7 October 2004

The Manager
Company Announcements Office
Australian Stock Exchange Limited
Exchange Centre
20 Bridge Street
SYDNEY NSW 2001

MEETING DOCUMENTS FOR THE 2004 ANNUAL GENERAL MEETING AND THE PROPOSED RESTRUCTURE OF THE INVESTMENT IN SAUDI ARABIA AND THE ASSOCIATED SELECTIVE CAPITAL REDUCTION

Dear Sirs,

I attach the meeting documents for the Company's 2004 Annual General Meeting of Shareholders (AGM). The AGM will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, on **8 November 2004, commencing at 11am** eastern standard time.

In addition to the usual business of the AGM, at this meeting Shareholders will be asked to consider the proposed restructure of the Company's investment in the Rashid Trading Establishment/Imdex Limited Joint Venture and the associated cancellation of 10,000,000 shares in the Company (the Proposal).

The meeting documents contain the Notice of AGM, an Explanatory Memorandum explaining the restructure and the report on the restructure by the Independent Expert, KPMG Corporate Finance (Aust) Pty Ltd. The Independent Expert has concluded that the Proposal is fair and reasonable to the non-associated shareholders of the Company.

The meeting documents despatched to shareholders will also include the Company's 2004 Annual Report which was released to ASX on 30 September 2004 (unless shareholders have elected not to receive the Annual Report).

Yours faithfully
Imdex Limited

Stephen J Lyons
Company Secretary

Imdex Limited ACN 008 947 813 ABN 78 008 947 813
Level 3, 18 Richardson Street West Perth Western Australia 6005 PO Box 1325, West Perth Western Australia 6872
Phone +61 8 9481 5777 Fax +61 8 9481 6527 E-mail imdex@imdex.com.au
Incorporating: Ace Drilling Products, Australian Mud Company Ltd, Imdex Minerals & Surtron Technologies Pty Ltd

Quality Endorsed Company

ABN 78 008 947 813

Meeting Documents

Chairman's Letter

Notice of Annual General Meeting

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Financial Services Guide and Independent Expert's Report

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Dear Shareholder

2004 Annual General Meeting, Proposed Restructure of the Investment in Saudi Arabia and the Selective Capital Reduction

Further to the Company's Australian Stock Exchange (ASX) announcements of 5 July 2004 and 6 October 2004, I am pleased to enclose for your consideration the 2004 Notice of Annual General Meeting (AGM).

The Imdex Limited (the Company) 2004 Annual Report is also enclosed. The Annual Report sets out in detail the results of the Company and a review of its operations for the year ended 30 June 2004. Whilst the underlying earnings of the Group have been strong, one off adjustments relating to Imdex Minerals and the restructure of the Company's investment in the Saudi Arabian Joint Venture have resulted in a net loss of $3.7 million for the year. However, I would particularly like to recognise the outstanding efforts of our employees and the consultants to the Group for their hard work during the year. It is through their efforts that we are now well positioned to take advantage of the buoyant trading conditions being experienced by the Group.

In addition to dealing with the usual business of the AGM, at this meeting Shareholders will be asked to consider the Proposed Restructure and the Selective Capital Reduction (together known as the "Proposal").

Subject to the approval of the Company's Shareholders, the Proposal, as outlined in more detail in the Meeting Documents, involves:

1. Rashid Trading Establishment (RTE) increasing its interest in the Joint Venture from 51% to 80% and accordingly the Company reducing its interest in the Joint Venture from 49% to 20%.
2. The Company cancelling 10,000,000 Shares held by Mr H H Al-Merry, the President of RTE and a Director of the Company. Accordingly, the issued capital of the Company will be reduced to 110,055,368.
3. RTE paying to the Company a total of USD$2.25 million: USD$1.75 million due on the date that Shareholders approve the Proposal and USD$500,000 due on, or before, 31 March 2005.
4. The Company subscribing for additional shares in and providing working capital loans to Imdex Arabia totalling USD$750,000.
5. RTE providing AUD $8 million of assets to Imdex Arabia for which RTE will receive additional shares and the balance of which will be treated as a working capital loan from RTE to Imdex Arabia.

Following completion of the Proposal, the value of the capital of Imdex Arabia will be SR 5 million. The Company will hold 20% of the issued capital of Imdex Arabia and RTE will hold the remaining 80%.

