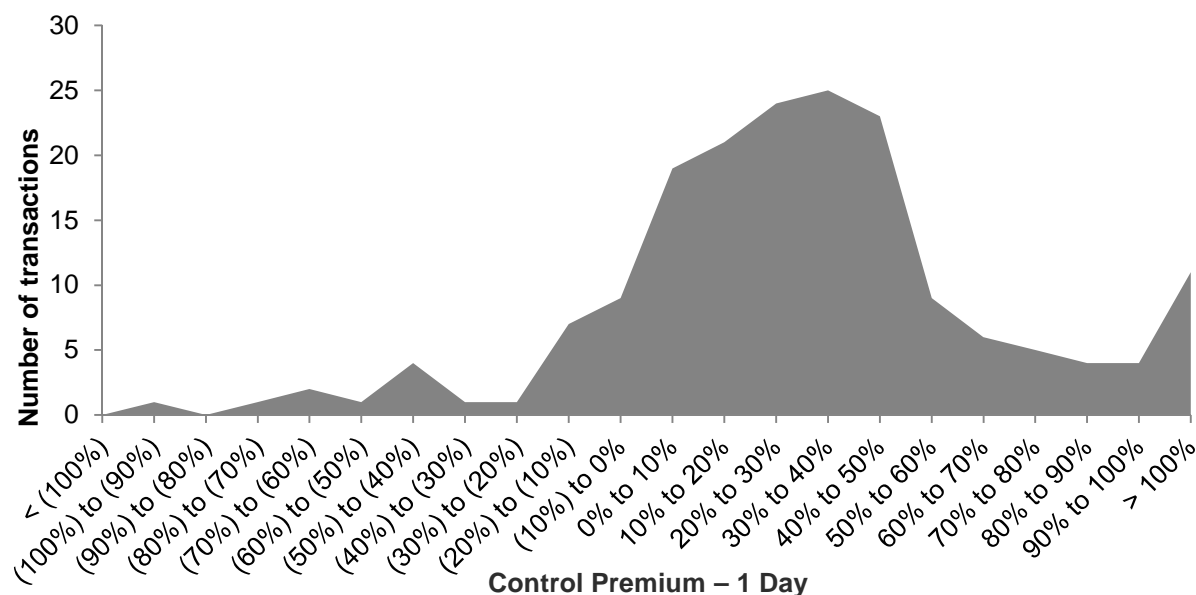
Results of control premium study

Average	33%
Median	29%
Bottom Quartile	9%
Top Quartile	47%

Source: Capital IQ

The quantum of control premiums varied significantly across transactions but generally ranged between 10% to 50%, as illustrated in the figure below.

Distribution of results of control premium study



Source: Capital IQ, PPB analysis

In our opinion there may be an upward bias in the transactions analysed, because:

- many of the acquisitions are opportunistic and occurred at times when the target company is trading at a depressed value
- acquirers often pay above fair market value to acquire a company because they can generate significant synergies and special value. Special value is not taken into account in a fair market value assessment
- many of the transactions involved a competitive bidding process which generally results in the acquirer paying away a larger portion of their expected synergies than would otherwise be necessary
- many of the target companies shares were thinly trading and as a result may have been trading at values below their fair market value

The potential upward bias due to the above points is offset by the fact that in some circumstances the market may have already been aware of or anticipated the acquisition prior to announcement, which would reduce the implied control premium.

Appendix H. Underwriting fee analysis

\$0 million to \$10 million transactions

Date	Issuer	Total transaction value (\$m)	Underwriter compensation (%)
26/11/2015	Vango Mining Limited (ASX:VAN)	0.30	25.94%
18/06/2013	Energia Minerals Limited (ASX:EMX)	0.66	23.15%
9/02/2015	Taruga Gold Limited (ASX:TAR)	0.07	20.22%
12/10/2015	Transcendence Technologies Limited (ASX:TTL)	0.07	17.39%
26/02/2016	Vital Metals Limited (ASX:VML)	0.42	13.08%
19/05/2016	Freshtel Holdings Limited (ASX:FRE)	0.38	12.66%
14/06/2016	iCollege Limited (ASX:ICT)	3.08	10.87%
27/07/2016	Adelaide Resources Ltd. (ASX:ADN)	0.90	10.44%
4/11/2015	IVS Holdings Limited	0.11	10.02%
26/08/2015	Silver Mines Limited (ASX:SVL)	0.55	10.01%
22/01/2016	Crater Gold Mining Limited (ASX:CGN)	6.99	9.99%
10/06/2014	Austin Exploration Limited (ASX:AKK)	2.86	9.69%
16/05/2014	Opthea Limited (ASX:OPT)	3.40	9.51%
17/12/2015	Overland Resources Limited (ASX:OVR)	0.59	9.38%
2/06/2015	Navarre Minerals Limited (ASX:NML)	1.14	9.07%
13/09/2013	Australian Vanadium Limited (ASX:AVL)	3.01	8.00%
1/07/2016	Connexion Media Limited (ASX:CXZ)	0.82	8.00%
12/05/2015	1st Available Ltd (ASX:1ST)	5.30	8.00%
17/10/2014	Stargroup Limited (ASX:STL)	3.37	7.99%
6/03/2015	WestStar Industrial Limited (ASX:WSI)	3.26	7.99%
20/06/2016	Platypus Minerals Ltd (BST:AUB)	3.67	7.64%
12/08/2013	Mount Magnet South Limited (ASX:MUM)	0.62	7.62%
21/11/2014	Advanced Braking Technology Limited (ASX:ABV)	1.88	7.50%
2/09/2013	Enegex Limited (ASX:ENX)	0.32	7.50%
11/05/2016	Rubicor Group Limited (ASX:RUB)	4.76	7.50%
17/05/2016	Antipa Minerals Ltd (ASX:AZY)	0.65	7.17%
24/03/2015	Target Energy Limited (ASX:TEX)	2.48	7.07%
26/05/2016	Australian Mines Ltd. (ASX:AUZ)	1.48	7.03%
4/03/2016	Moko Social Media Limited (ASX:MKB)	8.77	7.00%
10/07/2015	Moko Social Media Limited (ASX:MKB)	3.60	7.00%
23/12/2014	Silver Mines Limited (ASX:SVL)	0.98	7.00%
5/06/2015	Volt Resources Limited (ASX:VRC)	0.61	7.00%
9/09/2014	Swift Networks Group Limited (ASX:SW1)	1.18	7.00%
3/10/2014	Broken Hill Prospecting Limited (ASX:BPL)	0.99	7.00%
28/04/2016	Mitchell Services Limited (ASX:MSV)	2.50	7.00%
19/04/2016	Rent.com.au Limited (ASX:RNT)	5.46	7.00%
17/06/2014	Memphasys Limited (ASX:MEM)	2.85	6.99%
3/05/2013	Kairos Minerals Limited (ASX:KAI)	1.64	6.99%
19/10/2015	DGR Global Limited (ASX:DGR)	1.66	6.98%
13/11/2015	Echo Resources Limited (ASX:EAR)	1.52	6.97%
29/05/2013	Collaborate Corporation Limited (ASX:CL8)	0.71	6.90%
15/11/2013	Celamin Holdings N.L.	7.58	6.79%
28/11/2013	White Cliff Minerals Limited (ASX:WCN)	0.74	6.77%
23/10/2015	Variscan Mines Limited (ASX:VAR)	1.56	6.69%
18/02/2016	Vango Mining Limited (ASX:VAN)	1.45	6.52%
24/12/2015	Proteomics International Laboratories Limited (ASX:PIQ)	3.05	6.50%
16/03/2015	Fertoz Limited (ASX:FTZ)	4.00	6.50%
21/12/2015	A1 Consolidated Gold Ltd (ASX:AYC)	3.32	6.49%
15/02/2016	Rimfire Pacific Mining NL (ASX:RIM)	1.04	6.13%
25/02/2013	A1 Consolidated Gold Ltd (ASX:AYC)	2.70	6.11%
6/05/2013	Lodestar Minerals Limited (ASX:LSR)	1.05	6.03%
31/05/2016	Proteomics International Laboratories Limited (ASX:PIQ)	0.13	6.02%

19/09/2013	KIN Mining NL (ASX:KIN)	1.56	6.02%
12/08/2015	Capital Mining Limited (ASX:CMY)	1.48	6.02%
24/06/2015	Lindian Resources Limited (ASX:LIN)	1.09	6.02%
17/07/2015	Paradigm Metals Limited.	0.05	6.02%
8/05/2015	Eneabba Gas Ltd. (ASX:ENB)	1.20	6.02%
28/04/2015	Analytica Ltd. (ASX:ALT)	1.22	6.02%
17/08/2015	Immuron Limited (ASX:IMC)	1.86	6.01%
11/11/2013	Austin Exploration Limited (ASX:AKK)	1.73	6.01%
5/06/2013	Eumeralla Resources Ltd (ASX:EUM)	1.31	6.01%
21/05/2014	Advanced Braking Technology Limited (ASX:ABV)	2.04	6.01%
16/10/2014	Birimian Limited (ASX:BGS)	2.98	6.01%
14/04/2016	Inca Minerals Limited (ASX:ICG)	3.00	6.01%
24/09/2014	Red Mountain Mining Ltd (ASX:RMX)	1.05	6.01%
21/03/2016	Redstone Resources Limited (ASX:RDS)	1.25	6.01%
22/01/2015	Emu NL (DB:4EU)	0.30	6.01%
4/02/2013	Alligator Energy Limited (ASX:AGE)	2.70	6.01%
18/03/2016	AtCor Medical Holdings Limited. (ASX:ACG)	3.20	6.01%
15/08/2013	Volta Mining Limited (ASX:VTM)	0.51	6.01%
4/11/2013	Monto Minerals Limited	0.50	6.01%
25/08/2016	Centaurus Metals Limited (ASX:CTM)	0.50	6.00%
13/04/2015	Eclipse Metals Limited (ASX:EPM)	2.43	6.00%
27/11/2014	CML Group Limited (ASX:CGR)	3.25	6.00%
17/01/2014	Altech Chemicals Limited (ASX:ATC)	2.10	6.00%
22/09/2015	Crater Gold Mining Limited (ASX:CGN)	2.12	6.00%
25/11/2015	TW Holdings Limited (ASX:TWH)	0.69	6.00%
10/09/2013	Apollo Consolidated Limited (ASX:AOP)	0.64	6.00%
26/09/2014	Paradigm Metals Limited.	0.53	6.00%
3/09/2014	ATC Alloys Limited (ASX:ATA)	3.74	6.00%
9/10/2013	Taruga Gold Limited (ASX:TAR)	0.63	6.00%
24/06/2013	Alterra Limited (ASX:1AG)	0.52	6.00%
17/06/2015	WPG Resources Ltd (ASX:WPG)	6.32	6.00%
17/02/2016	Rubianna Resources Limited	0.97	6.00%
10/05/2016	Platypus Minerals Ltd (BST:AUB)	0.96	6.00%
19/06/2014	Corizon Limited (ASX:CIZ)	1.00	6.00%
9/09/2015	Norwest Energy NL (ASX:NWE)	0.82	6.00%
28/10/2013	Fitzroy Resources Ltd.	0.58	6.00%
27/07/2016	Vector Resources Limited (ASX:VEC)	0.20	6.00%
6/02/2014	Manas Resources Ltd. (ASX:MSR)	5.51	6.00%
12/11/2015	Latitude Consolidated Limited (ASX:LCD)	0.85	6.00%
20/04/2015	SECOS Group Limited (ASX:SES)	2.39	6.00%
20/03/2015	Antipa Minerals Ltd (ASX:AZY)	0.55	6.00%
21/02/2014	Factor Therapeutics Limited (ASX:FTT)	5.30	6.00%
8/12/2014	MCS Services Limited (ASX:MSG)	0.58	6.00%
1/09/2014	WHL Energy Limited (ASX:WHN)	3.04	6.00%
16/05/2016	MCS Services Limited (ASX:MSG)	4.50	6.00%
11/05/2016	Talga Resources Limited (DB:TGX)	1.06	6.00%
9/05/2016	Core Exploration Ltd. (ASX:CXO)	0.75	6.00%
24/03/2016	Core Exploration Ltd. (ASX:CXO)	0.13	6.00%
23/02/2016	Analytica Ltd. (ASX:ALT)	2.80	6.00%
2/11/2015	Manas Resources Ltd. (ASX:MSR)	2.10	6.00%
3/08/2015	Augend Limited	7.00	6.00%
2/07/2015	Parmelia Resources Limited	3.50	6.00%
26/05/2015	Swift Networks Group Limited (ASX:SW1)	4.00	6.00%
22/05/2015	Orrex Resources Limited	8.00	6.00%
22/05/2015	YPB Group Ltd (ASX:YPB)	3.75	6.00%
13/05/2015	Fitzroy Resources Ltd.	2.75	6.00%
3/03/2015	Renascor Resources Limited (ASX:RNU)	0.50	6.00%
30/07/2014	Hazer Group Limited (ASX:HZR)	5.00	6.00%
14/07/2014	Firestrike Resources Limited	3.50	6.00%
18/06/2014	Monto Minerals Limited	5.00	6.00%

17/03/2014	8common Limited (ASX:8CO)	3.50	6.00%
22/01/2014	The Carajas Copper Company Limited (ASX:CJC)	0.62	6.00%
15/05/2013	Black Rock Mining Limited (ASX:BKT)	3.50	6.00%
1/05/2013	Rewardle Holdings Limited (ASX:RXH)	4.00	6.00%
30/04/2013	Transcendence Technologies Limited (ASX:TTL)	3.60	6.00%
11/03/2013	Mustang Resources Limited (ASX:MUS)	3.50	6.00%
27/01/2013	Tlou Energy Limited (ASX:TOU)	10.00	6.00%
6/10/2014	Triton Minerals Limited	4.00	6.00%
21/02/2014	Heemskirk Consolidated Ltd. (ASX:HSK)	3.86	6.00%
25/11/2015	Southern Crown Resources Limited	3.21	6.00%
24/12/2015	Elemental Minerals Limited (ASX:ELM)	9.47	6.00%
27/10/2014	Moko Social Media Limited (ASX:MKB)	2.39	6.00%
9/08/2013	Middle Island Resources Ltd. (ASX:MDI)	0.50	6.00%
2/11/2015	Immuron Limited (ASX:IMC)	9.66	6.00%
6/03/2015	SmartTrans Holdings Ltd. (ASX:SMA)	5.51	6.00%
20/12/2013	Greenland Minerals and Energy Limited (ASX:GGG)	8.87	6.00%
24/04/2015	Drake Resources Limited (ASX:DRK)	0.45	6.00%
22/09/2015	General Mining Corporation Limited	0.81	6.00%
15/02/2016	Factor Therapeutics Limited (ASX:FTT)	8.72	6.00%
3/07/2015	Manas Resources Ltd. (ASX:MSR)	0.69	6.00%
31/10/2013	Southern Hemisphere Mining Limited (ASX:SUH)	0.85	6.00%
30/09/2014	Kairos Minerals Limited (ASX:KAI)	4.04	6.00%
27/07/2016	EVE Investments Limited (ASX:EVE)	1.86	6.00%
12/06/2014	Factor Therapeutics Limited (ASX:FTT)	5.34	6.00%
19/05/2014	Lasseters Corporation Limited	6.72	6.00%
21/01/2016	Diversa Limited	4.41	6.00%
30/11/2015	West Wits Mining Limited (ASX:WWI)	1.11	6.00%
10/05/2016	Petratherm Limited (ASX:PTR)	0.62	6.00%
18/11/2015	Wolf Petroleum Limited (ASX:WOF)	2.62	6.00%
22/08/2014	Factor Therapeutics Limited (ASX:FTT)	3.69	6.00%
22/08/2014	Rumble Resources Limited (ASX:RTR)	0.54	5.99%
25/02/2016	Bora Bora Resources Ltd (ASX:BBR)	0.52	5.99%
25/09/2014	Newzulu Limited (ASX:NWZ)	2.09	5.99%
4/07/2014	Pantoro Limited (ASX:PNR)	4.91	5.99%
20/05/2015	Nickelore Limited (ASX:NIO)	0.53	5.99%
17/07/2014	Petratherm Limited (ASX:PTR)	0.51	5.99%
29/07/2014	Dourado Resources Limited	0.44	5.99%
26/01/2016	Mantle Mining Corporation Limited (ASX:MNM)	1.38	5.99%
15/10/2014	Arrowhead Resources Limited (ASX:AR1)	1.43	5.99%
19/02/2015	Fertoz Limited (ASX:FTZ)	1.85	5.99%
11/06/2014	Metro Mining Limited (ASX:MMI)	3.59	5.99%
18/03/2014	CV Check Ltd (ASX:CV1)	1.57	5.99%
7/06/2013	iCollege Limited (ASX:ICT)	0.19	5.99%
25/02/2013	Southern Hemisphere Mining Limited (ASX:SUH)	2.24	5.99%
12/07/2016	Pura Vida Energy NL (ASX:PVD)	1.71	5.99%
1/10/2015	Protean Wave Energy Ltd (ASX:POW)	2.54	5.99%
17/09/2015	Marindi Metals Limited (ASX:MZN)	2.51	5.99%
20/10/2014	Lindian Resources Limited (ASX:LIN)	2.08	5.99%
10/02/2016	Syndicated Metals Limited (ASX:SMD)	2.00	5.99%
14/12/2015	Oklo Resources Limited (DB:JYA)	1.01	5.99%
8/04/2014	Wolf Petroleum Limited (ASX:WOF)	1.52	5.99%
13/08/2014	Silver Mines Limited (ASX:SVL)	2.77	5.99%
20/10/2015	St George Mining Limited (ASX:SGQ)	1.76	5.98%
2/04/2015	Optiscan Imaging Ltd. (ASX:OIL)	1.42	5.98%
31/08/2016	Admedus Limited (ASX:AHZ)	8.31	5.98%
5/02/2014	Kingston Resources Limited (ASX:KSN)	2.06	5.97%
15/01/2014	Predictive Discovery Limited (ASX:PDI)	1.71	5.85%
9/01/2015	Sayona Mining Limited (ASX:SYA)	7.09	5.82%
23/10/2013	Ventnor Resources Limited (ASX:VRX)	1.99	5.77%
18/11/2013	Red Mountain Mining Ltd (ASX:RMX)	0.63	5.72%

