IMDEX NEWS
Issue 4 – August 2004

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A Message from the MD

Dear Valued Shareholder

Imdex has come through a difficult period in respect to Imdex Minerals, but in relation to other divisions of the Group, much has been accomplished.

Imdex is on a firmer footing and better able to meet its business objectives. However, we also suffered a significant setback within the Imdex Minerals division which detrimentally affected the results for the year to June 2004 (FY04).

Imdex is Australia's leading supplier of drilling products and services to the mining, water well and horizontal directional drilling industries and is expanding its presence in the oil and gas industry. Imdex also conducts minerals processing.

This is the fourth edition of Imdex News, a newsletter designed to help keep you up to date with what is happening at Imdex and the industries in which it operates. Your feedback on the newsletter content would be most welcome as would comments on any other aspect of the business performance.

Feel free to e-mail your comments to Bernie Ridgeway at: bridgeway@imdex.com.au

Financial Performance

The underlying financial performance of the company during the year ended June 2004 met the goals set for it by management and the Board at the beginning of the year.

At the 2003 Annual General Meeting (AGM), we forecast domestic sales for FY04 of $36 million generating an earnings before interest & tax (EBIT) margin of between 11% and 12%. I am pleased to confirm that domestic sales for FY04 actually exceeded that forecast by 11% and, at $40 million, represented an increase of 31% over total sales in the 2003 financial year.

The Australian Mud Company (AMC) was the standout performer for the Group generating FY04 sales of $21 million and EBIT of $3.4 million. Surtron Technologies (Surtron) demonstrated an improved performance as did the Ace Drilling division (Ace) generating EBIT of $554,000 and $716,000 respectively.

Unfortunately, this improved financial performance was marred by the discovery in March 2004, of shortfalls in stock and debtors at Imdex Minerals which led to a negative impact on Group profitability. The background to this and the rectification measures initiated by Directors have been canvassed fully in communications with shareholders so I will not repeat them here. More positively, I am happy to be able to advise you that Iggy Tan, the new General Manager at Imdex Minerals, is in the process of consolidating the existing business prior to expanding and developing it in traditional and new areas.

In addition, agreement was reached with Rashid Trading Establishment, at the end of June 2004, to re-structure the existing drilling fluids and chemicals joint venture in Saudi Arabia. As part of the re-structure, Directors have decided to write down the value of Imdex's investment.

The impact of these events on the operating performance is shown in the following table.

	YEAR ENDED 30 Jun '04 ($m)	30 Jun '03 ($m)	CHANGE %
Total Revenue	**39.83**	**30.91**	**+ 29%**
Earnings before interest, tax & depreciation (EBITDA) - pre adjustments	5.89	3.86	+ 52%
Depreciation and amortisation	(1.94)	(1.83)	
EBIT - pre adjustments	**3.95**	**2.03**	**+ 95%**
Adjustments			
Minerals prior year one-off write-down	(2.80)	-	
Minerals current year one-off write-down	(1.26)	-	
Saudi Joint Venture write-down	(3.11)	-	
Reported EBIT	**(3.22)**	**2.03**	**- 259%**

They translated a 95% increase in earnings before interest and tax of $3.95 million into an EBIT loss of $3.22 million.

Saudi Arabian Restructuring

The Board has taken steps to restructure the company's Joint Venture in Saudi Arabia so that it will be better able to take advantage of prospective business opportunities. After the proposed restructuring has been completed, all product and services business will be conducted through Imdex Arabia which will become a fully integrated drilling fluids service company based in Saudi Arabia. The extension of its business activities to also provide services should have a positive effect on margins.

The restructuring was decided upon because the financial performance of the Joint Venture with Rashid Trading Establishment (RTE) in Saudi Arabia had not met expectations. Details of the restructuring plan were contained in an ASX announcement dated 5 July 2004.

In summary, Imdex will reduce its equity in the Joint Venture to 20% from the current 49% interest. In return, Imdex will receive US$1.5 million and RTE will return 10 million shares in Imdex which will be cancelled. In addition, Imdex will write down the value of its investment by approximately $3 million at 30 June 2004. If shareholders agree at the AGM in October 2004, these changes will reduce the carrying value of the investment from $8.7 million to approximately $2 million.