Currently, the business the subject of the Joint Venture can only deal in drilling fluids and chemical products. It is intended that Imdex Arabia will become a fully integrated drilling fluids service company (dealing in both products and services) on the basis that, inter alia, the majority of the business the subject of the Joint Venture is to be transferred to Imdex Arabia or, to the extent it is not able to be transferred, it will be maintained and operated for the benefit of Imdex Arabia.

Shareholders should be aware that the independent expert, KPMG Corporate Finance, has determined that the Proposal is fair and reasonable to Shareholders.

Given the above, and the other matters outlined in the enclosed Meeting Documents, your Directors (with the exception of Mr H H Al-Merry, who is unable to vote on the transaction at the AGM) are unanimous in their recommendation that, you vote in favour of the Proposal.

Your vote is important regardless of how many Shares you own. If you do not intend to be present at the AGM you may vote by proxy. A proxy form accompanies the Notice of AGM and should be completed and returned in accordance with the directions set out in the form, by no later than 11.00am EST 6 November 2004.

A Special Meeting will also be held in relation to the Proposal at which Mr H H Al-Merry, being the only person entitled to vote at that meeting on the basis that only his Shares are to be cancelled, will be asked to vote on the cancellation of his 10,000,000 Shares. Shareholders other than Mr H H Al-Merry will vote on an equivalent resolution at the AGM and therefore do not need to vote at, or submit a proxy for, the Special Meeting.

If you have any questions in relation to the Proposal, please feel free to ring me or the Managing Director, Mr Bernie Ridgeway, on (08) 9481 5777.

Yours sincerely,
Imdex Limited

Mr Ian Burston
Chairman

ABN 78 008 947 813

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the Annual General Meeting of Shareholders of Imdex Limited will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, Victoria, on 8 November 2004, commencing at 11.00 am EST.

Agenda

Special Business

1 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

That, subject to Resolution 2 of this Notice of Meeting being passed, for the purposes of ASX Listing Rule 10.1, section 208 of the Corporations Act and for all other purposes, the Proposal as set out in the Explanatory Memorandum accompanying this Notice of Meeting pursuant to which, inter alia, the Company will decrease its interest in the Joint Venture to 20% and the Company shall subscribe for additional shares in Imdex Arabia such that it holds 20% of the issued capital of Imdex Arabia, is approved and the Board is authorised to implement the Proposal.

Voting Exclusion Statement

The Company will disregard any votes cast in favour of Resolution 1 by RTE, Mr H H Al-Merry or any of their Associates (as defined under the Corporations Act) unless the vote is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on a proxy form to vote as the proxy decides.

2 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That, subject to Resolution 1 of this Notice of Meeting and Resolution 1 of the Notice of Special Meeting being passed, for the purposes of section 256C(2)(a) of the Corporations Act and for all other purposes, the share capital of the Company be reduced by cancelling 10,000,000 Shares held by Mr H H Al-Merry for a consideration equal to the ASX Buy Price per Share (as defined in the Explanatory Memorandum accompanying this Notice of Meeting).

Voting Exclusion Statement

In *accordance with section 256C(2)(a) of the Corporations Act, the Company will disregard any votes cast in favour of Resolution 2 by:*

- *any person who will receive consideration as part of the proposed selective capital reduction (being Mr H H Al-Merry); and*
- *any of their Associates (as defined under the Corporations Act).*

unless the vote is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on a proxy form to vote as the proxy decides.

Ordinary Business

3 To receive and consider the Annual Financial Report, together with the Directors' and Auditor's reports for the year ending 30 June 2004.

4 To consider and, if thought fit, pass the following Resolution as an Ordinary Resolution:

That, for all purposes, Mr Kevin Dundo, who was appointed to the Board on 14 January 2004 to fill a casual vacancy, and being eligible, offers himself for re-election, is re-elected as a Director.

5 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

That, for all purposes, Mr Ross Kelly, who was appointed to the Board on 14 January 2004 to fill a casual vacancy, and being eligible, offers himself for re-election, is re-elected as a Director.

6 To consider and, if thought fit, pass the following resolution as an Ordinary Resolution:

That, for all purposes, Mr H H Al-Merry, who retires from the office of Director by rotation, and being eligible, offers himself for re-election, is re-elected as a Director.