11/03/2016	Kingston Resources Limited (ASX:KSN)	0.75	5.60%
9/05/2016	PanTerra Gold Limited (ASX:PGI)	3.51	5.56%
15/12/2015	Petratherm Limited (ASX:PTR)	0.65	5.54%
13/08/2015	Bass Strait Oil Company Ltd (ASX:BAS)	1.01	5.53%
4/03/2015	MCS Services Limited (ASX:MSG)	1.12	5.52%
1/07/2015	A1 Consolidated Gold Ltd (ASX:AYC)	1.71	5.51%
15/03/2013	Aeon Metals Limited (ASX:AML)	3.26	5.50%
3/06/2016	Killara Resources Limited (ASX:BMP)	4.01	5.50%
13/11/2014	RNI NL (ASX:RNI)	5.48	5.47%
13/04/2015	Pelican Resources Ltd. (ASX:PEL)	0.60	5.45%
19/10/2015	Niuminco Group Limited (ASX:NIU)	1.00	5.23%
16/02/2016	Sovereign Gold Company Limited (ASX:SOC)	0.79	5.06%
23/06/2015	Manas Resources Ltd. (ASX:MSR)	1.10	5.02%
14/02/2013	Haranga Resources Limited (ASX:HAR)	1.44	5.02%
9/08/2016	Middle Island Resources Ltd. (ASX:MDI)	1.45	5.01%
19/11/2015	Peako Limited (ASX:PKO)	1.94	5.01%
28/10/2015	Avalon Minerals Ltd (ASX:AVI)	2.12	5.01%
19/03/2013	Crater Gold Mining Limited (ASX:CGN)	2.18	5.01%
27/10/2014	Sayona Mining Limited (ASX:SYA)	2.57	5.00%
7/06/2013	Sihayo Gold Limited (ASX:SIH)	2.00	5.00%
15/04/2013	Sihayo Gold Limited (ASX:SIH)	1.50	5.00%
11/03/2016	Zyber Holdings Limited (ASX:ZYB)	3.00	5.00%
25/02/2015	ImpediMed Limited (ASX:IPD)	8.83	5.00%
27/02/2015	Diversa Limited	2.36	5.00%
22/11/2013	DirectMoney Limited (ASX:DM1)	5.70	5.00%
12/11/2015	Flinders Mines Limited. (ASX:FMS)	7.50	5.00%
15/09/2015	Phylogica Limited (ASX:PYC)	6.01	5.00%
27/03/2014	Mitchell Services Limited (ASX:MSV)	8.52	5.00%
22/10/2014	MRG Metals Limited (ASX:MRQ)	0.70	5.00%
28/06/2015	Invion Limited (ASX:IVX)	4.08	5.00%
18/03/2016	World Titanium Resources Ltd. (ASX:WTR)	3.17	5.00%
27/07/2016	Applabs Technologies Limited	3.00	5.00%
28/10/2015	Scotgold Resources Limited (ASX:SGZ)	0.20	5.00%
31/07/2015	HRL Holdings Limited (ASX:HRL)	5.00	5.00%
25/06/2015	Redstone Resources Limited (ASX:RDS)	1.75	5.00%
26/05/2015	Black Ridge Mining NL (ASX:BRD)	1.20	5.00%
24/03/2015	Innate Immunotherapeutics Limited (ASX:IIL)	10.00	5.00%
8/12/2014	Dark Horse Resources Limited (ASX:DHR)	0.37	5.00%
4/11/2014	MOD Resources Limited (ASX:MOD)	0.60	5.00%
27/10/2014	Stavelly Minerals Limited (ASX:SVY)	6.00	5.00%
28/08/2014	Mitchell Services Limited (ASX:MSV)	8.67	5.00%
22/04/2014	Allegra Orthopaedics Limited (ASX:AMT)	1.00	5.00%
26/11/2013	Siburan Resources Limited (ASX:SBU)	1.00	5.00%
18/05/2015	RedFlow Limited (ASX:RFX)	6.06	5.00%
26/10/2015	Invion Limited (ASX:IVX)	0.89	5.00%
3/02/2014	Atrum Coal NL (ASX:ATU)	8.01	5.00%
24/02/2014	GWR Group Limited (ASX:GWR)	7.21	5.00%
5/11/2013	RedFlow Limited (ASX:RFX)	6.39	5.00%
2/06/2015	Tlou Energy Limited (ASX:TOU)	5.52	5.00%
4/03/2013	ORH Limited	3.12	5.00%
28/06/2016	Stream Group Limited	2.73	4.99%
14/05/2015	Talon Petroleum Limited (ASX:TPD)	1.13	4.99%
31/08/2015	Maxsec Group Limited (ASX:MSP)	4.11	4.99%
7/04/2014	Energia Minerals Limited (ASX:EMX)	2.16	4.99%
22/03/2016	Analytica Ltd. (ASX:ALT)	2.20	4.91%
6/02/2015	Respiri Limited (ASX:RSH)	4.32	4.84%
1/10/2014	Horseshoe Metals Limited (ASX:HOR)	0.42	4.84%
27/07/2015	Uranium Equities Limited (ASX:UEQ)	1.21	4.79%
24/02/2014	Harvest Minerals Ltd. (AIM:HMI)	0.70	4.72%
19/05/2016	ComOps Ltd. (ASX:COM)	1.23	4.71%

17/12/2015	Argonaut Resources NL (ASX:ARE)	1.37	4.70%
18/11/2015	Bass Strait Oil Company Ltd (ASX:BAS)	0.48	4.58%
26/06/2013	Renascor Resources Limited (ASX:RNU)	1.58	4.53%
12/05/2016	Clean TeQ Holdings Limited (ASX:CLQ)	6.64	4.51%
23/09/2014	ComOps Ltd. (ASX:COM)	2.26	4.50%
27/05/2014	Rural Funds Group (ASX:RFF)	7.49	4.50%
9/09/2013	Danakali Ltd. (OTCPK:SBMS.F)	3.35	4.48%
9/08/2013	Sihayo Gold Limited (ASX:SIH)	4.50	4.44%
30/11/2015	Altura Mining Limited (ASX:AJM)	3.04	4.37%
17/04/2015	Augend Limited	4.25	4.30%
31/07/2015	Indoor Skydive Australia Group Limited (ASX:IDZ)	9.41	4.30%
13/07/2016	Greenland Minerals and Energy Limited (ASX:GGG)	4.22	4.27%
27/03/2013	dorsaVi Limited (ASX:DVL)	3.18	4.22%
18/02/2016	Ferrum Crescent Limited (ASX:FCR)	1.03	4.17%
27/10/2015	Valence Industries Limited (OTCPK:VLQC.F)	0.88	4.14%
6/01/2016	Big Un Limited (ASX:BIG)	2.64	4.09%
30/10/2015	Protean Wave Energy Ltd (ASX:POW)	1.50	4.07%
25/05/2015	A-Cap Resources Limited (ASX:ACB)	5.00	4.00%
16/07/2015	A-Cap Resources Limited (ASX:ACB)	4.00	4.00%
5/03/2015	A-Cap Resources Limited (ASX:ACB)	4.50	4.00%
30/10/2015	Laconia Resources Limited (ASX:LCR)	0.33	4.00%
4/02/2015	NuEnergy Gas Limited (ASX:NGY)	6.04	4.00%
17/07/2013	Siburan Resources Limited (ASX:SBU)	2.39	4.00%
8/08/2014	European Metals Holdings Limited (ASX:EMH)	1.10	3.99%
5/04/2016	Laconia Resources Limited (ASX:LCR)	0.05	3.98%
7/05/2015	Bisan Limited (ASX:BSN)	0.55	3.92%
20/02/2015	Metaliko Resources Limited (ASX:MKO)	5.55	3.80%
11/04/2016	Peako Limited (ASX:PKO)	0.68	3.75%
7/08/2013	Falcon Minerals Ltd.	0.58	3.60%
21/08/2013	Draig Resources Ltd (ASX:DRG)	0.61	3.44%
5/08/2015	Sihayo Gold Limited (ASX:SIH)	2.96	3.38%
14/11/2013	Predictive Discovery Limited (ASX:PDI)	1.30	3.36%
19/05/2015	ComOps Ltd. (ASX:COM)	2.89	3.28%
13/08/2015	Diversa Limited	0.46	3.27%
9/06/2015	Invion Limited (ASX:IVX)	0.52	3.18%
25/02/2015	Antipa Minerals Ltd (ASX:AZY)	0.65	3.06%
9/08/2013	Carbon Energy Limited (ASX:CNX)	3.48	3.05%
22/07/2014	Genesis Resources Limited (ASX:GES)	2.32	3.02%
23/10/2015	Atlas Pearls and Perfumes Ltd (ASX:ATP)	0.72	3.00%
4/09/2015	Truscott Mining Corporation Limited (ASX:TRM)	0.36	3.00%
23/12/2013	Bulletin Resources Limited (ASX:BNR)	0.48	3.00%
4/03/2016	A-Cap Resources Limited (ASX:ACB)	3.98	3.00%
4/11/2014	Alloy Resources Limited (ASX:AYR)	0.70	2.99%
2/03/2016	Heemskirk Consolidated Ltd. (ASX:HSK)	9.93	2.97%
29/07/2016	EVE Investments Limited (ASX:EVE)	0.49	2.87%
8/07/2015	Rimfire Pacific Mining NL (ASX:RIM)	1.09	2.75%
9/06/2016	Sovereign Gold Company Limited (ASX:SOC)	1.82	2.75%
14/08/2014	PNX Metals Limited (ASX:PNX)	2.55	2.65%
16/03/2015	King Island Scheelite Limited (ASX:KIS)	1.97	2.65%
1/06/2015	Latin Resources Limited (ASX:LRS)	2.32	2.64%
17/06/2015	Minerals Corporation Limited	0.58	2.58%
4/02/2015	BrainChip Holdings Limited (ASX:BRN)	4.08	2.57%
27/09/2013	ABM Resources NL (ASX:ABU)	7.67	2.50%
27/05/2014	King Island Scheelite Limited (ASX:KIS)	1.51	2.46%
1/10/2015	Uranium Equities Limited (ASX:UEQ)	1.01	2.44%
27/07/2015	Kidman Resources Limited (ASX:KDR)	5.04	2.38%
28/02/2014	King Island Scheelite Limited (ASX:KIS)	2.03	2.04%
9/02/2015	Applabs Technologies Limited	3.70	2.03%
19/08/2015	Core Exploration Ltd. (ASX:CXO)	0.98	2.02%
10/05/2016	Rubik Financial Limited (ASX:RFL)	5.29	2.00%

9/09/2013	Rewardle Holdings Limited (ASX:RXH)	2.85	2.00%
20/02/2015	Voyager Global Group Ltd	0.38	2.00%
16/06/2015	RedFlow Limited (ASX:RFX)	5.56	2.00%
23/09/2015	Minerals Corporation Limited	7.00	2.00%
8/07/2015	Minerals Corporation Limited	7.00	2.00%
8/09/2015	Tiaro Coal Limited	1.32	2.00%
7/11/2014	Orinoco Gold Limited (ASX:OGX)	2.68	2.00%
11/02/2014	DGR Global Limited (ASX:DGR)	4.01	2.00%
11/09/2015	Elsmore Resources Ltd	2.21	2.00%
4/11/2015	Activex Limited (ASX:AIV)	1.35	1.99%
12/11/2014	Geopacific Resources Limited (ASX:GPR)	1.04	1.99%
16/03/2015	Elixir Petroleum Limited (ASX:EXR)	1.85	1.96%
21/10/2014	Cohiba Minerals Limited (ASX:CHK)	0.35	1.89%
30/04/2013	Firestrike Resources Limited	0.51	1.78%
2/12/2015	Stargroup Limited (ASX:STL)	2.84	1.75%
29/04/2015	Aspermont Limited (ASX:ASP)	4.11	1.66%
30/05/2016	Abilene Oil and Gas Limited (ASX:ABL)	2.93	1.64%
11/11/2013	Orinoco Gold Limited (ASX:OGX)	1.52	1.63%
12/09/2013	Ferrum Crescent Limited (ASX:FCR)	0.97	1.61%
14/02/2013	Aruma Resources Limited (ASX:AAJ)	0.46	1.56%
17/03/2016	Red Mountain Mining Ltd (ASX:RMX)	2.45	1.51%
22/10/2014	Centaurus Metals Limited (ASX:CTM)	0.19	1.50%
18/05/2015	NuEnergy Gas Limited (ASX:NGY)	1.87	1.50%
6/04/2016	Southern Crown Resources Limited	0.32	1.48%
9/12/2015	Vital Metals Limited (ASX:VML)	1.02	1.46%
6/06/2014	Eden Energy Limited (ASX:EDE)	1.96	1.41%
28/08/2014	NuEnergy Gas Limited (ASX:NGY)	10.00	1.34%
24/03/2014	Variscan Mines Limited (ASX:VAR)	1.96	1.12%
4/11/2014	Avalon Minerals Ltd (ASX:AVI)	3.76	1.12%
3/09/2015	Drake Resources Limited (ASX:DRK)	1.82	1.10%
9/10/2014	Vector Resources Limited (ASX:VEC)	1.21	1.00%
30/03/2015	Paynes Find Gold Limited	6.23	1.00%
12/08/2016	Otherlevels Holdings Limited (ASX:OLV)	1.60	1.00%
17/06/2016	Malabar Coal Limited (ASX:MBC)	6.00	1.00%
23/04/2015	Zeta Petroleum PLC (ASX:ZTA)	1.01	1.00%
19/02/2015	Rubianna Resources Limited	0.54	1.00%
3/09/2014	Geopacific Resources Limited (ASX:GPR)	3.00	1.00%
16/02/2015	Laconia Resources Limited (ASX:LCR)	1.73	1.00%
5/02/2014	Otherlevels Holdings Limited (ASX:OLV)	7.50	0.96%
15/07/2016	Apollo Minerals Limited (ASX:AON)	3.12	0.82%
30/04/2015	Red Mountain Mining Ltd (ASX:RMX)	2.81	0.62%
4/11/2014	Immuron Limited (ASX:IMC)	5.33	0.61%
9/05/2016	Isentric Limited (ASX:ICU)	4.35	0.57%
6/10/2014	Kalina Power Limited (ASX:KPO)	4.38	0.57%
5/07/2013	Prospect Resources Limited (ASX:PSC)	2.67	0.56%
22/09/2015	Korab Resources Limited (ASX:KOR)	1.29	0.47%
20/02/2013	Target Energy Limited (ASX:TEX)	2.04	0.41%
20/05/2015	Malabar Coal Limited (ASX:MBC)	2.00	0.29%
7/08/2013	Abilene Oil and Gas Limited (ASX:ABL)	1.55	0.05%
19/08/2016	Orpheus Energy Limited	0.30	0.01%
12/12/2014	County International Limited (ASX:CCJ)	0.47	0.00%
Average			5.12%
Min			0.00%
Max			25.94%

Source: Capital IQ

\$10 million to 20 million transactions

Date	Issuer	Total transaction value (\$m)	Underwriter compensation (%)
2/04/2014	Phylogica Limited (ASX:PYC)	10.02	11.40%
18/03/2015	Pluton Resources Limited	17.37	6.00%
31/08/2015	Valence Industries Limited (OTCPK:VLQC.F)	10.14	6.00%
23/09/2013	Anteo Diagnostics Limited (ASX:ADO)	12.02	6.00%
21/04/2013	Hillgrove Resources Ltd. (ASX:HGO)	10.08	6.00%
15/10/2014	dorsaVi Limited (ASX:DVL)	18.00	5.56%
26/03/2015	Crowd Mobile Limited (ASX:CM8)	12.78	5.50%
3/07/2015	Empire Oil & Gas NL (ASX:EGO)	10.20	5.00%
2/07/2015	Doray Minerals Limited (ASX:DRM)	12.90	5.00%
1/11/2013	Skydive the Beach Group Limited (ASX:SKB)	19.58	5.00%
24/11/2014	Admedus Limited (ASX:AHZ)	16.14	5.00%
7/11/2013	Admedus Limited (ASX:AHZ)	10.44	5.00%
17/09/2015	CML Group Limited (ASX:CGR)	10.39	5.00%
23/05/2016	Aurelia Metals Limited (ASX:AMI)	10.06	4.99%
29/04/2015	Quickstep Holdings Limited (ASX:QHL)	16.99	4.50%
20/11/2015	BSA Limited (ASX:BSA)	17.12	4.38%
22/12/2014	Superloop Limited (ASX:SLC)	17.50	4.00%
16/12/2014	Money3 Corporation Limited (ASX:MNY)	15.99	4.00%
30/11/2015	Catapult Group International Ltd. (ASX:CAT)	12.00	3.88%
15/02/2013	APN Property Group Limited (ASX:APD)	16.08	3.50%
3/05/2016	Cooper Energy Limited (ASX:COE)	18.36	3.50%
11/05/2016	Generation Healthcare REIT (ASX:GHC)	15.11	3.39%
29/06/2016	Capilano Honey Limited (ASX:CZZ)	16.78	3.00%
25/05/2015	Malabar Coal Limited (ASX:MBC)	20.00	2.75%
12/10/2015	SomnoMed Limited (ASX:SOM)	10.50	1.33%
28/10/2013	Tigers Realm Coal Limited (ASX:TIG)	15.99	1.00%
27/10/2015	Geopacific Resources Limited (ASX:GPR)	14.07	1.00%
Average			4.51%
Min			1.00%
Max			11.40%

Source: Capital IQ

\$20 million to 30 million transactions

Date	Issuer	Total transaction value (\$m)	Underwriter compensation (%)
26/05/2016	Austin Engineering Ltd. (ASX:ANG)	28.07	6.00%
19/02/2015	Skydive the Beach Group Limited (ASX:SKB)	25.00	5.00%
16/05/2014	Avanco Resources Limited (ASX:AVB)	23.00	5.00%
9/11/2015	Dacian Gold Limited (ASX:DCN)	25.02	5.00%
28/09/2015	Rural Funds Group (ASX:RFF)	22.40	4.25%
22/03/2016	Silver Chef Limited (ASX:SIV)	29.89	4.00%
17/03/2016	AJ Lucas Group Limited (ASX:AJL)	21.06	3.62%
28/04/2015	APN Property Group Limited (ASX:APD)	30.00	3.51%
Average			4.55%
Min			3.51%
Max			6.00%

Source: Capital IQ

Annexure C – Amended RSA

Under the Amended RSA, the parties agreed to propose and implement various inter-conditional transactions, which together comprise the Transaction.

(a) **Key components**

The Transaction comprises the following key components:

(i) Orionstone Acquisition

Completion of the Orionstone Acquisition through the exchange of 100% of the ordinary shares in Orionstone for approximately 7% of the ordinary shares of the Combined Group following the completion of the Transaction, subject to dilution from the Management Incentive Plan.