Imdex will remain involved in the oil & gas industry in Saudi Arabia and the Gulf Co-operation Council countries, through its 20% interest in Imdex Arabia and should receive an appropriate return on the $2 million carrying value of the investment in future years. The oil & gas sector in Saudi Arabia is very active with exploration and development being conducted by Saudi Aramco, the oil & gas company of Saudi Arabia, underwritten by the buoyant oil price. In addition, the Government in Saudi Arabia has recently concluded agreements with oil majors such as Shell, Sinopec and others to conduct gas exploration and development as part of their Master Gas Initiative. These companies will also require products and services in due course.

The Outlook

Looking ahead, the Board remains committed to its four-point plan to build value for shareholders.

- *Continue operational earnings improvement within Australia.*
- *Progressively realise the potential of Imdex's 20% interest in Imdex Arabia (post re-structure).*
- *Achieve an overall improvement in Group financial performance to make Imdex a competitive investment in the Australian market.*
- *Translate the improved performance into dividend income for our shareholders.*

The foundation for achieving these goals is in place.

There were solid underlying trading results in the final quarter of FY04. The buoyant trading conditions during the quarter are carrying into FY05.

There are good grounds for believing that sales in the Australian based businesses can increase by 15% in the new financial year to $46 million. An EBIT margin of approximately 11% should be achievable. Imdex's 20% interest in Imdex Arabia should generate an appropriate return on the post-reconstruction carrying value of $2 million for the investment.

Achieving these results will go a considerable way to meeting the goals of the Board for building the value of your company.

Thank you for your continuing support.

B Ridgeway

Bernie Ridgeway
Managing Director

Note: The EBIT figures referred to in this newsletter are unaudited at the date of this report.

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June 2004 Business Report

Key Indicators

- *June quarter revenue of $10.422 million up 21% on the previous corresponding period.*
- *EBIT margins approximating 11% for the remainder of calendar 2004.*
- *Saudi Arabian Joint Venture restructured.*

Australian Mud Company provides drilling products and services to the mining, oil and gas, water well and horizontal directional drilling industries. It traded strongly in the June quarter generating EBIT exceeding $1 million. AMC has more than doubled sales in the last two years to $21 million in FY04 and generated a record EBIT margin of 16%. AMC's revenue accounted for 52% of total Imdex domestic Group sales in FY04.

The increase in revenue has largely flowed from offshore activities in Africa, South America, Asia, Eastern Europe, China and increased activity in the onshore oilfields in Australia and Papua New Guinea. AMC is a beneficiary of increased exploration spending in Australia as well as the increase in non-ferrous exploration spending worldwide.

Analysis by the Canadian-based Metals Economics Group of the exploration budgets of 917 companies worldwide showed spending of US$2.4 billion in 2003, an increase of 26% on 2002. This is well down on the peak of US$5.2 billion in 1997. However, the trend is up. Spending should increase further over the next few years as the demand for resources continues to rise, largely underwritten by the exceptional growth in China.

AMC has developed a very strong brand identity within the industry in Australia and in a number of overseas countries. Its strong technical back-up and service is augmented by the excellent AMC product range.

Surtron Technologies provides geophysical logging, down hole surveying and steering services. Geophysical logging services are provided to the major iron ore producers, including BHP, Hamersley Iron and Robe River.

Surtron's trading performance has continued to improve with a 37% increase in revenue in FY04 compared to FY03 and a commensurate increase in EBIT for the year.

Our clients are continuing to experience strong demand for their products from China. As a consequence, Surtron is seeing unprecedented levels of logging activity with a total of nine field service vehicles operating in the Pilbara from the beginning of August 2004.

Demand for Surtron's steering expertise and wireless equipment in the coal bed methane gas drainage market (CBM) is strong. Surtron continues to work on the Moranbah Gas Project (MGP) for Mitchell Drilling and CH4 in Queensland. CH4 reported at 30 June 2004, that "construction of the MGP remained on schedule to deliver gas to Enertrade in February 2005". The work that Mitchell Drilling and Surtron have been undertaking is critical to the project and CH4 reported that "drilling progress has been excellent in the June quarter, a credit to all involved". Surtron is also pursuing steering opportunities in New South Wales as well as having offshore prospects.