7 To consider any other business that may be brought before the Meeting in accordance with the Company's Constitution.

Explanatory Memorandum

Shareholders are referred to the Explanatory Memorandum and the Independent Expert's Report accompanying and forming part of this Notice of Annual General Meeting.

Snap Shot Time

Regulation 7.11.37 of the Corporations Regulations 2001 permits the Company to specify a time, not more than 48 hours before the meeting, at which a "snap shot" of Shareholders will be taken for the purposes of determining Shareholder entitlements to vote at the Meeting.

The Company's Directors have determined that all Shares of the Company that are quoted on ASX at **6am EST on 8 November 2004** shall, for the purposes of determining voting entitlements at the Annual General Meeting, be taken to be held by the persons registered as holding the Shares at that time.

Proxies

Please note that:

(a) a member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy;
(b) a Proxy need not be a member of the Company; and
(c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each Proxy is appointed to exercise, but where the proportion or number is not specified, each Proxy may exercise half of the votes.

The enclosed and looseleaf Proxy Form for the Annual General Meeting provides further details on appointing Proxies and lodging the Proxy Form. Proxies must be returned by 11.00am EST on 6 November 2004.

Corporate Representative

If a representative of a Shareholder corporation is to attend the meeting the attached "Appointment of Corporate Representative" form should be completed and produced prior to admission.

Dated 6 October 2004

By Order of the Board of Directors

Stephen J Lyons
Company Secretary
Imdex Limited

Explanatory Memorandum

1. **Purpose of this Document**

This Explanatory Memorandum has been prepared to assist Shareholders with their consideration of Resolutions 1 and 2 and 4 to 6 in the accompanying Notice of Annual General Meeting.

In particular, the Explanatory Memorandum explains the Proposal for the purposes of Resolutions 1 and 2, identifies reasons for proposing it to Shareholders, sets out the Directors' recommendation to Shareholders and outlines the key reasons for and impacts of the Proposal for the purposes of ASX Listing Rule 10.10 and sections 219 and 256C(4) of the Corporations Act.

The Explanatory Memorandum, together with the accompanying Independent Expert's Report, contains all information known to the Company and its Directors material to making a decision on how to vote on the Resolutions to be proposed at the AGM. The Directors recommend that Shareholders read this Explanatory Memorandum before deciding whether to support the Resolutions or otherwise.

The Explanatory Memorandum is dated 6 October 2004.

2. **Background to the Proposal**

2.1 Background

In February 2001, the Company announced the signing of a Heads of Agreement with Rashid Trading Establishment (RTE) to form a joint venture for the supply of drilling fluids and chemicals to the oil and gas industry in Saudi Arabia and the Middle East. RTE and the Company also agreed to the formation of Imdex Arabia Limited (Imdex Arabia). The parties executed a formal Shareholders' Agreement in June 2001 (Original Shareholders' Agreement). RTE is a Saudi Arabian based establishment with extensive experience in the oil and gas industry in the Middle East. RTE's President is Mr H H Al-Merry who, pursuant to the arrangements between the parties became a Director of the Company on 12 April 2002. Mr H H Al-Merry is also the controller/major shareholder of RTE.

Imdex Arabia did not receive its services licence until July 2002. At that time, as previously agreed by Shareholders, and pursuant to the Original Shareholders' Agreement, Mr H H Al-Merry (as the nominee of RTE) was issued 10,000,000 Shares in the Company.

2.2 Joint Venture

Despite the issue of the services licence in July 2002, Imdex Arabia has effectively not yet traded.

Instead, the supply of drilling fluids and chemicals is currently conducted through a profit sharing arrangement (Joint Venture) whereby the Company currently receives 49%, and RTE receives 51%, of the net profits of the business.

2.3 Joint Venture Performance

The business the subject of the Joint Venture has been successful in obtaining approved supplier status for a range of drilling fluids and chemicals with a number of customers in Saudi Arabia, including Saudi Aramco, one of the largest oil and gas companies in the world.

For the year ended 30 June 2004, the business the subject of the Joint Venture recorded sales of USD$17.6 million. However, as the Joint Venture business has had to break into the market and obtain approved supplier status margins have been low and the Joint Venture business posted a loss of approximately USD$425,000 for the year ended 30 June 2004.

2.4 Prospects/Outlook

The oil and gas business in Saudi Arabia is the largest in the world and is expanding further, particularly, in relation to gas. A number of major oil and gas companies have concluded agreements with the Government in Saudi Arabia which should increase the requirement for drilling fluids, chemicals and related services.