(ii) Compromise and extinguishment of Orionstone Creditors' claims

Orionstone Creditors are expected to be issued approximately 13% of the ordinary shares in the Combined Group following completion of the Transaction, subject to dilution from the Management Incentive Plan, and Tranche B Notes in consideration for the compromise and extinguishment of their claims against Orionstone.

Shortly before the Completion Date, Orionstone is expected to owe its creditors an amount of approximately A\$145.4 million, not including finance leases. The Orionstone Creditors have agreed to novate their rights to be repaid the amount owing to them to Emeco Finance Pty Ltd in consideration of the issuance of the Tranche B Notes (to be issued in an amount that is approximately 80% of the principal amount owing), and the remainder in New Shares), with all accrued but unpaid interest, fees and expenses to be paid to those creditors shortly before the Completion Date.

(iii) Andy's Acquisition

Completion of the Andy's Acquisition through the exchange of 100% of the ordinary shares in Andy's for approximately 5% of the ordinary shares of the Combined Group following the completion of the Transaction, subject to dilution from the Management Incentive Plan.

(iv) Compromise and extinguishment of Andy's Creditors' claims

Andy's Creditors are expected to be issued 6% of the ordinary shares in the Combined Group following completion of the Transaction, subject to dilution from the Management Incentive Plan, and Tranche B Notes in consideration for the compromise and extinguishment of their claims against Andy's.

Shortly before the Completion Date, Andy's is expected to owe its creditors an amount of approximately A\$65.6 million, not including finance leases. In conjunction with certain arrangements being entered into (under which certain of Andy's Creditors may be entitled to additional Tranche B Notes and New Shares), Andy's Creditors have agreed that the amount owing to them as at the implementation date is extinguished in consideration of the issuance of a combination of Tranche B Notes (to be issued in an amount that is approximately 80% of the principal amount owing) and the remainder in New Shares. It is anticipated that this exchange will occur on the Completion Date, with all accrued but unpaid interest to be paid to those financiers on that same day.

(v) Emeco Noteholders' Scheme

A restructure, by way of assignment or novation to Emeco Finance Pty Ltd, of the debt owing by the Emeco Note Issuer to the Emeco Noteholders (pursuant to the Emeco Noteholders' Scheme) in exchange for:

- (A) an expected 31% of the ordinary shares of the Combined Group following the completion of the Transaction, subject to dilution from the Management Incentive Plan; and
- (B) an estimated A\$299.5 million of Tranche B Notes which have a 5 year maturity and a cash interest rate of 9.25%.

If the Emeco Noteholders' Scheme is approved by the requisite majority of Emeco Noteholders and the Court, then subject to the other conditions being satisfied or waived, the Emeco Noteholders' Scheme will be implemented and binding on all Emeco Noteholders, including those who did not vote or voted against the Emeco Noteholders' Scheme.

Following implementation, all Emeco Notes will be cancelled and Emeco Noteholders will receive their pro-rata share of New Shares and Tranche B Notes or a cash alternative at their election.

(vi) Lock-up

Each party to the Amended RSA who are to be issued New Shares has agreed with the Company that it will not dispose of New Shares issued to it to any person who is not a party to the Amended RSA for a period of up to 90 days after the Completion Date (subject to approval of such lock-up of New Shares by Shareholders at the General Meeting) (**Lock-Up**).

(vii) Existing security arrangements and new security arrangements

Existing security agreements to which the Emeco Group is a party will be amended and new security agreements will be entered by into by the Emeco Group to give effect to the collateral securing the Tranche B Notes, a new revolving loan facility and certain hedging or derivative positions the Emeco Group has entered into.

(viii) New Management Incentive Plan

A new Management Incentive Plan consisting of 10% of the equity of the Company post-Transaction will be implemented to further align the interests of management and shareholders. Up to 50% of the equity allocated under the Management Incentive Plan will be allocated to Ian Testrow, a current Director.

Ian Testrow has agreed to reduce his entitlement to be issued Shares under the Management Incentive Plan by the corresponding number of Shares to be issued to Black Diamond under the Top-Up Placement.

(ix) Rights Offer

A fully underwritten A\$20 million Rights Offer by way of a pro-rata equity issue of New Shares to existing Emeco Shareholders. The Rights Offer will be fully underwritten by the Underwriters.

The Company will pay an underwriting fee in New Shares equivalent to 7% of the underwritten amount to the Underwriters, as well as reasonable fees and expenses in relation to the Rights Offer, not to exceed \$100,000 in the aggregate.

The material terms of the underwriting are summarised in Section 10.5 above.

(x) Black Diamond Placements

On or immediately following the Completion Date, the Company shall issue Placement Shares to Black Diamond or its nominees in accordance with the terms of the Black Diamond Agreement.

Refer to Section 10 for more detail.

(b) Equity

The issuance of the New Shares represents all or part of the consideration payable by the Company to the Emeco Noteholders and the counterparties to the Orionstone Acquisition, the Andy's Acquisition, the Orionstone debt compromise, and the Andy's debt compromise. The total number and issue price of such number of New Shares that each of those counterparties is entitled to receive is to be determined by reference to a series of highly detailed definitions and financial formulae set out in the Amended RSA.

Those definitions and formulae seek to recognise the amount of value contributed by each of those counterparties and, taken together, represent the mutual agreement of the parties following a series of detailed negotiations. In addition to seeking to identify relative value as at the date of the Amended RSA, the arrangements agreed to also make provision for the adjustment of entitlements to take into account value leakage or accretion in the period between signing the Amended RSA and just before Completion Date.

(c) Amended RSA Conditions Precedent

The Transaction is subject to a number of conditions precedent as described in the Amended RSA. These are detailed in Annexure D.

(d) Exclusivity

The Company, Andy's and Orionstone have agreed to various exclusivity arrangements including "no shop" and "no talk" restrictions (subject to customary fiduciary carve-outs for the Company) for a period up to the earlier of completion or termination under the Amended RSA, or 28 April 2017 (or any later date agreed between the parties).

The Company has agreed that during the exclusivity period:

- (i) **No shop restriction:** it must ensure that neither it, nor any of its related entities nor any of their respective representatives, directly or indirectly, solicit, invite, encourage or initiate any enquiries, proposals, negotiations or discussions with a view to obtaining any expression of interest, offer or proposal from any other person in relation to a competing proposal or potential competing proposal.

- (ii) **No talk restriction:** it must ensure that neither it, any of its related entities nor any of their respective representatives:
- (A) enters into, continues or participates in any negotiations or discussions with any person regarding a competing proposal or which may reasonably be expected to lead to a competing proposal;
 - (B) provides any non-public information regarding the Emeco Group's businesses or operations to a person for the purposes of enabling or assisting that person to make a competing proposal; or
 - (C) accepts or enters into or offers to accept or enter into any agreement, arrangement or understanding in relation to, or which may reasonably be expected to lead to, an expression of interest, offer or proposal from any other person in relation to a competing proposal.

The no talk restriction above does not apply to the extent that:

- (A) any action is in response to a bona fide competing proposal which was not solicited or invited, encouraged or initiated in contravention of the no shop restriction;
 - (B) the competing proposal is in writing by or on behalf of a person which the Emeco Board considers to be of reputable commercial and financial standing;
 - (C) the Emeco Board, acting in good faith, determines that the competing proposal is a superior proposal or that the steps which the Emeco Board proposes to take may reasonably be expected to lead to a competing proposal which is a superior proposal; and
 - (D) the Emeco Board, acting in good faith, determines after receiving written advice from the Company's external legal advisers, and, if appropriate, from its financial advisers, that failing to respond to the competing proposal would be likely to constitute a breach of the Emeco Board's fiduciary or statutory duties.
- (iii) **Notification:** the Company must, to the extent it is approached in relation to a potential competing proposal, provide the other parties to the Amended RSA with details of the competing proposal including the name of the party proposing the competing proposal, the nature of the competing proposal and proposed terms of the competing proposal and to the extent that the parties to the Amended RSA had not previously been provided with the information, provide notice that such information has been provided to a third party and, if requested, provide any party to the Amended RSA that so requests with a complete copy of that information promptly following such request.

(e) **Compensating Amount**

The Company has agreed to pay the Compensating Amount (described below) to Orionstone and Andy's if the Amended RSA is terminated:

- (i) by any party if the Company enters into an arrangement to implement a competing proposal; or
- (ii) by the Company if the Emeco Board has publicly announced or determined that a competing proposal is a superior proposal.

However, no Compensating Amount is payable if the Transaction does not proceed merely because the Emeco Noteholders' Scheme is not approved.

The Compensating Amount is:

- (iii) if the relevant competing proposal constitutes a "Change of Control" under the Emeco Indenture and Emeco Group commences a tender offer for all Emeco Notes or any other process, transaction, settlement, compromise or arrangement is implemented (including by a third party as part of the competing proposal) in accordance with the terms of the Emeco Indenture at a purchase price of 101% or more of the face amount of the Emeco Notes:
 - (A) A\$3,300,000; plus
 - (B) all reasonable and documented expenses incurred in relation to the Amended RSA capped at a maximum of A\$3,100,000 inclusive of GST; or
- (iv) if, as a result of, or in conjunction with, the competing proposal a member of the Emeco Group commences a tender offer for all Emeco Notes, or any other process, transaction, settlement, compromise or arrangement is implemented at a purchase price of, or equivalent to 85% or more of the face value of the Emeco Notes and involves the Emeco Notes being paid out above 85% of par – all reasonable and documented expenses incurred in relation to the Amended RSA capped at a maximum of A\$3,100,000 inclusive of GST;
- (v) otherwise – nil,

with each of Orionstone and Andy's receiving:

- (vi) two-thirds (in the case of Orionstone) and one-third (in the case of Andy's) of the amount in paragraph (e)(iii)(A); and
- (vii) any expense reimbursement under paragraphs (e)(iii)(B) or (e)(iv) in proportion to the actual expenses incurred.

(f) **Representations and warranties**

The Amended RSA contains a limited set of warranties which are customary for a transaction of this nature.

(g) **Termination**

The Amended RSA may terminate in certain circumstances:

(i) **Termination for no approval of Transaction**

Any party may terminate if:

- (A) the Emeco Shareholders do not approve the Transaction Resolutions at the EGM by the requisite majorities;
- (B) the Emeco Noteholders' Scheme does not proceed.

(ii) **Termination for material breach**

Any party may terminate if:

- (A) any capacity warranty or any general warranty given by the Company, Orionstone or Andy's or warranty given by another party is or becomes untrue or misleading in any material respect or another party has materially breached the Amended RSA and that breach has not been remedied within 10 business days;
- (B) if there is an event or occurrence that prevents any of the conditions being satisfied by 28 April 2017 and the parties are unable to agree whether the Transaction may proceed by way of alternative means or methods or agree that this date should be extended;
- (C) if the first Court date has not occurred by 7 March 2017;
- (D) a material adverse event has occurred;
- (E) the Emeco Board fails to recommend certain resolutions at the EGM or withdraws, adversely revises or adversely modifies its recommendation that Emeco Shareholders vote in favour of those resolutions; or
- (F) the Company enters into an arrangement to implement a competing proposal.

Annexure D – Summary of conditions precedent under the Amended RSA

The Transaction will not become effective until the following conditions are satisfied or waived by no later than 8am on 15 March 2017:

(a) Regulatory Approvals - ASIC and ASX

ASIC and ASX issue or provide all consents or approvals, and do all other acts, necessary to implement the Transaction and such consents, approvals or other acts (as the case may be) have not been withdrawn, suspended or revoked;

(b) Regulatory Approvals - other

Any other approvals or consents that are required by law, or by any government agency, to implement the Transaction are obtained on an unconditional basis, remain in full force and effect in all respects, and do not become subject to any notice, intimation or indication of intention to revoke, suspend, restrict, modify or not renew the same;

(c) FIRB

Any approval or consents required from the Treasurer of the Commonwealth of Australia under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) to:

- any Tranche B Notes participant or Shareholders who applied for a statement of no objection prior to the first court date; and
- Black Diamond,

is obtained and such approval is not subject to any conditions other than tax-related conditions or is subject to such other conditions that all relevant parties consider reasonably acceptable;

(d) Shareholder Approvals - Listing Rule 7.1

The Emeco Shareholders approve resolutions at the EGM for the purposes of ASX Listing Rule 7.1 to enable the Company to issue New Shares pursuant to various aspects of the Transaction;

(e) Shareholder Approval - Listing Rule 10.14

The Emeco Shareholders approve resolution at the EGM for the purposes of ASX Listing Rule 10.14 to enable the Company to issue New Shares to Ian Testrow pursuant to the Management Incentive Plan;

(f) Shareholder Approval - Item 7 of Section 611

To the extent required, the Emeco Shareholders approve a resolution at the EGM for the purposes of item 7 of section 611 of the Corporations Act to enable one or more persons to acquire a Relevant Interest in the Company which would otherwise be prohibited by the takeovers provisions in section 606 of the Corporations Act; and

A resolution is put to the Shareholders at the EGM for the purposes of item 7 of section 611 of the Corporations Act to enable the Company to obtain a Relevant Interest in Shares under the Lock-Up;

(g) Shareholder Approval - Section 260B

To the extent required, the Emeco Shareholders approve by special resolution at the EGM for the purposes of section 260B(2) of the Corporations Act the giving of any financial assistance by Orionstone and Andy's and their subsidiaries in connection with the Orionstone Acquisition and Andy's Acquisition respectively;

(h) Close-out of Hedging Positions

Orionstone Pty Ltd and the counterparties to its hedging agreements and Andy's and ANZ have entered into contractual arrangements to close-out or terminate any hedging positions (including by triggering a termination) with effect from no later than the Completion Date;

(i) Termination of Orionstone shareholders' agreement

Orionstone has entered into contractual arrangements to terminate the Orionstone shareholders' agreement and to effect the Orionstone Restructure in accordance with its terms with effect prior to or from the Completion Date;

(j) Tranche B Notes

The indenture governing the Tranche B Notes and each document governing the existing security arrangements and the new security arrangements are as agreed between the relevant parties and otherwise in form and substance acceptable in all material respects;

(k) New revolving loan facility agreement

The Emeco Note Issuer enters into a new revolving loan facility agreement from the Completion Date (**New Revolving Loan Facility Agreement**) and the agreement continues to be in full force and effect;

(l) Restructure of the existing security arrangements

Evidence that the full commercial benefit of all existing security held by relevant secured parties will be provided to all of the Supporting Creditors in their capacity as Scheme Noteholders pursuant to a restructure of existing security arrangements.

(m) Release of Andy's Personal Guarantees

Evidence satisfactory to Andy's and the Company that the personal guarantees held by CAT Finance in respect of Andy's will be released on Completion Date.

(n) Black Diamond Agreement

The Black Diamond Agreement remains in full force and effect on the terms set out as of the Commencement Date.

(o) Share Purchase Agreement representations and warranties

The representations and warranties of:

- Andy's and the Andy's Shareholder in the share sale agreement dated 30 November 2016 (as amended) (**Andy's Acquisition Agreement**); and
- Orionstone and the Orionstone Shareholders in the share sale agreement dated 30 November 2016 (as amended) (**Orionstone Acquisition Agreement**),

are accurate;

(p) Other agreements

The following agreements continue to be in full force and effect on the terms (in all material respects) set out in such agreements as of the Commencement Date:

- Andy's Key Customer Agreement;

- the Underwriting Agreement; and
- the Scheme Cash Funding Agreement.

(q) KPMG Tax Opinion

Delivery of a tax opinion by KPMG in accordance with the terms of its engagement.

(r) Other

As at 8.00am on the Completion Date:

- the Court Orders made approving the Emeco Noteholders' Scheme is lodged with ASIC at which time the Emeco Noteholders' Scheme becomes effective, in accordance with section 412(6) of the Corporations Act;
- all fees and expenses required to be paid to certain parties as specified in the Amended RSA are paid on the Completion Date or such later date as the relevant parties may agree;
- the U.S. Bankruptcy Court entering the "Second Chapter 15 Order" and that Order not having been appealed or voided, reversed, amended, vacated or stayed by a court of competent jurisdiction;
- all conditions precedent under the New Revolving Loan Facility Agreement and the Scheme Cash Funding Agreement have been satisfied or waived in accordance with the terms thereof and the new revolving loan facility and the Scheme Cash Funding Agreement are available for utilisation in accordance with their terms; and
- all conditions precedent under the Andy's Acquisition Agreement and the Orionstone Acquisition Agreement have been satisfied or waived by the Company

Note: For more detailed information on the conditions precedent under the Amended RSA, Emeco Shareholders should refer to Section 7.4(b) of the Emeco Noteholders' Scheme Explanatory Statement announced to ASX on the same date as these Explanatory Materials.

Emeco Shareholders should be aware that the Explanatory Statement for the Emeco Noteholders' Scheme, Ferrier Hodgson Report, and the PPB Advisory report annexed to the Explanatory Statement were prepared for the benefit of the Emeco Noteholders and so do not directly contemplate or address the interests of Emeco Shareholders. The reports opine on a number of matters that may not be strictly relevant to Emeco Shareholders.

Annexure E – Orionstone Financial Statements

Orionstone Holdings Pty Ltd
ACN: 603 473 623



FINANCIAL REPORT

30 JUNE 2016

ORIONSTONE HOLDINGS PTY LTD
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ORIONSTONE HOLDINGS PTY LTD

Directors' Report

Your directors present their report on Orionstone Holdings Pty Ltd (the company) and the entities it controlled at the end or during the year ended 30 June 2016 (the Group).

1. Directors

The names of the directors in office at any time during or since the end of the year are:

Mr Rupert Harrington (Non-executive Chairman) – appointed 27 April 2015
Mr Ashley Fraser (Executive Director) – appointed 20 December 2014
Mr Richard Harding (Non-executive Director) – appointed 27 April 2015
Mr Symon Vegter (Non-executive Director) – appointed 27 April 2015
Mr Damien O'Reilly (Non-executive Director) – appointed 27 April 2015 – 25 November 2015 (resignation)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

2. Principal Activities

The principal activities of the Group during the financial year were renting of heavy earthmoving equipment to mining, infrastructure and oil and gas industries in Australia.

There was no significant change in the nature of these activities during the year.

3. Review of Operations and Results

The Group proactively managed its fleet of rental equipment, identifying and divesting underperforming assets and re-investing to ensure the rental fleet was aligned with market demands.

The key operational results for the year are as follows:

- Revenue increased 4% to \$87,575 thousand;
- EBITDA decreased 34% to \$26,295 thousand;
- EBIT decreased 10643% to -\$77,138 thousand;
- Net Loss before Tax increased 385% to \$95,541 thousand; and
- Cash flow from operating activities decreased 18% to \$14,461 thousand.