Surtron has invested in software development to facilitate a more efficient steering capability and to lessen reliance on costly third party technology. Surtron is arguably the market leader in the provision of steering services for the CBM industry in Australia. The CBM market should continue to expand with an increasing amount of gas from coal bed methane entering the market. Not all of these projects require the drilling of horizontal holes which necessitate steering services. However, the industry is likely to experience similar growth to that experienced in the USA where approximately 7% of the domestic gas requirements are supplied from CBM projects.

Surtron management is forecasting a significant increase in revenue and EBIT in the new financial year primarily due to the expansion into the CBM market on the east coast of Australia and the increase in profitability of the logging business in the Pilbara region of Western Australia.

Ace Drilling Supplies markets drilling consumables and down hole motors and cameras to the drilling industry in Australia and internationally. It is also experiencing strong demand for its products and services.

The Ace Drilling division (Ace) increased sales by 21% in FY04 generating a 118% lift in EBIT for the year. The improved financial performance has been driven by the general uplift in activity in the resources sector together with a strong customer focus by management which has helped to augment sales.

"The improved financial performance has been driven by the general uplift in activity in the resources sector together with a strong customer focus by management which has helped to augment sales".

Directors expect further increases in revenue and profitability in FY05 through the introduction of new products and the continuation of a strong resources sector.

Imdex Minerals operates a multi-purpose industrial minerals processing facility in Western Australia. Toll milling for mineral sands producers in Australia is a major part of its activities. The mining, processing and sale of micaceous iron oxide (MIO) and custom packaging also represent growth areas for the division.

New management at Imdex Minerals has placed a high priority on strengthening relationships with existing customers as well as examining opportunities to expand the business. Minerals processing, finishing and packaging is the focus of these new business prospects.

Zircon sand is the main material which is milled at the Jandakot facility. Other materials such as silica flour, leucoxene and spodumene are also processed through the ceramic lined ball mills. An additional growth area is the screening, milling and packaging of activated carbon.

Worldwide demand for activated carbon, produced by the mineral sands companies as a by-product, is growing. It is used as a de-contaminant in remediating contaminated air, liquid and water. Given this increasing demand, the feasibility of an alternative activated carbon milling operation is being investigated. Trials are being conducted in the current quarter to assess the potential to increase production to cater for expanding market opportunities.

MIO is mined, processed and sold as "Imdox", a corrosion inhibitor in industrial paints. The Imdex Minerals MIO is high quality. A significant mining campaign, expected to yield approximately 6,000t of material, is likely to occur in September 2004. On current demand levels, this would be enough material to supply customers for the next three years. Imdex Minerals is working with its agent and customers to increase the profitability of sales.

Through these initiatives, the Imdex Minerals division should return to profitability in the first quarter of FY05.

Rashid Trading Establishment/Imdex Saudi Arabian Joint Venture

Imdex currently has a 49% interest in a Joint Venture with Rashid Trading Establishment (RTE) to provide drilling products and services to the oil and gas industry in the Kingdom of Saudi Arabia and the Gulf Co-operation Council countries. Saudi Arabia controls 25% of the world's proven oil reserves and is the world's fourth largest producer of gas.

Joint Venture sales totalled US$5.77 million for the June 2004 quarter which was 39% up on the US$4.15 million sales achieved in the March 2004 quarter. Sales for FY04 were US$17.7 million representing a 28% increase over FY03 sales. Unfortunately, gross margins continued to be unsatisfactory, primarily due to delays experienced in the installation of additional plant and equipment at RTE's manufacturing facility in the United Arab Emirates. However, installation is proceeding. Imdex Board members viewed the progress of the construction in late June 2004. Once this expansion is completed, gross margins should improve.

Due to the financial performance of the Joint Venture not meeting expectations, the Board has taken steps to restructure the Joint Venture as outlined earlier in this newsletter.

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