As a result of the re-structure (by implementation of the Proposal) it is intended to commence the services business in Imdex Arabia and it is intended that Imdex Arabia become a fully integrated drilling fluids service company (dealing in both products and services).

Through the continued supply of drilling fluids and chemicals and the commencement of the services business, revenue should increase compared to the USD$17.6 million revenue achieved in FY04. As revenue increases and further improvements are made to gross margins, profits should be generated by Imdex Arabia in FY05, thereby achieving a satisfactory return on the re-structured investment in Imdex Arabia.

2.5 Investment in Saudi Arabian operations

Following completion of the Proposal, the carrying value of the Company's investment in the Saudi Arabian operations will be approximately AUD$2.1 million which will include the Company's additional investment and working capital loan, totalling USD$750,000 that will be provided to Imdex Arabia as part of the Proposal. This compares to the aggregate carrying value of the Company's investment in the Saudi Arabian operations of AUD$5.5 million as at 30 June 2004.

2.6 Saudi Arabian Restructuring

In its quarterly newsletter on 3 May 2004, the Company announced that it had been in negotiations with RTE aimed at providing a better way forward for the Company to maximise its investment in Saudi Arabia. This was driven by:

- A desire to simplify the way in which the drilling muds and chemicals business operates and make it more effective.
- A desire to realise, in part, the value of some of the Company's investment in Saudi Arabia.
- A recognition that the Joint Venture's performance to date has not fulfilled the Company's original expectations.
- The current uncertainty regarding the terrorist environment in Saudi Arabia.

In late June 2004, the Board met with RTE and, as announced to ASX on 5 July 2004, agreement in-principle was reached on the Proposal as outlined in this Explanatory Memorandum, subject to the approval of Shareholders.

3. Resolutions 1 and 2 – "The Proposal"

As announced to ASX on 6 October 2004, a definitive shareholders' agreement was entered into between the Company and RTE on 5 October 2004 in relation to the restructuring of their respective interests in Imdex Arabia and the Joint Venture (New Shareholders Agreement). The New Shareholders' Agreement sets out the terms of the Proposal. Following implementation of the Proposal, the New Shareholders' Agreement will also govern the activities of Imdex Arabia and the Joint Venture. Section 9 of this Explanatory Memorandum sets out the key terms of the New Shareholders' Agreement.

The Proposal is subject to the approval of Shareholders, the details of which approvals are set out in section 8 of this Explanatory Memorandum.

The key terms of the Proposal are as follows:

(a) The Company will transfer 29/49ths of its interest in the Joint Venture to RTE for market value consideration which the parties have agreed shall be equal to the Joint Venture Sale Price. Accordingly, the Company will reduce its interest in the Joint Venture from 49% to 20% and RTE will increase its interest from 51% to 80%, which will be effective from the Effective Date.

(b) The Company will cancel 10,000,000 Shares held by Mr H H Al-Merry, the President of RTE and a Director for consideration equal to the ASX Buy Price per Share. Accordingly, the issued capital of the Company will be reduced to 110,055,368.

(c) The parties have agreed that RTE shall satisfy the amount owing to the Company under paragraph (a) by way of issuing a promissory note (Note) in favour of the Company and, further, that the Company will satisfy the amount owing by the Company to Mr H H Al-Merry under paragraph (b) by way of assigning the Note in favour of Mr H H Al-Merry.

(d) RTE will pay to the Company, or on behalf of the Company, a total of USD$2.25 million, being the partial satisfaction of amounts owing by RTE to the Company which will be payable as to:

- USD$1,750,000 (being the repayment to the Company of certain working capital loans made to RTE but which the Directors believe may not otherwise have become payable other than for the Proposal), payable as follows:
  - USD$1,000,000 on the Effective Date;
  - USD$750,000 directly to Imdex Arabia, on behalf of the Company, to subscribe for additional shares in and to provide working capital loans to Imdex Arabia. This sum will be paid to Imdex Arabia on the Effective Date, with SR 20,000 being invested for the subscription of additional shares in Imdex Arabia on the Effective Date and the balance being provided as a working capital loan to be repaid to the Company should RTE not transfer the balance of the agreed assets by 31 December 2005 as set out in the New Shareholders' Agreement (see paragraph (e) below); and
- USD$500,000 due on, or before, 31 March 2005 (being the payment by RTE of management fees owing to the Company for certain management services provided by the Company to RTE). The payment of this sum will be guaranteed by a financial institution acceptable to the Company and the guarantee is to be provided prior to the Effective Date.