The FY16 results reflect the ongoing market conditions within the mining industry due to reduced commodity prices, and impairment losses recognized during the year of \$73,114 thousand in relation to goodwill and plant and equipment. In particular they stem from increased competition in the Mining Services sector due to cost reduction by mine owners and large mining contractors. The focus for FY17 is fleet rationalisation where possible and broadening the rental service offering.

4. Capital Structure

The number of ordinary shares on issue at 30 June 2016 is 179,631,112 (2015: 179,631,112).
There are currently 481,800 employee shares on issue (2015: 481,800).

5. Significant Changes in State of Affairs

No significant changes to the company's state of affairs occurred, other than as detailed in this report or the accompanying financial report.

ORIONSTONE HOLDINGS PTY LTD
Directors' Report (continued)

6. Subsequent Events

Subsequent to 30 June 2016 the following events have arisen:

- In September 2016, a Restructuring Support Agreement (RSA) was signed by the Group, its financiers and two industry counterparts. Completion of the RSA would see the Group acquired by Emeco Holdings Limited, and the Group's debt extinguished in full through the issue of debt and equity by Emeco to the Group's debt holders. The estimated completion date of the RSA is 29 December 2016. Concurrent with the signing of the RSA, the Standstill Agreement was extended until 28 February 2017 to allow for completion of the RSA.

Other than the matters discussed above, no matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the state of affairs of the Group in future financial years.

7. Likely Developments and Expected Results

The Group will continue to pursue its policy of increasing the profitability and market share during the next financial period. It also will continue to pursue expansion into related product lines. Further information about likely developments in the operations of the Group and the expected results of those operations in future financial year's has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

8. Environmental Regulations

The directors are not aware of any breaches by the company's operations of any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

9. Indemnifying Officers or Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an officer or auditor of the company, except for an indemnity given by the company to directors and officers for liabilities incurred in their capacity as officers of the company, where the liability does not arise out of a lack of good faith and certain other conditions.

10. Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is attached on page 40.

11. Rounding of amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.



Ashley Fraser, Director
Brisbane, Queensland
31 October 2016

ORIONSTONE HOLDINGS PTY LTD
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For The Year Ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Equipment rental		54,342	65,253
Projects & maintenance services		25,890	4,315
Sale of rental equipment		6,313	13,914
Revenue from operating activities		86,545	83,482
Gain / (loss) on sale of other non-current assets		-	59
Interest revenue		59	189
Other revenue		971	77
		87,575	83,807
Expenses			
Cost of rental equipment sold		(7,574)	(13,453)
Repairs and maintenance		(28,049)	(6,231)
Employee expenses		(15,258)	(14,420)
Hire of equipment and labour		(1,269)	(1,109)
Finance costs	3	(18,403)	(20,416)
Depreciation, amortisation and impairment charges	3	(103,433)	(39,116)
Other expenses	3	(9,130)	(8,760)
Loss before income tax		(95,541)	(19,698)
Income tax benefit	4(a)	4,983	6,114
Loss attributable to members of Orionstone Holdings Pty Ltd		(90,558)	(13,584)
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Cash flow hedge – effective portion of changes in fair value		228	(1,658)
Related tax	4(b)	99	498
Change in recognised deductible temporary differences		(498)	-
		(171)	(1,160)
Total comprehensive income attributable to the members of Orionstone Holdings Pty Ltd		(90,729)	(14,744)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

ORIONSTONE HOLDINGS PTY LTD
Consolidated Statement of Financial Position
As At 30 June 2016

	Note	2016 \$'000	2015 \$'000
Current Assets			
Cash and cash equivalents	5	4,283	8,051
Receivables	6	12,785	13,837
Inventories	7	2,902	3,681
Other assets	8	918	1,214
Current tax asset		30	342
Total Current Assets		20,918	27,125
Non-Current Assets			
Property, plant and equipment	9	171,040	260,837
Intangible assets	20	-	4,222
Deferred tax assets	10	-	26,571
Other assets	8	224	601
Total Non-Current Assets		171,264	292,231
Total Assets		192,182	319,356
Current Liabilities			
Payables	11	12,655	11,225
Borrowings	12	146,592	150,516
Provisions	13	694	599
Total Current Liabilities		159,941	162,340
Non-Current Liabilities			
Payables	11	322	826
Borrowings	12	12,089	14,588
Provisions	13	43	28
Deferred tax liabilities	10	-	31,058
Total Non-Current Liabilities		12,454	46,500
Total Liabilities		172,395	208,840
Net Assets		19,787	110,516
Equity			
Contributed equity	14	93,079	93,079
Reserves		(1,331)	(1,160)
(Accumulated losses)/Retained profits	15	(71,961)	18,597
Total Equity		19,787	110,516

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

ORIONSTONE HOLDINGS PTY LTD
Consolidated Statement of Changes in Equity
For The Year Ended 30 June 2016

	Contributed Equity \$'000	Hedging Reserve \$'000	Retained Profits \$'000	Total \$'000
Balance at 1 July 2014	93,079	-	32,181	125,260
Total comprehensive income				
Loss for the year	-	-	(13,584)	(13,584)
Other comprehensive income	-	(1,160)	-	(1,160)
Total comprehensive income	-	(1,160)	(13,584)	(14,744)
Balance at 30 June 2015	93,079	(1,160)	18,597	110,516
Balance at 1 July 2015	93,079	(1,160)	18,597	110,516
Total comprehensive income				
Loss for the year	-	-	(90,558)	(90,558)
Other comprehensive income	-	(171)	-	(171)
Total comprehensive income	-	(171)	(90,558)	(90,729)
Balance at 30 June 2016	93,079	(1,331)	(71,961)	19,787

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

ORIONSTONE HOLDINGS PTY LTD
Consolidated Statement of Cash Flows
For The Year Ended 30 June 2016

	Note	2016 \$'000	2015 \$'000
Cash Flows from Operating Activities			
Cash receipts in the course of operations		97,449	91,459
Cash payments in the course of operations		(64,955)	(52,771)
Interest received		59	189
Finance costs paid		(18,403)	(20,416)
Income taxes paid		311	(898)
Net cash provided by operating activities	17(a)	14,461	17,563
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(16,558)	(22,947)
Proceeds from disposal of property, plant and equipment		6,313	13,914
Proceeds from related party loans		-	14
Net cash (used in)/provided by investing activities		(10,245)	(9,019)
Cash Flows from Financing Activities			
Repayment of borrowings		(4,000)	(152,400)
Proceeds from borrowings, net of transaction costs		1,298	159,989
Payment of finance lease liabilities		(5,281)	(10,062)
Net cash used in financing activities		(7,984)	(2,473)
Net increase/(decrease) in cash and cash equivalents		(3,768)	6,071
Cash and cash equivalents at the beginning of the financial year		8,051	1,980
Cash and cash equivalents at the end of the financial year	5	4,283	8,051

The above consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies

Orionstone Holdings Pty Ltd (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 107 Farrellys Road, Mackay Qld 4740. The consolidated financial statements of the Company as at and for the year ended 30 June 2016, comprise the Company and its subsidiaries (together referred to as the "group" and individually as "group entities"). The group is a for-profit entity and is primarily involved in the rental of heavy earthmoving equipment to mining, infrastructure and oil and gas industries in Australia.

The principal accounting policies in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

(i) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The amounts disclosed in the consolidated financial statements have been rounded to the nearest thousand dollars.

The financial statements were authorised for issue by the Board of Directors on 31 October 2016.

(ii) Going concern basis of accounting

During the year ended 30 June 2016, the Group had a net loss after income tax of \$90,558 thousand (2015: \$13,584 thousand), and as at 30 June 2016 the Group has an excess of current liabilities over current assets of \$139,023 thousand (2015: \$135,215 thousand). This is primarily due to the current portion of finance lease liabilities and other borrowings of \$146,592 thousand (2015: \$150,516 thousand) which are utilised to finance non-current assets.

The current liabilities as at 30 June 2016 include as current the borrowings from the syndicate facilities of \$142,247 thousand (2015: \$144,685 thousand), for which there has been a breach of debt covenants as at year-end (see note 12). The Group's syndicate financiers have continued to provide financial support to date, and have entered a standstill agreement (the Agreement) with the Group in March 2016 (expiring on 28 February 2017) to provide support to the Group, subject to the Group's compliance with certain conditions imposed under the Agreement, and to enable time to complete the restructure the Group's capital base. During the period of the Agreement, covenant requirements and amortisation payments have been waived.

The financial statements have been prepared on a going concern basis, which assumes that the Group will continue to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The Directors have formed the opinion that the use of the going concern assumption is appropriate on the following basis:

- The syndicate financiers agreed to extend the Standstill Agreement to 30 September 2016, and then subsequently to 28 February 2017, to provide a period during which the syndicate financiers, the Group and its stakeholders can complete a restructure of the Group's debt.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(ii) Going concern basis of accounting (continued)

- The syndicate financiers and management have engaged external advisers to undertake a review of cash flow and operational assumptions to assist both parties in understanding a range of options for the realisation of value over the short and medium term. Broadly the external advisers have concluded that value to all stakeholders is maximised through restructure of the existing debt arrangements, and broader capital base, to support ongoing normal operations in the medium term, with appropriate realisation of assets to support reinvestment in maintenance and growth capital expenditures, and debt service.
- As noted in note 26, the extension of the Standstill Agreement to 28 February 2017 provides time for the Group to complete a proposed merger with two industry counterparts pursuant to a Restructuring Support Agreement (RSA) signed by the Group, its financiers and the two industry counterparts on 23 September 2016. The estimated completion date of the RSA is 29 December 2016.
- The Directors believe the Group:
 - will successfully renegotiate the Syndicate debt facilities through the proposed merger deal signed on 23 September 2016 and estimated to be completed on 29 December 2016, and
 - will therefore be able to generate net operating cash inflows sufficient to service its ongoing obligations.

(iii) Basis of measurement

The financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

(iv) Changes in accounting policies

The Group has consistently applied the accounting policies set out in Note 1 to all periods presented in these consolidated financial statements.

(v) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Orionstone Holdings Pty Ltd ('company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the period then ended. Orionstone Holdings Pty Ltd and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to Note 1(c)(i)).

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(b) Principles of consolidation (continued)

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the company. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the company recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

(i) Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under common control are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's financial statements. The components of equity of the acquired entities are added to the same components within the Group.

(d) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognised in profit or loss.

(e) Revenue recognition

(i) Rental revenue

Revenue from the rental of equipment is recognised in the profit or loss based on the number of hours the equipment operate each month. Revenue is measured at the fair value of consideration received or receivable.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(e) Revenue recognition (continued)

(ii) Rental equipment sold

Revenue from the sale of rental equipment is measured at the fair value of the consideration received or receivable. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(iii) Project maintenance and other revenue

Project maintenance and other revenue is measured at the fair value of the consideration received or receivable. The group recognises revenue when the amount of revenue can be reliably measured; it is probable that future economic benefits will flow to the group.

(f) Income tax

The group is not consolidated for income tax purposes. The income tax expense or revenue for the period is the tax payable on the current period's taxable income using tax rates enacted or substantively enacted at the reporting date, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

(g) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(h) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs.

Operating lease payments are charged to profit or loss on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, including an appropriate share of production overheads based on normal operating capacity. The costs of dismantling and removing the items and restoring the site on which they are located are also included. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Rental equipment is transferred to inventory at their carrying amount when it ceases to be rented and becomes held for sale. The proceeds from the sale are recognised as equipment sales revenue. The gain or loss on disposal of other property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and is recognised gain or loss on disposal of non-current assets.

(ii) Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the group, and its cost can be measured reliably. Expenditure on major overhauls and refurbishments of equipment is capitalised in property, plant and equipment as it is incurred, where that expenditure is expected to provide future economic benefits. The expenditure is classified as capital work in progress within property, plant and equipment until such time the capital works are completed and the expenditure is transferred to the cost of the respective item of property, plant and equipment. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Items of property, plant and equipment, excluding freehold land, are depreciated over their estimated useful lives and are charged to the statement of comprehensive income. Estimates of remaining useful lives, residual values and the depreciation method are made on a regular basis, with annual re-assessments for major items.

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use. Where subsequent expenditure is capitalised into the asset, the estimated useful life of the total new asset is reassessed and depreciation charged accordingly.

Depreciation on buildings and leasehold improvements as well as furniture, fixtures and fittings, office equipment, motor vehicles, sundry plant (plant and equipment – owned) is calculated on a straight-line basis.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(i) Property, plant and equipment (continued)

(iii) Depreciation (continued)

Depreciation on rented plant and equipment is calculated and charged on machine hours worked over their estimated useful life. The estimated useful lives are as follows:

Buildings	40 years
Plant and equipment – rented	8,000 to 74,000 hours
Plant and equipment – owned	1 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(k) Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is presented with intangible assets. For the measurement of goodwill at initial recognition (see Note 1(c)). Goodwill is measured at cost less accumulated impairment losses (see Note 1(k)).

(l) Impairment of assets

(i) Non-derivative financial assets

A financial asset not classified as at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the group on terms that the group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults or the disappearance of an active market for a security.

Financial assets measured at amortised cost

The group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables and held-to-maturity financial assets) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

(ii) Non-financial assets

The carrying amounts of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Indefinite life intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of assets in the CGU (or group of CGUs) on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Other financial assets

Classification

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the assets were acquired and is determined at initial recognition and re-evaluated at each reporting date.

The group has no financial assets at fair value through profit or loss or held-to-maturity investments.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

Loans and receivables comprise trade and other receivables.

Recognition, measurement and reclassification

The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(r) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the group, on or before the end of the year but not distributed at the end of the reporting period.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

1. Summary of Significant Accounting Policies (continued)

(s) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(t) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 July 2015; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements.

New or amended standards	Summary of the requirements	Possible impact on the consolidated financial statements
AASB 9 Financial instruments	AASB 9, published in July 2014, replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement . AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.
AASB 15 Revenue from Contracts with Customers	AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts, and Interpretation 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.
AASB 16 Leases	AASB 16 issued in February 2016 requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. AASB 16 is effective for periods beginning on or after 1 January 2019. Early adoption is permitted if AASB 15 Revenue from Customer Contracts is applied.	AASB 16 will result in higher debt levels and interest costs.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

2. Critical accounting estimates and judgements

The group evaluates estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and from within the group. Key estimates and judgements impacting the financial statements are as follows:

Plant and equipment (Note 9)

The group depreciates its rental/hire plant and equipment based on machine hours worked over their estimated useful lives. The useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Impairment of property, plant and equipment and intangible assets (Notes 9 and 20)

The group undertakes annual impairment testing of the recognised value of goodwill and, in conjunction with the impairment testing of goodwill or otherwise when impairment indicators are present, impairment testing of the recognised value of property, plant and equipment. Further information regarding the key estimates and judgements made in undertaking impairment testing is set out in note 20.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 23 – financial instruments.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

3 Profit before income tax expense

	2016 \$'000	2015 \$'000
Profit before income tax has been determined after:		
<i>Employee expenses</i>		
- superannuation expense	728	864
<i>Finance costs</i>		
- interest	16,720	18,723
- other finance costs	1,683	1,693
	18,403	20,416
<i>Depreciation, amortisation and impairment charges</i>		
Depreciation and amortisation of:		
- buildings	108	125
- plant and equipment – rental	22,629	30,864
- plant and equipment – other	7,582	4,709
Impairment of:		
- plant and equipment – rental	68,892	3,418
- goodwill	4,222	-
	103,433	39,116
<i>Other expenses</i>		
- bad and doubtful debts	982	1,422
- mobilisation and demobilisation	2,641	1,820
- operating lease expenses	1,787	1,627
- professional fees	872	651
- other expenses	2,848	3,240
	9,130	8,760

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

4 Income tax expense	2016 \$'000	2015 \$'000
(a) Income tax benefit		
Current tax	-	20
Deferred tax – origination and reversal of temporary differences	(28,598)	(6,015)
Overprovision in prior years	-	(119)
Change in recognised deductible temporary differences	23,615	-
	(4,983)	(6,114)
Deferred income tax included in income tax expense comprises:		
- Decrease/(Increase) in deferred tax assets	26,077	(10,145)
- (Decrease)/Increase in deferred tax liabilities	(31,060)	4,011
	(4,983)	(6,134)
(b) Amounts recognised in other comprehensive income		
Cash flow hedge	99	498
Changes in recognised deductible temporary differences	(498)	-
	(399)	498
(c) Numerical reconciliation of income tax expense to prima facie tax expense		
Prima facie income tax expense on loss before income tax at 30% (2015: 30%)	(28,664)	(5,909)
<i>Add: tax effect of</i>		
- Other assessable income/deductible	-	(40)
- Overprovision in prior years	-	(119)
- Non-deductible expenses	7	19
- Other	59	(65)
- Change in recognised deductible temporary differences	23,615	-
Income tax benefit	(4,983)	(6,114)

5 Cash and cash equivalents

Cash at bank	2,528	7,482
Cash on deposit	578	569
Restricted cash at bank	1,177	-
Cash and cash equivalents in the Statement of Cash Flows	4,283	8,051

Restricted cash is held in an agent controlled bank account managed by NAB on behalf of the Company as required under the terms of the Standstill Agreement. Refer to Note 1(a)(ii) for more information.

The cash on deposit is restricted as security for a bank guarantee totalling \$560 thousand provided for the rental bond at 107 Farrellys Road, Mackay.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

6 Receivables

	2016	2015
	\$'000	\$'000
<i>Current</i>		
Trade receivables		
Less: provision for impaired receivables	12,520	14,763
	(2,383)	(1,456)
	10,137	13,307
Other receivables	2,648	530
	12,785	13,837
Impaired trade receivables		
At 1 July	(1,456)	(736)
Provision for impairment recognised during the year	(1,075)	(1,406)
Provision for impairment reversed during the year	66	576
Impaired receivables collected	82	110
At 30 June	(2,383)	(1,456)

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit and loss. Amounts charged to the allowance are generally written off when there is no expectation of recovering additional cash.

7 Inventories

Parts and consumables	1,189	1,429
Tyres – spares	929	1,264
Work in progress	784	988
	2,902	3,681

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

8 Other assets	2016 \$'000	2015 \$'000
<i>Current</i>		
Prepayments	870	1,179
Deposits / option fees – equipment and property leases	47	35
Other assets	1	-
	918	1,214
<i>Non-current</i>		
Prepayments	224	601
	224	601

9 Property, plant and equipment

	Land & Buildings	Plant & Equipment – Rental	Plant & Equipment – Other	Capital work in progress (i)	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at 1 July 2014	872	267,309	10,703	1,392	280,276
Additions (i)	-	-	-	33,010	33,010
Disposals	-	(12,154)	(1,179)	-	(13,333)
Transfers (i)	4	15,223	14,906	(30,133)	-
Depreciation	(125)	(30,864)	(4,709)	-	(35,698)
Impairment	-	(3,338)	(80)	-	(3,418)
Carrying amount at 30 June 2015	751	236,176	19,641	4,269	260,837
Additions (i)	-	-	-	16,558	16,558
Disposals	-	(7,115)	(29)	-	(7,144)
Transfers (i)	-	2,429	13,960	(16,389)	-
Depreciation	(108)	(22,629)	(7,582)	-	(30,320)
Impairment	-	(68,892)	-	-	(68,892)
Carrying amount at 30 June 2016	643	139,969	25,990	4,438	171,040
Represented by:					
Cost	1,121	291,455	43,032	4,438	340,046
Less: accumulated depreciation	(478)	(151,486)	(17,042)	-	(169,005)
	643	139,969	25,990	4,438	171,040

(i) All asset additions are initially recognised as capital works in progress and allocated to the relevant plant and equipment category when ready for use. As a result, asset additions and transfers to the plant and equipment categories should be read together.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

9 Property, plant and equipment (continued)

Non-current assets pledged as security

Refer Note 12 for information on non-current assets pledged as security by the group.

Impairment loss

Impairment losses comprise:

- 1 impairment of the recognized value of assets prior to their sale during the year, and determined by reference to market evidence of fair value, of \$7,360 thousand (2015: \$3,418 thousand); and
- 2 impairment of plant and equipment based on value in use assessments of the assets within the cash generating unit (see note 20) of \$61,532 thousand.

10 Deferred tax

2016 in thousands of dollars	Net balance at 1 July	Recognised in profit or loss	Recognised in OCI	Derecognised through profit or loss	Derecognised through OCI	Net balance at 30 June
Employee benefits	188	32	-	(220)	-	-
Payables and accruals	69	32	-	(101)	-	-
Trade receivables - provision for impaired receivables	437	278	-	(715)	-	-
Borrowings	2,350	(896)	-	(1,454)	-	-
Cash flow hedge	497	-	(98)	-	(399)	-
Capital borrowing / transaction expenses	503	(284)	-	(219)	-	-
Intangibles	-	1,207	-	(1,207)	-	-
Property, plant and equipment	(28,608)	16,854	-	11,754	-	-
Leased equipment	(2,057)	851	-	1,206	-	-
Spares inventory	(379)	100	-	279	-	-
Other	(14)	1	-	13	-	-
Tax losses	22,527	10,423	-	(32,950)	-	-
Total	(4,487)	28,599	(98)	(23,615)	(399)	-

2015 in thousands of dollars	Net balance at 1 July	Recognised in profit or loss	Recognised in OCI	Net	Balance at 30 June	
					Deferred tax assets	Deferred tax liabilities
Employee benefits	188	-	-	188	188	-
Payables and accruals	69	-	-	69	69	-
Trade receivables - provision for impaired receivables	221	216	-	437	437	-
Borrowings	-	2,350	-	2,350	2,350	-
Cash flow hedge	-	-	497	497	497	-
Capital borrowing / transaction expenses	754	(251)	-	503	503	-
Property, plant and equipment	(26,464)	(2,144)	-	(28,608)	-	(28,608)
Leased equipment	-	(2,057)	-	(2,057)	-	(2,057)
Spares inventory	(495)	116	-	(379)	-	(379)
Other	(91)	77	-	(14)	-	(14)
Tax losses	14,700	7,827	-	22,527	22,527	-
Total	(11,118)	6,134	497	(4,487)	26,571	(31,058)

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

10 Deferred tax (continued)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items, because it is not probably that future taxable profit will be available against which the Group can use the benefits therefrom.

	2016	2015
	\$'000	\$'000
Deductible temporary differences	4,316	-
Assessable temporary differences	(13,252)	-
Tax losses	32,950	-
	24,014	-

The deductible/assessable temporary differences do not expire under current tax legislation. Tax losses do not expire under current tax legislation subject to continued satisfaction of certain legislative requirements related to the continuity of majority underlying ownership or, failing that, continuity of the same business.

11 Payables

	2016	2015
	\$'000	\$'000
<i>Current</i>		
Trade payables	6,504	6,062
Other payables and accrued expenses	5,142	4,332
Interest rate swaps used for hedging	1,009	831
	12,655	11,225
<i>Non-current</i>		
Interest rate swaps used for hedging	322	826
	322	826

12 Borrowings

		2016	2015
		\$'000	\$'000
<i>Current</i>			
Secured			
Finance leases	(i)	4,345	5,831
Syndicate facility	(iii)	142,247	144,685
		146,592	150,516
<i>Non-current</i>			
Secured			
Finance leases	(i)	2,798	6,593
Shareholder loans, secured	(ii)	9,291	7,995
		12,089	14,588

ORIONSTONE HOLDINGS PTY LTD**Notes to the Financial Statements****For The Year Ended 30 June 2016****12 Borrowings (continued)**

- (i) Finance lease loans are secured by the assets acquired. The liabilities have fixed interest rates of between 5.82% and 12.00%. The carrying amount of total assets under finance lease loans is \$6,913 thousand (2015: \$12,454 thousand).
- (ii) In extending finance to the Group during the year ended 30 June 2014, shareholders were issued with 38.106 million warrants. From the termination date, 31 January 2018, warrants may be exercised to receive shares in the company at a rate of one share for each warrant exercised. During 2014, the warrants were secured by inventory and selected pieces of property, plant and equipment, however, in July 2014, as required by the syndicate facility, participants agreed to subordinate their security position to syndicate financiers.
- (iii) Syndicate financing is administered by a NAB security trustee for five lending banks. In April 2016, Arkkan Fund Ltd took over \$22,500 thousand of debt previously held by Deutsche Bank Ltd. Arkkan Fund Ltd joins Bentham, Deutsche Bank AG, Macquarie Bank Ltd and Caterpillar Financial Australia Limited as the fifth lender. The revolving working capital facility was also rolled into Facility A2 in April 2016 eliminating the need to pay down \$10,000 thousand for three days each year.

Terms and repayments schedule

The terms and conditions of outstanding loans are as follows:

			2016 (\$'000)		2015 (\$'000)	
	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Finance leases	5.82%-12.0%	2013-2019	7,803	7,143	14,066	12,424
Syndicate facility	BBSY + 7.0%	2018	144,000	142,247	148,000	144,685
Shareholder loans	15%	2018	9,291	9,291	7,995	7,995

Total borrowings costs capitalised during the period total \$49 thousand (2015: \$4,704 thousand).

Breach of loan covenants**Year ended 30 June 2016**

The breaches of debt covenants which arose in the year ended 30 June 2015 (refer below) were not remedied during the year ended 30 June 2016. As a result, the financiers have the ability at 30 June 2016 to call for repayment of the total amount owing of \$142,247 thousand. Therefore, the total amount of \$142,247 thousand has been classified as a current liability as at 30 June 2016.

Standstill Agreements

As detailed in note 1(a)(ii) and note 26, the Group entered into a Standstill Agreement with its syndicate financiers in March 2016, and has subsequently extended the Standstill Agreement until 28 February 2017 to provide time to complete the restructure of the Group's capital base (refer to note 26 for details of the Restructuring Support Agreement which has been entered into subsequent to year end). During the period of the Standstill Agreement, covenant requirements and amortisation payments have been waived.

Year ended 30 June 2015

During the year ended 30 June 2015, the Group breached the Debt Service Coverage Ratio (DSCR) and the Net Leverage Ratio (NLR) with its syndicate financiers. As a result of the breaches, the financiers have the ability at 30 June 2015 to call for repayment of the total amount owing of \$144,685 thousand. Therefore, the total amount of \$144,685 thousand has been classified as a current liability as at 30 June 2015.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

13 Provisions

	2016 \$'000	2015 \$'000
<i>Current</i>		
Employee benefits	694	599
<i>Non-current</i>		
Employee benefits	43	28

14 Contributed equity

	2016 Number	2015 Number	2016 \$'000	2015 \$'000
Balance at the beginning of the period	179,631,112	179,631,112	93,079	93,079
Share buy back	-	-	-	-
Balance at the end of the year	179,631,112	179,631,112	93,079	93,079
Ordinary Shares	179,322,112	179,322,112	93,079	93,079
Class B Ordinary Shares	309,000	309,000	-	-
	179,631,112	179,631,112	93,079	93,079

Rights of each type of share

Ordinary Shares and Class B Ordinary Shares have no par value and the company does not have a limited amount of authorised capital.

Ordinary Shares

Ordinary Shares have the right to receive dividends declared by the Directors in relation the Ordinary Shares, the right to receive a return of capital in the event of a winding up of the Company, and carry the right to vote at shareholder meetings.

Class B Ordinary Shares

Class B Ordinary Shares have the right to receive dividends declared by the Directors in relation the Class B Ordinary Shares, the right to receive a return of capital in the event of a winding up of the Company (ranking equally with Ordinary Shares), and the right to be reclassified to Ordinary Shares upon the occurrence of specified exit event at the sole discretion of the Board. Class B Ordinary Shares do not carry the right to vote at shareholder meetings.

Employee Share Plans

In December 2012 the Group established the following equity-settled share plans:

- 1 A General Employee Share Ownership Plan (GESOP) which provides employees with the opportunity to acquire Ordinary Shares in the Company at no cost, subject to restrictions on disposal of the shares. The holder is prevented from disposing of the shares for a period from the date of acquisition to the earlier of three years from the date of acquisition, and the date on which the employee ceases employment with the group.
- 2 An Employee Share Ownership Plan (ESOP) which provides employees with the opportunity to salary sacrifice in order to acquire Ordinary Shares in the Company at their market value, subject to restrictions on disposal of the shares. ESOP shares are issued under two arrangements:
 - "ESOP A" which prevents the holder from disposing of the shares for a period from the date of acquisition to the earlier of two years from the date of acquisition, the sale of all the Company's shares or assets in an exit event, and the date on which the employee ceases employment with the group; and

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

14 Contributed equity (continued)

Employee Share Plans (continued)

- “ESOP B” which provides that the shares are forfeited if the holder does not remain employed with the group up to the earlier of two years from the acquisition date or the sale of all the Company’s shares or assets in an exit event.
- 3 A Loan Share Plan (LSP) which provides eligible employees the opportunity to acquire Class B Ordinary Shares in the Company at their market value under limited recourse loan arrangements. Shares issued under the LSP scheme vest if the employee remains employed with the group for at least two years from the date of acquisition. The limited recourse loan becomes repayable upon the earlier of five years from the date of acquisition of the related shares, or the date the employee disposes of the related shares. The limited recourse loan is interest bearing, but interest is not payable until the loan is repaid.

The shares issued under these schemes are as follows:

	2016 Number	2015 Number	2016 \$'000	2015 \$'000
GESOP	55,800	55,800	56	56
ESOP	117,000	117,000	117	117
LSP (i)	309,000	309,000	-	-

- (i) Under AASB 2, *Share-based Payment*, the shares issued under non-recourse loan arrangements are accounted for as an option and neither the limited recourse loan receivable, nor the share capital, are recognised until the related option is exercised.

Capital management

The Company creates value for its shareholders and other stakeholders through the efficient and effective management of capital employed. Management proactively monitors both the historical and forecast performance of the group’s rental fleet so as to ensure the company’s hurdle rates for Return on Funds Employed (“ROFE”) are achieved at the individual machine, asset class, and fleet levels, as well as across the entire business. Rigorous asset management processes and systems are used to determine the optimal points to invest in or divest assets so as to maximise returns and cash flows.

Management closely monitors a range of metrics / parameters including gearing, debt service cover ratio, operating leverage ratio, working capital levels, undrawn facilities and cash. During the financial year, the group’s strategy was a combination of equity and debt funding. The gearing ratios at 30 June 2016 and 30 June 2015 were as follows:

	Note	2016 \$'000	2015 \$'000
Total borrowings	12	158,681	165,104
Less: cash and cash equivalents	5	(4,283)	(8,051)
Net debt		154,398	157,053
Total equity		19,787	110,516
Total capital		174,185	267,569
Gearing ratio		89%	59%

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

15 (Accumulated losses)/Retained profits

	2016	2015
	\$'000	\$'000
Retained profits at the beginning of the year	18,597	32,181
Loss for the year	(90,558)	(13,584)
(Accumulated losses)/Retained profits	(71,961)	18,597

16 Dividends

Dividend for the year ended 30 June 2016 is \$nil
(2015: \$nil).

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Dividend franking account

Amount of franking credits available to shareholders of Orionstone
Holdings Pty Ltd for subsequent financial years

-	-
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As noted in Note 1(f), the Group is not consolidated for tax purposes. The wholly-owned subsidiaries of Orionstone Holdings Pty Ltd have franking credits of \$13,469 thousand as at 30 June 2016 (2015: \$13,469 thousand).

The ability to utilise the franking credits is dependent upon the ability to declare dividends.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

17 Cash flow information

	2016 \$'000	2015 \$'000
a) Reconciliation of cash flow from operating activities with profit after income tax		
Loss from ordinary activities after income tax	(90,558)	(13,584)
<i>Adjustments and non-cash items:</i>		
Depreciation	30,319	35,698
Impairment	73,115	3,418
(Loss)/gain on sale of non-current assets	830	(582)
Amortisation of borrowing costs	1,561	-
	15,267	24,950
<i>Changes in assets and liabilities (net of effect of business combinations)</i>		
(Increase) / decrease in receivables	1,052	(631)
(Increase) / decrease in inventories	779	113
(Increase) / decrease in other assets	673	204
Increase / (decrease) in payables	442	188
Increase / (decrease) in income tax payable	312	(878)
(Increase) / decrease in deferred taxes	(4,984)	(6,134)
Increase / (decrease) in provisions	110	1
Increase / (decrease) in other payables	810	(250)
	14,461	17,563
b) Non-cash investing and financing activities		
Acquisition of plant and equipment by means of finance lease or equipment loan	-	10,062

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

18 Key management personnel disclosures	2016	2015
	\$	\$
(a) Key management personnel compensation		
Short term benefits	961,280	1,655,655
Post-employment benefits	73,291	132,345
	<u>1,034,571</u>	<u>1,788,000</u>
(b) Transactions with key management personnel		
The following amounts were recognised during the reporting period from other transactions with key management personnel and director entity related parties.		
<i>Expenses</i>		
- Rent for director owned premises*	-	451,150
End of the year	-	<u>451,150</u>
<i>Loans to director related entity – OAM Unit Trust</i>		
Beginning of the year (receivable/(payable))	-	13,909
Loans advanced	-	15,020
Distribution receivable	-	-
Loan repayments	-	(28,929)
End of the year	-	<u>-</u>
Total from directors and director related entities		
Receivable	-	-
Payable	-	-
Net	<u>-</u>	<u>-</u>

*The sale of director owned premises was completed 29 October 2014, on which day Sentinel Paget Industrial Pty Ltd (unrelated party) took over ownership.

19 Related party transactions

(a) Parent entity

The parent entity within the group is Orionstone Holdings Pty Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 21.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 18.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

19 Related party transactions (continued)

(d) Transactions with other related parties

During the year ended 30 June 2015, the premises in Mackay were rented from a related party. These transactions were undertaken at market value between the group and entities related to Mr Ashley Fraser (Executive Director) and are set out in Note 19. The premises were acquired by an unrelated party on 29 October 2014.

(e) Terms and conditions

All transactions detailed in Note 18 and Note 19 were made on normal commercial terms and conditions at market rates, except that there are no fixed terms for the repayment of loans between parties. Outstanding balances are unsecured and are repayable in cash.

20 Intangible assets

	2016	2015
	\$'000	\$'000
<i>Goodwill</i>		
Carrying amount – opening	4,222	4,222
Impairment loss recognised in profit or loss	(4,222)	-
Carrying amount closing	-	4,222

Impairment testing for cash-generating units containing goodwill

For the purpose of testing impairment, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. The Group operates as a single cash-generating unit.

The recoverable amount of the cash-generating unit was based on value-in-use and was determined by reference to the discounted cash flows generated from the continuing use of the cash generating unit for a period of five years, with a terminal value calculated at the end of year five. During the year, as a result of the ongoing weakness across the mining service sector, the recoverable amount of \$176,491 thousand was determined to be less than the carrying amount by \$65,754 thousand, applied as follows:

- impairment allocated to goodwill – \$4,222 thousand; and
- impairment allocated to property, plant and equipment – \$61,532 thousand.

In addition, impairment losses totalling \$7,360 thousand were taken during the year ended 30 June 2016 (2015: \$3,418 thousand) in relation to the disposal of rental plant and equipment, resulting in total impairment loss against rental plant and equipment of \$68,892 thousand (2015: \$3,418 thousand) (refer note 3).

Value-in-use was determined by discounting the future cash flows generated from continuing use of the assets, based on past experience, actual operating results and the business plans, and long-term strategy for the cash generating unit. The key assumptions for each cash generating unit were as follows:

	2016	2015
Budgeted EBITDA growth rate (average of next five years)	10.0%	5.0%
Terminal growth rate	2.5%	2.5%
Pre-tax discount rate	16.9%	14.6%

The discount rate was calculated based on the weighted average cost of capital, incorporating an industry average beta, risk-free rate based on Australian government 10-year treasury bonds with a minimum yield used of 2.94% (2015: 4.4%), a market risk premium of 6.0% (2015: 6.0%) and a cost of debt relevant for this industry.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

21 Subsidiaries

The consolidated financial statements include the financial statements of Orionstone Holdings Pty Ltd and the subsidiaries listed in the following table:

Name	Country of Incorporation	% Equity interest	
		2016	2015
<i>Orionstone Pty Ltd</i>	<i>Australia</i>	100%	100%
<i>Ironstone Group Pty Ltd</i>	<i>Australia</i>	100%	100%
<i>Orion (WA) Pty Ltd</i>	<i>Australia</i>	100%	100%
<i>RPO Australia Pty Ltd</i>	<i>Australia</i>	100%	100%

22 Commitments

	Note	2016 \$'000	2015 \$'000
<i>(a) Finance lease commitments</i>			
Payable within one year		5,240	6,861
Payable later than one year but not later than five years		2,563	7,205
Minimum lease payments		7,803	14,066
Less: unexpired interest		(660)	(1,642)
		7,143	12,424
Represented by:			
Current liability	12	4,345	5,831
Non-current liability	12	2,798	6,593
		7,143	12,424

(b) Operating leases

(i) Leases as lessee

At the end of the reporting period, the future minimum lease payments under non-cancellable operating leases are as follows:

	2016 \$'000	2015 \$'000
Less than one year	4,990	1,490
Between one and five years	6,505	4,802
More than five years	1,757	3,034
	13,252	9,326

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

22 Commitments (continued)

Operating leases include the Group's Perth offices and the head office premises at Farrellys Road, Mackay, to which the group re-located in August 2012 (lease expires October 2022 with one option to renew the lease for a further three years). The Perth lease expires February 2017. Additionally, the group has rented a photocopier, office in Brisbane and yard hire in Kalgoorlie.