(e) RTE will also subscribe for additional shares in Imdex Arabia by the contribution to Imdex Arabia of a cash amount totalling approximately AUD$1.15 million on the Effective Date. In addition, RTE will contribute to Imdex Arabia cash and assets having a total value of approximately AUD$6.85 million as a working capital loan. Such assets shall, to the extent legally possible, include the supply of drilling fluids and chemicals business of RTE (which is currently the subject of the Joint Venture). The transfer of some of these assets will be subject to Imdex Arabia obtaining necessary approvals as a supplier of certain products, however, it has been agreed that any assets that cannot be transferred to Imdex Arabia will continue to be maintained and operated (from the Effective Date) for the benefit of Imdex Arabia and be the subject of the Joint Venture. Cash and assets totalling approximately AUD$6.85 must be contributed, or made available, by RTE to Imdex Arabia by no later than 31 December 2005.

(f) Once the Proposal is completed, the value of the capital of Imdex Arabia will be SR 5 million . The Company shall hold 20% of the issued share capital of Imdex Arabia and RTE will hold the remaining 80% of the issued capital of Imdex Arabia from the Effective Date.

The cancellation of the 10,000,000 Shares referred to in paragraph (b) above is conditional upon the Proposed Restructure being implemented, including the sale of the Company's 29/49ths interest in the Joint Venture to RTE referred to in paragraph (a) above. Accordingly, the cancellation of 10,000,000 Shares will not be effected unless Shareholders approve both Resolutions 1 and 2 of the Notice of Annual General Meeting and Resolution 1 of the Notice of Special Meeting is passed.

4. Reasons for the Proposal

The key reasons in favour of the Proposal are:

- **In the opinion of the independent expert, KPMG Corporate Finance, the Proposal is fair and reasonable to all Shareholders**

  Your Directors appointed an independent expert, KPMG Corporate Finance, to determine whether the Proposal is fair and reasonable to all Shareholders other than Mr H H Al-Merry. KPMG Corporate Finance has confirmed that the Proposal is fair and reasonable to all Shareholders other than Mr H H Al-Merry. A copy of KPMG Corporate Finance's report is included within these Meeting Documents and a brief summary of KPMG's opinion is set out in section 5 below. This is an important document and your Directors encourage you to read it carefully.

- **Simplified structure going forward**

  To date, the current structure of the joint venture business in Saudi Arabia has not worked to the advantage of the Company.

  On implementation of the Proposal, the drilling fluids and chemicals business that is currently the subject of the Joint Venture and the services business (yet to commence) will both be conducted within Imdex Arabia.

  This will provide a simplified management and operational structure going forward and, together with the reduction in the Company's equity interest to 20% in the combined Saudi Arabian operations, means that the financial risk in relation to the investment will be reduced significantly.

Importantly, the Company does not currently, nor is it required under the Proposal, to guarantee any of the liabilities of the business the subject of the Joint Venture or the Imdex Arabia business.

- **The Proposal makes available USD$1.5 million net in cash**

As part of the Proposal, the Company will, after satisfying all obligations under the Proposal, have available the following cash amounts:

(a) USD$1,000,000 on the Effective Date; and

(b) USD$500,000 on, or before, 31 March 2005.

It is envisaged that the cash will be used to pay down some of the existing longer term borrowings of the Company and/or be used for working capital purposes in the growth of the wholly owned Australian based businesses. This should have the effect of improving liquidity, increasing net profit after tax (through lower interest charges) and should improve Shareholder earnings per share, when taken together with the reduction in the share capital of the Company pursuant to the Selective Capital Reduction that is also part of this Proposal.

This will also create additional financial capacity from which the Company can explore other investment opportunities.

- **The Company remains exposed to the oil and gas business in the Kingdom of Saudi Arabia**

The oil and gas industry in the Kingdom of Saudi Arabia is one of the largest in the world. It is buoyant and is likely to remain so for the foreseeable future.

The Government of Saudi Arabia is also taking positive steps to combat terrorist activity and to ensure that foreign investment in the oil and gas industry continues to rise.