(ii) Leases as lessor

The Group leases some its fleet of heavy earthmoving equipment under two broad rental agreement categories: (i) agreements with durations of 12-24 months which are not cancellable by the lessee without penalty; and (ii) agreements which may be cancelled by the lessee with 90 days written notice, but otherwise without penalty. At the end of the reporting period, the future minimum lease payments under these lease agreements are receivable as follows:

	2016 \$'000	2015 \$'000
Less than one year	27,835	27,122
Between one and five years	11,028	7,753
More than five years	-	-
	38,863	34,875

23 Financial Instruments

Financial risk management

Overview

The group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

Risk Management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the risk management framework. The board of directors have established the Audit and Risk Committee, which is responsible for developing and monitoring group's risk management policies. The committee reports regularly to the board of directors on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through their training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group's Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

23 Financial instruments (continued)

Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's receivables from customers and investment securities.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the end of the reporting period was as follows.

	2016	2015
	\$'000	\$'000
Cash and cash equivalents	4,283	8,051
Trade and other receivables	12,785	13,837
Deposits / option fees – equipment and property leases	47	35
Other assets	1	-
	17,116	21,923

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Audit and Risk Committee has established a credit policy under which each new customer is analysed individually for creditworthiness before the group's standard payment terms and conditions are offered.

The group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The allowance represents a specific loss component that relates to individually significant exposures.

The group only operates in Australia and exposure to credit risk for trade and other receivables at the end of the reporting period is within Australia.

The group has one customer contributing more than 10% of total revenue. It accounts for \$29,954 thousand of the Group's revenues (2015: two customers contributing \$25,135 thousand).

Impairment losses

The aging of the trade and other receivables at the end of the reporting period that were not impaired was as follows.

	2016	2015
	\$'000	\$'000
Neither past due nor impaired	6,992	10,609
Past due – 1-30 days	234	119
Past due – 31-60 days	940	878
Past due – over 60 days	1,971	1,701
	10,137	13,307

The movement in the allowance for impairment in respect of trade and other receivables during the year is set out in Note 6.

The group believes that the unimpaired amounts that are past due by more than 30 days are still collectible in full, based on historic payment behaviour and extensive analysis of customer credit risk, including the underlying customers' credit ratings, when available.

Based on the group's monitoring of customer credit risk, the group believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

23 Financial instruments (continued)

Cash and cash equivalents

The group held cash and cash equivalents of \$4,283 thousand at 30 June 2016 (2015: \$8,051 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA-, based on rating agency Standard & Poor's ratings.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At 30 June 2016, the expected cash flows from trade and other payables maturing within twelve months were \$11,646 thousand (2015: \$10,394 thousand). This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The following are the remaining contractual maturities at the end of the reporting period of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount \$'000	Total \$'000	12 months or less \$'000	1-2 years \$'000	2-5 years \$'000
30 June 2016					
Finance leases	7,143	7,803	5,240	2,563	-
Trade and other payables	11,646	11,646	11,646	-	-
Shareholder loans, secured	9,291	11,868	-	11,858	-
Interest rate swap used for hedging	1,331	1,404	1,051	353	-
Syndicate loan	142,247	148,289	148,289	-	-
	171,658	181,000	166,226	14,774	-
30 June 2015					
Finance leases	12,424	14,066	6,861	5,024	2,181
Trade and other payables	10,394	10,394	10,394	-	-
Shareholder loans, secured	7,995	8,891	-	8,891	-
Interest rate swap used for hedging	1,657	1,808	865	943	-
Syndicate loan	144,685	148,000	148,000	-	-
	177,155	183,159	166,120	14,858	2,181

As disclosed in Note 12, the group has equipment finance facilities which contain debt covenants. The breaches discussed in Note 12 have been reflected in the liquidity tables.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

23 Financial instruments (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Interest rate risk

The Group hedges 100 percent of its interest rate risk exposure on \$102,000 thousand (2015: \$102,000 thousand) of the Syndicate facilities. This is achieved by using interest rate swaps as hedges of the variability in cash flows attributable to interest rate risk.

Profile

At the end of the reporting period the interest rate profile of the group's interest-bearing financial instruments as reported to the management of the group was as follows.

	2016	2015
	\$'000	\$'000
Fixed rate instruments		
Financial assets	578	569
Financial liabilities	(16,434)	(20,419)
	(15,856)	(19,850)
Effect of interest rate swaps	(102,000)	(102,000)
	(117,856)	(121,850)
Variable rate instruments		
Financial assets	3,705	7,482
Financial liabilities	(142,247)	(144,685)
	(138,542)	(137,203)
Effect of interest rate swaps	102,000	102,000
	(36,542)	(35,203)

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

23 Financial instruments (continued)

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the end of the reporting period would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the end of the reporting period would not have increased (decreased)/equity and profit or loss by a significant amount.

Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Fair value hierarchy – level 2

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
Interest rate swaps	<i>Market comparison technique:</i> The fair values are based on broker quotes. Similar contracts are traded in an active market and the quotes reflect the actual transactions in similar instruments.	Not Applicable	Not applicable

Financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Finance lease liabilities	Discounted cash flows	Not Applicable

The Group has not discounted the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The valuation of borrowings equals the carrying amount as there is a market rate of interest attached to the syndicate loan and there is no significant market risk associated with the loan that would impact its valuation.

Capital management

The board's policy capital management policy is set out in Note 14.

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

24 Auditor's remuneration

	2016 \$	2015 \$
Audit and review services		
Auditors of the Company - KPMG		
Audit of financial statements	91,000	123,424
	91,000	123,424
Other services		
Auditors of the Company - KPMG		
Tax compliance services	29,554	31,007
Tax advisory services	19,760	26,000
	49,314	57,007
	140,314	180,431

25 Contingent liabilities

The Directors are not aware of any contingent liabilities.

26 Events subsequent to reporting date

Subsequent to 30 June 2016 the following events have arisen:

- In September 2016, a Restructuring Support Agreement (RSA) was signed by the Group, its financiers and two industry counterparts. Completion of the RSA would see the Group acquired by Emeco Holdings Limited, and the Group's debt extinguished in full through the issue of debt and equity by Emeco to the Group's debt holders. The estimated completion date of the RSA is 29 December 2016. Concurrent with the signing of the RSA, the Standstill Agreement was extended until 28 February 2017 to allow for completion of the RSA.

Other than the matters discussed above, no matter or circumstance has arisen since the end of the financial year that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the state of affairs of the Group in future financial years.

27 Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998, the wholly-owned subsidiaries listed below are relieved from the *Corporations Act 2001* requirements for preparation, audit and lodgement of financial reports and directors' report. It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the *Corporations Act 2001*. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up. The deed took effect on 28 May 2015.

The subsidiaries subject to the deed are:

- Orionstone Pty Ltd ACN 138 555 325
- Ironstone Group Pty Ltd ACN 100 515 124
- Orion (WA) Pty Ltd ACN 056 001 033
- RPO Australia Pty Ltd ACN 161 356 127

ORIONSTONE HOLDINGS PTY LTD
Notes to the Financial Statements
For The Year Ended 30 June 2016

28 Parent entity disclosures

As at, and throughout, the financial year ended 30 June 2016, the parent entity of the Group was Orionstone Holdings Pty Ltd.

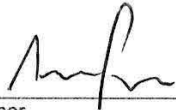
	2016	2015
	\$'000	\$'000
Result of the parent entity		
Loss for the year	-	-
Other comprehensive income	-	-
Total comprehensive income for the year	-	-
Financial position of parent entity at year end		
Current assets	-	-
Total assets	93,387	93,387
Current liabilities	-	-
Total liabilities	-	-
Total equity of the parent entity comprising of:		
Issued capital	93,387	93,387
Retained earnings	-	-
Total equity	93,387	93,387

ORIONSTONE HOLDINGS PTY LTD
Directors' Declaration
For The Year Ended 30 June 2016

- 1 In the opinion of the directors of Orionstone Holdings Pty Ltd ('the Company'):
 - (a) the consolidated financial statements and notes that are set out on pages 4 to 38 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors draw attention to Note 1(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Dated at Brisbane this 31st day of October 2016.



Ashley Fraser
Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Orionstone Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'M L Gray', written in a cursive style.

KPMG

A handwritten signature in black ink, appearing to read 'M L Gray', written in a cursive style, positioned below the printed name.

M L Gray
Partner

Brisbane
31 October 2016



Independent auditor's report to the members of Orionstone Holdings Pty Ltd

We have audited the accompanying financial report of Orionstone Holdings Pty Ltd (the company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 28 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(a).

Emphasis of Matter – Material Uncertainty related to Going concern

Without modifying our opinion, we draw attention to Note 1(a)(ii) in the financial report, which indicates that the Group had a net loss after income tax of \$90,558 thousand during the year ended 30 June 2016, and as at 30 June 2016 the Group had an excess of current liabilities over current assets of \$139,023 thousand, primarily due to borrowings of \$142,247 thousand being classified as current liabilities due to breaches in debt covenants which occurred during the year (see note 12). These conditions, along with other matters as set forth in Note 1(a)(ii), indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

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

KPMG

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

M L Gray
Partner

Brisbane
31 October 2016

Annexure F – Andy's Financial Statements

ANDY'S EARTHMOVERS (ASIA PACIFIC) PTY LTD

ABN: 39146240511

**Financial Statement For The Year Ended
30 June 2016**



Financial Statement For The Year Ended 30 June 2016

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Statement of Changes in Equity	6
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DIRECTORS' REPORT

The directors of Andy's Earthmovers (Asia Pacific) Pty Ltd (Andy's) submit herewith the annual financial report for the year ended 30 June 2016. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the directors in office at any time during, or since the end of, the year are:

Barry Cook appointed (10/11/2010)
Trevor Sauvarin appointed (10/11/2010)
Andrew Hoare appointed (8/09/2010)
Lisa Wills appointed (23/02/2015) Resigned (24/12/2015)
Trent Everest appointed (23/02/2015) Resigned (05/10/2015)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Review of Operations

The loss of the company for the financial year after providing for income tax amounted to \$13,458,315 (Prior Year: Profit: \$4,162,537).

A review of the operations of the company during the financial year and the results of those operations found that the prolonged downturn of market conditions since 2014 has continued to effect overall margins and the volume of new projects coming on. The impact of this has resulted in a continued reduction in rental revenue of 24%, transport revenue of 75% which was the result in part of the need to subsidise mobilisation costs associated with new projects and the volume reduction of new projects in general.

The company was effected by the unforeseen collapse of a customer in October 2015 which resulted in an unrecoverable bad debt of approximately \$5.9 million.

Sales increased by 76% driven by the need for additional cash flow to fund debt repayments. This resulted in low margins being obtained exacerbated by the surplus of equipment in the market.

The company has continued to adapt to the declining market by decreasing overheads.

Significant Changes in the State of Affairs

There were no significant changes in the companies State of Affairs during the 2016 Financial Year.

Principal Activities

The principal activities of the entity during the period were the sale and rental of earthmoving equipment.

Events Subsequent to the End of the Reporting Period

On the 23rd of September 2016 Emeco Holdings Limited announced a proposed merger with Andy's and Orionstone Pty Ltd. This merger is underpinned by a Restructuring Support Agreement of which Andy's two largest lenders (ANZ and Caterpillar Finance) are a party. This results in the conversion of their debt at the time of completion to 20% equity and 80% debt under the new merged structure. It is anticipated that this merger will complete by the end of March 2017 whereby Andy's will become a 100% subsidiary member of Emeco Holdings Limited.

This Transaction will provide the new merged group with a more sustainable capital structure with in reduced leverage, and better interest coverage and an extension on debt maturity to 2022.

On 31 August 2016 a fully franked dividend of \$0.23 per share was declared and paid, totalling \$4,600,000. On 15 September 2016 a fully franked dividend of \$0.27 per share was declared and paid, totalling \$5,400,000. The two dividends were used by the shareholder, AEM Holdings Pty Ltd to repay the related party loan account payable by them, and reinvested a portion back into the share capital of Andy's Earthmovers (Asia Pacific) Pty Ltd. An amount of \$0.37645 per share, totalling \$7,529,000 was reinvested on 16 September 2016.

Likely Developments and Expected Results of Operations

With the exception of the matter noted above in subsequent event, likely developments in the operations of the company and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

Environmental Regulation

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Dividends

No dividends were paid or declared during the 2016 Financial Year. In 2015 a dividend of \$3,000,000 was declared at \$0.15 per share and it was fully franked.

Options

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No shares were issued during or since the end of the year as a result of the exercise of an option over unissued shares or interests.

Indemnification of Officers

During or since the end of the financial year the company has not indemnified or made relevant agreement to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

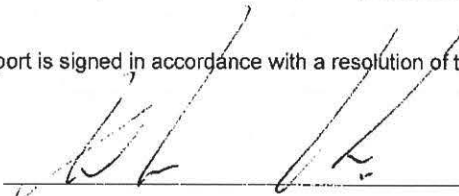
The company was not a party to any such proceedings during the year.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 3.

This directors' report is signed in accordance with a resolution of the Board of Directors:

Director



Andrew Hoare

Dated this 22nd day of December 2016

The Board of Directors
Andy's Earthmovers (Asia Pacific) Pty Ltd
Lot 1 Calder Hwy,
Big Hill Vic 3555, Australia

22 December 2016

Dear Board Members

Andy's Earthmovers (Asia Pacific) Pty Ltd

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Andy's Earthmovers (Asia Pacific) Pty Ltd.

As lead audit partner for the audit of the financial statements of Andy's Earthmovers (Asia Pacific) Pty Ltd for the financial year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants
Melbourne

**STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016**

		2016	2015
	Note	\$	\$
Sales revenue	4	63,951,243	77,469,969
Cost of sales	5	<u>(32,200,695)</u>	<u>(32,833,337)</u>
Gross profit		31,750,548	44,636,632
Other revenue	4	60,082	132,589
Other income	4	715,416	536,532
Employee benefits expense		(5,290,128)	(6,427,673)
Marketing expense		(64,345)	(83,345)
Occupancy expenses		(366,307)	(443,337)
Administration expense	5(b)	(17,954,825)	(10,209,217)
Impairment of property, plant and equipment		(5,523,704)	-
Finance costs	5(a)	(6,736,712)	(6,956,034)
Depreciation and amortisation		<u>(15,781,025)</u>	<u>(15,245,201)</u>
Loss before income tax		(19,191,000)	5,940,946
Tax (expense)/income	6	5,732,685	(1,778,409)
Loss for the year		<u>(13,458,315)</u>	<u>4,162,537</u>
Total comprehensive income/ (loss) for the year		<u>(13,458,315)</u>	<u>4,162,537</u>

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Note	2016 \$	2015 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	391,802	1,962,394
Trade and other receivables	10	15,772,921	20,186,880
Inventories	11	5,085,828	5,746,592
Freehold Land & Buildings held for sale	12	1,241,185	1,241,185
Other current assets	13	1,168,510	1,040,142
Current tax asset	17	109,650	865,152
TOTAL CURRENT ASSETS		<u>23,769,896</u>	<u>31,042,345</u>
NON-CURRENT ASSETS			
Trade and other receivables	10	93,356	177,003
Property, plant and equipment	14	92,981,493	116,458,530
Deferred tax assets	17	4,932,251	417,303
TOTAL NON-CURRENT ASSETS		<u>98,007,100</u>	<u>117,052,836</u>
TOTAL ASSETS		<u>121,776,996</u>	<u>148,095,181</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	5,597,323	5,809,267
Borrowings	16	85,165,114	95,406,330
Provisions	18	978,760	1,125,724
TOTAL CURRENT LIABILITIES		<u>91,741,197</u>	<u>102,341,321</u>
NON-CURRENT LIABILITIES			
Borrowings	16	4,932,884	5,929,311
Deferred tax liabilities	17	5,839,815	7,057,553
Provisions	18	101,423	147,004
TOTAL NON-CURRENT LIABILITIES		<u>10,874,122</u>	<u>13,133,868</u>
TOTAL LIABILITIES		<u>102,615,319</u>	<u>115,475,189</u>
NET ASSETS		<u>19,161,677</u>	<u>32,619,992</u>
EQUITY			
Issued capital	19	5,000,000	5,000,000
Retained earnings		14,161,677	27,619,992
TOTAL EQUITY		<u>19,161,677</u>	<u>32,619,992</u>

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Share Capital Ordinary \$	Retained Earnings \$	Total \$
Balance at 1 July 2014		5,000,000	26,457,455	31,457,455
Comprehensive income				
Profit for the year		-	4,162,537	4,162,537
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year attributable to members of the entity		-	4,162,537	4,162,537
Transactions with owners, in their capacity as owners, and other transfers				
Dividends declared	Note 8	-	(3,000,000)	(3,000,000)
Total transactions with owners and other transfers		-	(3,000,000)	(3,000,000)
Balance at 30 June 2015		5,000,000	27,619,992	32,619,992
Balance at 1 July 2015		5,000,000	27,619,992	32,619,992
Comprehensive income				
Loss for the year		-	(13,458,315)	(13,458,315)
Other comprehensive income for the year		-	-	-
Total comprehensive loss for the year attributable to members of the entity		-	(13,458,315)	(13,458,315)
Balance at 30 June 2016		5,000,000	14,161,677	19,161,677

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

	2016	2015
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	55,991,223	75,644,226
Payments to suppliers and employees	(43,728,810)	(52,330,888)
Interest received	60,082	132,589
Finance costs	(6,736,712)	(6,956,033)
Income tax refund/ (paid)	755,501	(690,393)
Net cash provided by operating activities	21(a) <u>6,341,284</u>	<u>15,799,501</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	7,617,005	6,207,703
Advances/ (repayment) from related parties	1,118,255	(626,584)
Purchase of property, plant and equipment	(5,409,492)	(10,721,150)
Net cash (used in)/ provided by investing activities	<u>3,325,768</u>	<u>(5,140,031)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	20,577,714	20,106,875
Repayment of borrowings	(31,815,358)	(30,425,309)
Dividends paid	-	-
Net cash (used in) financing activities	<u>(11,237,644)</u>	<u>(10,318,434)</u>
Net (decrease)/ increase in cash held	(1,570,591)	341,036
Cash at beginning of financial year	1,962,394	1,621,358
Cash at end of financial year	9 <u>391,803</u>	<u>1,962,394</u>

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Note 1 General Information and statement of compliance

The financial report includes the financial statements and notes of Andy's Earthmovers (Asia Pacific) Pty Ltd (Andy's).

The financial statements have been prepared in accordance with the Corporations Act 2001, the recognition and measurement requirements specified by all Australian Accounting Standards and Interpretations, and the disclosure requirements of Accounting Standards AASB 101 'Presentation of Financial Statements', AASB 107 'Statement of Cash Flows', AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors', AASB 1031 'Materiality', and AASB 1054 'Australian Additional Disclosures'.

The financial statements were authorised for issue on 12th of December by the directors of the company.

Note 2 Adoption of new and revised Accounting Standards

2.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Company has applied an amendment to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that is mandatorily effective for an accounting period that begins on or after 1 July 2015, and therefore relevant for the current year end.

AASB 2015-3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality' This amendment completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

The application of this amendment does not have any material impact on the disclosures or the amounts recognised in the Company's financial statements.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective Date of AASB 15', and AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1-Jan-18	30-Jun-19
AASB 16 'Leases'	1-Jan-19	30-Jun-20
AASB 1057 'Application of Australian Accounting Standards' and AASB 2015-9 'Amendments to Australian Accounting Standards – Scope and Application Paragraphs'	1-Jan-16	30-Jun-17
AASB 2014-4 'Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation'	1-Jan-16	30-Jun-17
AASB 2015-1 'Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle'	1-Jan-16	30-Jun-17
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1-Jan-16	30-Jun-17
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	1-Jan-17	30-Jun-18
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1-Jan-17	30-Jun-18

Note 3 Summary of Significant Accounting Policies

Basis of Preparation

The financial statements are special purpose financial statements that have been prepared in accordance with Australian Accounting Standards. The company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements, except for the cash flow information, have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Critical accounting judgements and key sources of estimation uncertainty

In the application of the entity's accounting policies, which are described below, the directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Long service leave

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at reporting date:

- future increases in salaries and wages;
- future on cost rates; and
- experience of employee departures and period of service.

Property, plant and equipment

Useful lives and residual value of property, plant and equipment are reviewed annually. Judgement is applied in determining the useful lives of property, plant and equipment. Any reassessment of useful lives and residual value in a particular year will affect depreciation and amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years.

Provision for doubtful debts

Management's judgement is applied in determining the provision for doubtful debts. If the estimated recoverable amount of the debtor is less than the amount of revenue recognised, the difference is recognised in the provision for doubtful debts, allowing for amounts and customers covered under the company's debtor insurance policy.

(a) Going Concern

The financial report has been prepared on the going concern basis, which assumes that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The company record a net loss after tax for the year ended 30 June 2016 of \$13,458,315 (2015, profit \$4,162,537) primarily due to a large customer that went into receivership, the provisioning of an additional bad debts relating to deferred income generated, and an impairment provision raised in relation to equipment that is currently idle.

The company has current liabilities in excess of its current assets of \$67,971,301 (prior year deficiency \$71,298,976). The current asset deficiency is due to the current classification of debt arising from the breach of banking facility covenants where a waiver letter was not obtained prior to 30 June 2016.

In response to the matters above the company has worked with its financiers to manage cashflows and has sought alternative capital structures that will assist the business moving forward. This included negotiations with Emeco Holdings Limited resulting in the Restructuring Support Agreement (RSA) to merge the entities which is anticipated to complete by the end of March 2017. This agreement will include the restructuring of debt facilities with major financiers that will lead to facilities being reclassified as non-current.

In addition to capital restructuring, the company also undertook an overhead reduction program through staff redundancies and asset rationalisation in order to maximise cashflows and reduce debt.

The ability of the company to remain a going concern is dependent on:

1. The completion of the RSA by March 2017, including the restructuring of the \$90 million debt facilities; and
2. On going support of key financiers until the RSA is completed; and
3. If the RSA is not completed, ongoing support of key financiers until additional alternative funds can be sourced either through equity or debt channels to repay current debt.

At the date of this report and having considered the above factors, the directors are confident that the company will be able to continue as a going concern. If the company is unable to achieve the above there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(b) Income Tax

The income tax expense/ (income) for the year comprises current income tax expense/ (income) and deferred tax expense/ (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income. Current tax liabilities/ (assets) are measured at the amounts expected to be paid to or recovered from the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/ (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside the profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(b) Income Tax (Cont'd)

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale. When an investment property that is depreciable is held by the company in a business model whose objective is to consume substantially all of the economic benefits embodied in the property through use over time (rather than through sale), the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of such property will be recovered entirely through use.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

(c) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost as indicated less, where applicable, any accumulated depreciation and impairment losses.

Property

Freehold land and buildings are carried at their cost base (being the amount paid by Andy's Earthmovers (Asia Pacific) Pty Ltd). Buildings are amortised over their useful lives less impairment.

Plant and equipment

Plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than its estimated recoverable amount, the carrying amount is written down immediately to its estimated recoverable amount and impairment losses recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The cost of fixed assets constructed within the company includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss in the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant and equipment	3% to 20%
Buildings	2.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised in profit or loss when the item is derecognised. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(d) Inventories

Inventories include new and used tyres, spare parts and accessories, oil and grease. Costs are assigned on the basis of weighted average costs.

(e) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset – but not the legal ownership – are transferred to entities in the company, are classified as finance leases.

Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are recognised as expenses in profit or loss immediately.

Classification and Subsequent Measurement

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the *effective interest method*.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

The company does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of Accounting Standards specifically applicable to financial instruments. Accordingly, such interests are accounted for on a cost basis.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying amount included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any remeasurements other than impairment losses and foreign exchange gains and losses recognised in other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(f) Financial Instruments(cont'd)

(iv) Available-for-sale investments (cont'd)

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) Financial Liabilities

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

Impairment

At the end of each reporting period, the company assesses whether there is objective evidence that a financial asset has been impaired. A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if no impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the company recognises the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial Guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as financial liabilities at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using the probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting during the next reporting period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(g) Impairment of Assets

At the end of each reporting period, the company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: *Property, Plant and Equipment*). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

(h) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in Australian dollars which is the entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is directly recognised in other comprehensive income, otherwise the exchange difference is recognised in profit or loss.

(i) Employee Benefits

Short-term employee benefits

Provision is made for the company's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

The Company's obligations for short-term employee benefits such as wages, salaries and leave are recognised as a part of current trade and other payables in the statement of financial position.

Other long-term employee benefits

Provision is made for employees' long service leave and annual leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Upon the remeasurement of obligations for other long-term employee benefits, the net change in the obligation is recognised in profit or loss as a part of employee benefits expense.

The company's obligations for long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the company does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

(l) Employee Benefits (Cont'd)

Retirement benefit obligations

Defined contribution superannuation benefits

All employees of the Company receive defined contribution superannuation entitlements, for which the Company pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Company's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Company's statement of financial position.

(j) Provisions

Provisions are recognised when the company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(k) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(l) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest method, which for floating rate financial assets is the rate inherent in the instrument.

Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

(m) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold and services performed in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Refer to Note 1(g) for further discussion on the determination of impairment losses.

(n) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts under standard company trading terms of within 30 days from end of month of recognition of the liability.

(o) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities, which are recoverable from or payable to the ATO, are presented as operating cash flows included in receipts from customers or payments to suppliers.

(q) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the company retrospectively applies an accounting policy, makes a retrospective restatement of items in the financial statements or reclassifies items in its financial statements, a third statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statement is presented.

Note 4 Revenue and Other Income

	2016 \$	2015 \$
Sales revenue:		
— Sale of Equipment	11,054,976	6,265,977
— Rental	49,752,217	65,240,091
— Transport	531,403	2,144,008
— Maintenance	2,612,647	3,819,893
Total sales revenue	<u>63,951,243</u>	<u>77,469,969</u>
Other revenue:		
— interest received- Other Persons	60,082	132,589
Total interest revenue on financial assets not at fair value through profit of loss	<u>60,082</u>	<u>132,589</u>
Total other revenue	<u>60,082</u>	<u>132,589</u>
Total sales revenue and other revenue	<u>64,011,325</u>	<u>77,602,558</u>
Other income:		
— other income	715,416	536,532
Total other income	<u>715,416</u>	<u>536,532</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Note 5 Profit before Income Tax

	2016 \$	2015 \$
(a) Expenses		
Cost of sales	<u>32,200,695</u>	<u>32,833,337</u>
Interest expense on financial liabilities not at fair value through profit or loss:		
— external entities	6,720,413	6,865,547
— other related parties	16,299	90,487
Total finance costs	<u>6,736,712</u>	<u>6,956,034</u>
Employee benefits expense:		
— contributions to defined contribution superannuation funds	<u>728,561</u>	<u>658,384</u>
(b) Other expenses:		
Foreign currency translation losses	3,249	41,858
Bad and doubtful debts:		
— trade receivables	<u>12,019,581</u>	<u>540,891</u>
Total bad and doubtful debts	<u>12,019,581</u>	<u>540,891</u>
Rental expense on operating leases:		
— minimum lease payments	<u>1,902,208</u>	<u>3,676,729</u>

Note 6 Income Tax Expense

	2016 \$	2015 \$
(a) The components of tax (expense)/income comprise:		
Current tax	-	186,807
Deferred tax	<u>(5,732,685)</u>	<u>1,591,600</u>
	<u>(5,732,685)</u>	<u>1,778,407</u>
(b) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2015: 30%)	(5,757,300)	1,782,283
Add:		
Tax effect of:		
— Borrowing costs (current year)	5,824	2,447
— Entertainment (non-deductible)	2,300	10,618
— Superannuation payable	23,528	11,978
— Unrealised foreign exchange loss (current year)	-	101
	<u>(5,725,648)</u>	<u>1,807,427</u>
Less:		
Tax effect of:		
— Borrowing cost (black hole deduction)	6,919	24,718
— Unrealised foreign exchange gain (current year)	17	-
— Unrealised foreign exchange loss (prior year)	101	4,302
Income tax attributable to company	<u>(5,732,685)</u>	<u>1,778,408</u>
The applicable weighted average effective tax rates are as follows:	30%	30%

Note 7 Key Management Personnel Compensation

The totals of remuneration paid to key management personnel (KMP) of the Company during the year are as follows:

	2016 \$	2015 \$
Key management personnel compensation	<u>1,233,830</u>	<u>1,431,541</u>

Note 8 Dividends

	2016 \$	2015 \$
Dividend Declared	<u>-</u>	<u>3,000,000</u>

(i) The dividend was provided via the related party account in the current financial year

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016**

Note 9 Cash and Cash Equivalents

	2016	2015
	\$	\$
CURRENT		
Cash on hand	3,500	3,500
Cash at bank	388,302	1,958,894
	<u>391,802</u>	<u>1,962,394</u>
Reconciliation of cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	(i) 391,802	1,962,394
	<u>391,802</u>	<u>1,962,394</u>

(i) A floating charge over cash and cash equivalents has been provided for certain debt.

Note 10 Trade and Other Receivables

	2016	2015
	\$	\$
CURRENT		
Trade receivables	16,406,775	18,819,143
Bad Debt Provision	(683,993)	(33,638)
	<u>15,722,782</u>	<u>18,785,505</u>
Other receivables	41,405	274,385
Loan receivables	8,734	1,126,990
Total current trade and other receivables	<u>15,772,921</u>	<u>20,186,880</u>
NON-CURRENT		
Trade receivables	5,293,048	-
Bad Debt Provision	(5,293,048)	-
Loan receivables	93,356	177,003
Total non-current trade and other receivables	<u>93,356</u>	<u>177,003</u>

(a) Financial assets classified as loans and receivables

	2016	2015
	\$	\$
Trade and other Receivables		
— Total Current	15,772,921	20,186,880
— Total Non-Current	93,356	177,003
	<u>15,866,277</u>	<u>20,363,883</u>
Total financial assets classified as loans and receivables	<u>15,866,277</u>	<u>20,363,883</u>

Note 11 Inventories

	2016	2015
	\$	\$
CURRENT		
At cost:		
Raw materials and stores	4,860,405	5,565,671
Work in progress	225,423	180,921
	<u>5,085,828</u>	<u>5,746,592</u>

Note 12 Assets classified as held for sale

	2016	2015
	\$	\$
Freehold Land & Buildings held for sale	<u>1,241,185</u>	<u>1,241,185</u>

(i) The company has sold to a related party subsequent to year end which is due to settle in December 2016.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Note 13 Other Assets

	2016 \$	2015 \$
CURRENT		
Prepayments	1,168,510	1,040,142
	<u>1,168,510</u>	<u>1,040,142</u>

Note 14 Property, Plant and Equipment

PLANT AND EQUIPMENT

Plant and equipment:

At cost	152,786,007	157,436,228
Accumulated depreciation	(54,280,810)	(40,977,698)
Impairment Loss	(5,523,704)	-
Total plant and equipment	<u>92,981,493</u>	<u>116,458,530</u>
Total property, plant and equipment	<u>92,981,493</u>	<u>116,458,530</u>

(a) Movements in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Land & Buildings \$	Plant and Equipment \$	Leased Plant and Equipment \$	Total \$
Balance at 1 July 2014	1,241,185	120,027,461	5,757,579	127,026,225
Additions	-	10,721,150	-	10,721,150
Disposals - written down value	-	(4,802,459)	-	(4,802,459)
Reclassification to Held for Sale	(1,241,185)	-	-	(1,241,185)
Impairment losses	-	-	-	-
Depreciation expense	-	(14,527,939)	(717,262)	(15,245,201)
Carrying amount as 30 June 2015	<u>-</u>	<u>111,418,213</u>	<u>5,040,317</u>	<u>116,458,530</u>
Additions	-	5,444,696	-	5,444,696
Disposals - written down value	-	(7,617,005)	-	(7,617,005)
Reclassification to Held for Sale	-	-	-	-
Impairment losses	-	(5,523,704)	-	(5,523,704)
Depreciation expense	-	(15,063,763)	(717,262)	(15,781,025)
Carrying amount at 30 June 2016	<u>-</u>	<u>88,658,438</u>	<u>4,323,055</u>	<u>92,981,493</u>

Note 15 Trade and Other Payables

	2016 \$	2015 \$
CURRENT		
Unsecured liabilities		
Trade payables	4,020,299	4,493,690
Sundry payables and accrued expenses	1,248,963	1,030,545
Amounts payable to:		
— Goods and services tax payable	328,061	285,032
	<u>5,597,323</u>	<u>5,809,267</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Note 16 Borrowings

	2016 \$	2015 \$
CURRENT		
Bank loan secured (c)	81,984,405	92,506,177
Lease liability secured	1,919,823	2,900,153
Debtor Financing (d)	1,260,886	-
Total current borrowings	<u>85,165,114</u>	<u>95,406,330</u>
NON-CURRENT		
Bank loan secured (c)	4,932,884	5,929,311
Lease liability secured	-	-
Total non-current borrowings	<u>4,932,884</u>	<u>5,929,311</u>
Total borrowings	<u>90,097,998</u>	<u>101,335,641</u>
(a) Total current and non-current secured liabilities:		
Bank loan (c)	86,917,289	98,435,488
Lease liability secured	1,919,823	2,900,153
Debtor Financing (d)	1,260,886	-
	<u>90,097,998</u>	<u>101,335,641</u>
(b) The carrying amounts of assets pledged as security are:		
Freehold land and buildings	1,241,185	1,241,185
Leased plant and equipment	4,323,055	5,040,317
Floating charge		
— trade receivables	15,722,782	18,785,505
	<u>21,287,022</u>	<u>25,067,007</u>
(c) The bank debt is secured by a first registered mortgage over financed equipment and a floating charge over the trade receivables. Covenants imposed by the lenders are as follows:		

	Financier 1 *	Financier 2 *	Financier 3 *
As @ 30 June 2016	Required	Required	Required
Leverage Ratio/Debt Ratio	N/A	<2.5	<3
Debt Service Cover	>1.25	>1.25	>1.1
Net Worth	No Breach	N/A	N/A
Capital Raise	N/A	N/A	20,000,000
Carry Amount of Loans effected	2,965,616	20,267,188	57,895,000
Unconditional waiver for breach received	No	No	No

* Indicates covenant in breach as at 30 June 2016. As covenants were in breach at 30 June 2016 this debt has been reclassified to current as at 30 June 2016. See note 3(a) for further discussions.

(d) Debtor Financing is secured by the underlying accounts receivable and a fixed and floating charge over the company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Note 17 Tax

	2016		2015	
	\$		\$	
CURRENT				
Current tax asset		109,650		865,152
Total		<u>109,650</u>		<u>865,152</u>
NON-CURRENT				
Deferred tax liabilities				
Property plant and equipment	5,433,574	1,623,979	-	-
Balance as at 30 June 2015	<u>5,433,574</u>	<u>1,623,979</u>	-	-
Property plant and equipment	7,057,553	(1,217,738)	-	-
Balance as at 30 June 2016	<u>7,057,553</u>	<u>(1,217,738)</u>	-	-
Deferred tax assets				
Provisions - employee benefits	252,381	31,275	-	-
Bad Debt	-	10,091	-	-
Other accrued expenses (tax adjustment)	101,490	7,111	-	-
Other provisions (tax adjustment)	31,053	(16,098)	-	-
Balance as at 30 June 2015	<u>384,924</u>	<u>32,379</u>	-	-
Provisions - employee benefits	283,656	(57,763)	-	-
Bad Debt	10,091	1,783,021	-	-
Other accrued expenses (tax adjustment)	108,601	(94,696)	-	-
Other provisions (tax adjustment)	14,955	(14,955)	-	-
Revenue Losses	-	2,899,341	-	-
Balance as at 30 June 2016	<u>417,303</u>	<u>4,514,948</u>	-	-

Note 18 Provisions

Analysis of Provisions

	2016	2015
	\$	\$
CURRENT		
Employee Benefits		
Opening balance at 1 July 2015	1,125,724	1,029,109
Movements in provisions raised/ (used) during the year	(146,964)	96,615
Balance at 30 June 2016	<u>978,760</u>	<u>1,125,724</u>
NON-CURRENT		
Employee Benefits		
Opening balance at 1 July 2015	147,004	139,368
Movements in provisions raised/ (used) during the year	(45,581)	7,636
Balance at 30 June 2016	<u>101,423</u>	<u>147,004</u>

Note 19 Issued Capital

	2016	2015
	\$	\$
Fully paid ordinary shares	5,000,000	5,000,000
	<u>5,000,000</u>	<u>5,000,000</u>
(a) Ordinary Shares		
At the beginning of the reporting period	20,000,000	20,000,000
At the end of the reporting period	<u>20,000,000</u>	<u>20,000,000</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Note 20 Capital Commitments

(b) Capital Expenditure Commitments	2016	2015
Capital expenditure commitments contracted for:	\$	\$
Plant and equipment purchases	<u>400,000</u>	<u>4,200,000</u>
	<u>400,000</u>	<u>4,200,000</u>

Note 21 Cash Flow Information

	2016	2015
	\$	\$
(a) Reconciliation of cash flow from operations		
with profit after income tax		
Profit after income tax	(13,458,315)	4,162,535
Non-cash flows in profit		
— depreciation	15,781,025	15,245,201
— bad and doubtful debts	12,019,581	1,730,708
— impairment of non-current investments		
— impairment of property, plant and equipment	5,523,704	-
— net (gain)/loss on disposal of property, plant and equipment	(35,201)	(1,405,244)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
— (increase) in trade and term debtors	(8,640,231)	(2,517,739)
— (increase) in other assets	(128,369)	(187,629)
— decrease in inventories	660,764	1,209,399
— (increase) in deferred tax receivable	(4,514,948)	(32,379)
— (decrease) in payables	(211,943)	(3,630,000)
— increase/(decrease) in income taxes payable	755,502	(503,583)
— increase/(decrease) in deferred taxes payable	(1,217,738)	1,623,979
— increase/(decrease) in provisions	(192,545)	104,251
Net cash provided by operating activities	<u>6,341,284</u>	<u>15,799,499</u>
(b) Non-cash financing and investing activities		

Note 22 Events After the Reporting Period

On the 23rd of September 2016 Emeco Holdings Limited announced a proposed merger with Andy's and Orionstone Pty Ltd. This merger is underpinned by a Restructuring Support Agreement of which Andy's two largest lenders (ANZ and Caterpillar Finance) are a party. This results in the conversion of their debt at the time of completion to 20% equity and 80% debt under the new merged structure. It is anticipated that this merger will complete by the end of March 2017 whereby Andy's will become a 100% subsidiary member of Emeco Holdings Limited.

This Transaction will provide the new merged group with a more sustainable capital structure with in reduced leverage, and better interest coverage and an extension on debt maturity to 2022.

On 31 August 2016 a fully franked dividend of \$0.23 per share was declared and paid, totalling \$4,600,000. On 15 September 2016 a fully franked dividend of \$0.27 per share was declared and paid, totalling \$5,400,000. The two dividends were used by the shareholder, AEM Holdings Pty Ltd to repay the related party loan account payable by them, and reinvested a portion back into the share capital of Andy's Earthmovers (Asia Pacific) Pty Ltd. An amount of \$0.37645 per share, totalling \$7,529,000 was reinvested on 16 September 2016.

Note 23 Remuneration of auditors

Audit or review of the financial statements	51,500	45,000
Other non-audit services	<u>1,890</u>	<u>3,295</u>
	<u>53,390</u>	<u>48,295</u>

Note 24 Company Details

The registered office of the company is:
Andy's Earthmovers (Asia Pacific) Pty Ltd
Lot 1, Calder Highway
BIG HILL VIC 3555

The principal place of business is:
Andy's Earthmovers (Asia Pacific) Pty Ltd
Lot 1, Calder Highway
BIG HILL VIC 3555

DIRECTORS DECLARATION FOR THE YEAR ENDED 30 JUNE 2016

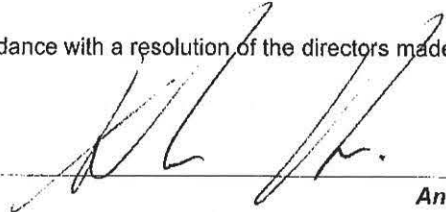
As detailed in Note 3 to the financial statements, the entity is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements under the Corporations Act 2001.

The directors declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

Director



Andrew Hoare

Dated this

day of

2016

Independent Auditor's Report to the Members of Andy's Earthmovers (Asia Pacific) Pty Ltd

We have audited the accompanying financial report, being a special purpose financial report, of Andy's Earthmovers (Asia Pacific) Pty Ltd which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 4 to 21.

Directors' Responsibility for the Financial Report

The directors of the Andy's Earthmovers (Asia Pacific) Pty Ltd are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 3 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the Members. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We have conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Andy's Earthmovers (Asia Pacific) Pty Ltd would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion, the financial report of Andy's Earthmovers (Asia Pacific) Pty Ltd is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards to the extent described in Note 3, and the *Corporations Regulations 2001*.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 3 in the financial report, which indicates that the Company had an excess of current liabilities over current assets of \$67,971,301 and incurred a loss after income tax of \$13,458,315. These conditions, along with other matters set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern and therefore, the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Basis of Accounting

Further, without modifying our opinion, we draw attention to Note 3 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants
Melbourne, 22 December 2016

Annexure G – Further worked examples

As discussed in this Explanatory Memorandum, the Transaction is structured such that certain financial metrics of each party will be measured upon the Calculation Date and affect the final number of New Shares issued to each party. This Annexure G illustrates the impact to the various parties involved in the Transaction based on changes to these financial metrics.

The financial metrics to be calculated at the Calculation Date which will impact the final number of New Shares issued to each party under the Transaction will include, for each of Emeco, Orionstone, and Andy's:

- (i) the excess cash contributed to the Combined Group;
- (ii) the fair market value of rental equipment contributed to the Combined Group;
- (iii) the total Principal Outstanding; and
- (iv) the balance of any finance leases outstanding.

The scenarios considered in this Annexure G are as follows:

Base Case: The base case represents the figures shown throughout this Explanatory Memorandum and represent a reasonable set of assumptions based on estimates of the factors which will ultimately be calculated at the Calculation Date.

Scenario A: For illustrative purposes, Scenario A assumes that Orionstone sells 1.5% of the fair market value of its rental equipment, and uses the proceeds during the ordinary course of business prior to the Calculation Date. In this scenario, the reduction of Orionstone's rental equipment fair market value will reduce Orionstone's proportion of the Initial Shareholder Equity Allocation Percentage, and thus increase the proportion of Initial Shareholder Equity Allocation Percentage to the Emeco Shareholders and Andy's Shareholders.

Scenario B: For illustrative purposes, Scenario B assumes that Orionstone sells 1.5% of the fair market value of its rental equipment, and uses the proceeds to repay Orionstone Principal Outstanding prior to the Calculation Date. In this scenario, the reduction of Orionstone's rental equipment fair market value will reduce Orionstone's proportion of the Initial Shareholder Equity Allocation Percentage, and thus increase the proportion of Initial Shareholder Equity Allocation Percentage to the Emeco Shareholders and Andy's Shareholders. In addition, a partial repayment of Orionstone's Principal Outstanding with proceeds from the hypothetical sale of equipment results in a lower amount of Tranche B debt issued to Orionstone's Supporting Creditors, and thus an increase to the Implied Transaction Equity Value. The higher Initial Emeco Shareholder Equity Allocation Percentage in combination with the greater Implied Transaction Equity Value increases the Implied Share Price and therefore reduces the total number of New Shares issued.

Scenario C: For illustrative purposes, Scenario C assumes that Orionstone generates and retains \$10 million of cash through the ordinary course of business prior to the Calculation Date, and contributes this cash to the Combined Group. In this scenario, Orionstone's excess cash increases its Shareholder Equity Allocation Percentage as well as Implied Transaction Equity Value.

The resulting allocation of Shares can be seen in the following table:

Illustrative Share Allocations								
<i>(Shares in millions)</i>								
	Base Case		Scenario A		Scenario B		Scenario C	
	# of Shares	% of Total	# of Shares	% of Total	# of Shares	% of Total	# of Shares	% of Total
Existing Emeco Shareholders	600	24%	600	24%	600	24%	600	23%
Participants in the Rights Offer	252	10%	252	10%	248	10%	252	10%
Emeco Noteholders	777	31%	776	31%	765	31%	777	29%
Orionstone Shareholders	179	7%	178	7%	179	7%	289	11%
Orionstone Secured Creditors	318	13%	318	13%	310	12%	318	12%
Andy's Shareholders	116	5%	116	5%	117	5%	116	4%
Andy's Secured Creditors	144	6%	144	6%	141	6%	144	5%
Black Diamond Placements - Initial	127	5%	126	5%	125	5%	132	5%
Black Diamond Placements - Top Up	17	1%	17	1%	17	1%	17	1%
Total	2,531	100%	2,527	100%	2,502	100%	2,645	100%
<i>Memo : Implied Share Price</i>	\$0.091		\$0.091		\$0.093		\$0.091	

Note: Shareholder allocations above are pre-dilution from the Management Incentive Plan and the Top-Up Placement

Annexure H – Investigating Accountant's Report

The Directors
Emeco Holdings limited
71 Walters Drive
Osborne Park WA 6017

31 January 2017

Dear Directors

REPORT ON HISTORICAL FINANCIAL INFORMATION

Introduction

This report has been prepared at the request of the Directors of Emeco Holdings Limited ("Emeco") for inclusion in the Explanatory Memorandum to be issued by Emeco as part of the Notice of Extraordinary General Meeting (EGM) to be held on 13 March 2017.

Deloitte Corporate Finance Pty Limited is wholly owned by Deloitte Touche Tohmatsu ("Deloitte") and holds the appropriate Australian Financial Services licence under the Corporations Act 2001.

Expressions and terms used in this report have the same meaning as defined in the Explanatory Memorandum.

Scope

Historical Financial Information and Pro forma Historical Financial Information

Deloitte Corporate Finance Pty Limited has been engaged by the Directors of Emeco to review the:

- a) Combined Group Unaudited Pro Forma Historical Statement of Profit or Loss for the year ended 30 June 2016; and
- b) Combined Group Unaudited Pro Forma Statement of Financial Position as at 30 June 2016 including the pro forma adjustments and the assumptions on which they are based

as contained in Section 5 of the Explanatory Memorandum together the "Emeco Pro Forma Historical Financial Information".

The financial information relating to Emeco has been extracted from the consolidated financial report of Emeco for the year ended 30 June 2016, which was audited by Deloitte Touche Tohmatsu in accordance with the Australian Auditing Standards. Deloitte Touche Tohmatsu issued an unmodified audit opinion dated 30 August 2016.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Member of Deloitte Touche Tohmatsu Limited



The financial information relating to Orionstone Holdings Pty Ltd ("Orionstone") has been extracted from the audited financial report of Orionstone for the year ended 30 June 2016. The auditor issued an unmodified audit opinion dated 31 October 2016, which included an emphasis of matter drawing attention to a material uncertainty related to the ability of Orionstone to continue as a going concern.

The financial information relating to Andy's Earthmovers (Asia Pacific) Pty Ltd ("Andy's") has been extracted from the audited financial report of Andy's for the year ended 30 June 2016. Deloitte Touche Tohmatsu issued an unmodified audit opinion dated 22 December 2016, which included an emphasis of matter drawing attention to a material uncertainty related to the ability of Andy's to continue as a going concern.

The Combined Group Unaudited Pro Forma Historical Statement of Financial Position as at 30 June 2016 and the Combined Group Unaudited Pro Forma Historical Statement of Profit or Loss for the year ended 30 June 2016 have been derived from the financial information of Emeco, Orionstone and Andy's as described above and the effects of the basis of preparation and the pro forma adjustments described in the Section 5 of the Explanatory Memorandum.

The Emeco Pro Forma Historical Financial Information is presented in an abbreviated form in the Explanatory Memorandum insofar as it does not include all of the presentation and disclosures required by Australian Accounting Standards and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the Corporations Act 2001.

The stated basis of preparation of the Combined Group Unaudited Pro forma Historical Statement of Financial Position and the Combined Group Unaudited Pro Forma Historical Statement of Profit or Loss is the recognition and measurement principles contained in Australian Accounting Standards applied to the historical financial information and the events or transactions to which the pro forma adjustments relate, as described in section 5 of the Explanatory Memorandum, as if those events or transactions had occurred as at 30 June 2016.

Due to its nature, the Emeco Pro Forma Historical Financial Information does not represent Emeco's or the Combined Group's actual or prospective financial position or performance.

Directors' Responsibility

The Directors of Emeco are responsible for the preparation and presentation of the Emeco Pro Forma Historical Financial Information including the selection and determination of pro forma adjustments made to the historical financial information and included in the Combined Group Unaudited Pro forma Historical Statement of Financial Position as at 30 June 2016 and the Combined Group Unaudited Pro Forma Historical Statement of Profit or Loss for the year ended 30 June 2016.

This includes responsibility for the operation of such internal controls as the Directors of Emeco determine are necessary to enable the preparation of the Emeco Pro Forma Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Emeco Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained. We have conducted our engagement in accordance with Australian Standard on Assurance Engagements (ASAE) 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information*.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing

Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly we will not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or review report on any financial information used as a source of the Historical Financial Information or the Pro forma Historical Financial Information.

We have performed the following procedures as we, in our professional judgement, considered reasonable in the circumstances:

- consideration of work papers, accounting records and other documents, including those dealing with the extraction of the Emeco Pro Forma Historical Financial Information from the sources disclosed in the Explanatory Memorandum for the relevant periods;
- consideration of the reasonableness and appropriateness of the pro forma transactions and/or adjustments described in Section 5 of the Explanatory Memorandum;
- enquiries of Emeco Directors, management, personnel and advisors; and
- the performance of analytical procedures applied to the Emeco Pro Forma Historical Financial Information.

Conclusion

Combined Group Unaudited Pro forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that:

- a) the Combined Group Unaudited Pro Forma Historical Statement of Profit or Loss for the year ended 30 June 2016; and
- b) the Combined Group Unaudited Pro Forma Statement of Financial Position as at 30 June 2016 including the pro forma adjustments and the assumptions on which they are based

are not presented fairly, in all material respects, in accordance with the stated basis of presentation, as described in Section 5 of the Explanatory Memorandum.

Subsequent events

Apart from the matters dealt with in this report, and having regard for the scope of our report, nothing has come to our attention that would cause us to believe that matters arising after 30 June 2016, other than matters dealt with in this report, would require comment on, or adjustments to, the Emeco Pro Forma Historical Financial Information contained in Section 5 of the Explanatory Memorandum, or would cause that information to be misleading or deceptive.

Disclosure of Interest

Deloitte Touche Tohmatsu and its subsidiary Deloitte Corporate Finance Pty Limited do not have any interest in the outcome of the Scheme of Arrangement other than the preparation of this report for which normal professional fees will be received. Deloitte Touche Tohmatsu is the auditor of Emeco and Andy's.

Restriction on use

Without modifying our conclusions, we draw attention to section 5 of the Explanatory Memorandum, which describes the purpose of the Emeco Pro Forma Historical Financial Information, being for inclusion in the Explanatory Memorandum. As a result, the Emeco Pro Forma Historical Financial Information may not be suitable for use for another purpose. We disclaim any assumption of responsibility for any reliance on this report, or on the Emeco Pro Forma Historical Financial Information to which it relates, for any purpose other than that for which it was prepared.

Consent

Deloitte Corporate Finance Pty Limited has consented to the inclusion of this limited assurance report in the Explanatory Memorandum in the form and context in which it is included.

Yours faithfully



Leanne Karamfiles

Authorised Representative

AR number 1009196

Deloitte Corporate Finance Pty Ltd

Annexure I – Black Diamond's Voting Power

Expected Evolution of Black Diamond's Voting Power					
	Shares (millions)	Scheme	Ownership (%) ⁽¹⁾		
			Initial Placement	Top Up Placement	Rights Offer
Estimated Shares to all Emeco Noteholders x Black Diamond Notes (as % of total)	777.4 33.1%	36.4% 33.1%	34.4% 33.1%	34.1% 33.1%	30.7% 33.1%
Shares issued to Black Diamond for Notes	257.2	12.0%	11.4%	11.3%	10.2%
Add: Shares from Initial Placement	126.5	-	5.6%	5.6%	5.0%
Add: Shares from Top-Up Placement	17.3	-	-	0.8%	0.7%
Add: Shares from Rights Offer Underwrite ⁽²⁾	125.9	-	-	-	5.0%
Total estimated Shares to Black Diamond	527.0	12.0%	17.0%	17.6%	20.8%
<i>Memo: Change in voting power (%)</i>		-	4.9%	0.6%	3.2%

Notes:

(1) Shareholdings are subject to change based on the terms of the RSA, as described herein. All figures represent pre-Management Incentive Plan shareholdings

(2) Assumes Black Diamond purchases all A\$10 million of their portion of the Rights Offer in addition to the 7% fee

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Locked Bag A14
Sydney South NSW 1235 Australia**BY FAX**
+61 2 9287 0309**BY HAND**
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138;**ALL ENQUIRIES TO**
Telephone: 1800 689 300 Overseas: +61 1800 689 300**LODGEMENT OF A PROXY FORM**

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given above by **11:30am (AEDT) on Saturday, 11 March 2017**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:

**ONLINE**
www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the reverse of this Proxy Form).

**BY MOBILE DEVICE**

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your shareholding.

To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.

QR Code**HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM****YOUR NAME AND ADDRESS**

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at www.linkmarketservices.com.au.

NAME SURNAME
 ADDRESS LINE 1
 ADDRESS LINE 2
 ADDRESS LINE 3
 ADDRESS LINE 4
 ADDRESS LINE 5
 ADDRESS LINE 6



X99999999999

PROXY FORM

I/We being a member(s) of Emeco Holdings Limited and entitled to attend and vote hereby appoint:

STEP 1

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **11:30am (AEDT) on Monday, 13 March 2017 at Baker McKenzie, Level 27, 50 Bridge Street, Sydney, NSW, 2000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

STEP 2

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

Resolutions

	For	Against	Abstain*		For	Against	Abstain*
1 Issue of Shares in connection with the merger with Orionstone and Andy's	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6 Approval of Management Incentive Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Issue of Shares pursuant to the Emeco Noteholders' Scheme	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	7 Approval of the issue of Shares under the Management Incentive Plan to the Managing Director and Chief Executive Officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Approval for Black Diamond to acquire a Relevant Interest in Shares pursuant to Black Diamond Placements and Underwriting Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	8 Approval for the Company to acquire a Relevant Interest in Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Approval of financial assistance in relation to the Orionstone Acquisition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9 Election of Peter Frank	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Approval of financial assistance in relation to the Andy's Acquisition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				



* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

EHL PRX1701N