RTE and the business the subject of the Joint Venture are approved suppliers to Saudi Aramco, the national oil and gas company, which is the largest oil and gas producer in the Kingdom.

Through the Proposal, although the Company's interest is reduced from 49%, the Company remains entitled to 20% of these drilling fluids products and services businesses in Saudi Arabia and the Gulf Co-Operation Council countries.

5. **Independent Expert's Conclusions**

The independent expert, KPMG Corporate Finance, has reviewed the terms of the Proposal and has determined that the Proposal is fair and reasonable to all Shareholders other than Mr H H Al-Merry or his associates, taking into account the following factors:

- **Value received by the Company is greater than the value paid by the Company:** The midpoint of the assessed range of values of the assets being received by the Company under the Proposal exceeds the midpoint of the assessed range of value of the 29% interest in the Joint Venture (being offered as consideration by the Company under the Proposal). KPMG Corporate Finance assessed the indicative value of the 29% interest in the Joint Venture to have a value in the range of AUD$3.2 million to AUD$3.38 million, with a midpoint of **AUD$3.29 million**. KPMG Corporate Finance assessed the value of the assets being received by the Company under the Proposal to be in the range of AUD$3.43 million to AUD$3.93 million, with a midpoint of **AUD$3.68 million**.
- **USD$1.5 million cash available to Company:** The Proposal makes available to the Company USD$1.0 million on the Effective Date and USD$0.5 million on or before 31 March 2005.
- **Exposure to risks reduced:** The Company's exposure to the risks facing the Joint Venture and Imdex Arabia are reduced as a result of the Proposal.
- **No further funding obligations:** As a result of the Proposal, the Company will have no further funding obligations in relation to the Saudi Arabian operations. In contrast, the Company has historically provided cash advances and management services in relation to the operations in Saudi Arabia.

- **Percentage interest in future profits decreased:** The Company's percentage interest in future profits of the Joint Venture and Imdex Arabia will decrease from 49% to 20% assuming the Proposal is approved and proceeds.

A full copy of the Independent Expert's Report is included with these Meeting Documents and it is recommended that Shareholders read the Independent Expert's Report in full before deciding how to vote on Resolutions 1 and 2 at the AGM.

6. Directors' Interests and Recommendations

The Directors of the Company unanimously recommend (save for Mr H H Al-Merry who makes no recommendation) that all Shareholders vote in favour of the Proposal by voting in favour of Resolutions 1 and 2 on the AGM Notice of Meeting.

In making this recommendation, the relevant Directors have considered all of the matters outlined in this Explanatory Memorandum including the "Reasons for the Proposal" in section 4 of this Explanatory Memorandum.

No Director has an interest in the outcome of Resolutions 1 and 2 of the AGM Notice of Meeting, save that:

- Mr H H Al-Merry has an interest in the outcome of Resolutions 1 and 2 on the basis that if the Proposal is approved Mr H H Al-Merry, as the president and controller/major shareholder of RTE, will receive the ASX Buy Price per Share for the cancellation of his 10,000,000 Shares, save that RTE must first pay to the Company the Joint Venture Sale Price. He will also receive any resultant benefits of RTE increasing its interest from 51% to 80% in both the Joint Venture and in Imdex Arabia.
- the following Directors hold Shares in the Company and will receive any resultant benefits from the Proposal in their capacity as Shareholders of the Company:

Director	Shares held directly	Shares held indirectly
IF Burston	-	100,000
BW Ridgeway	-	6,143,993
H H Al-Merry *	10,755,000 *	-
R Kelly	-	65,000
KA Dundo	100,000	-

* 10,000,000 Shares of these 10,755,000 Shares will be cancelled in accordance with the Proposal subject to the approval of Shareholders.

All of the Directors holding an interest in Shares (save for Mr H H Al-Merry who is excluded from voting) intend to vote in favour of the Proposal by voting in favour of Resolutions 1 and 2 at the AGM. Mr H H Al-Merry, being the only person entitled to vote at the Special Meeting, has confirmed that he will vote in favour of Resolution 1 at the Special Meeting to cancel 10,000,000 Shares held by him.

7. Financial Impact of the Proposal

7.1 Financial Impact on Imdex Limited

In terms of Imdex Limited, the Proposal is essentially neutral from an accounting and taxation perspective. As part of the Proposed Restructure, and as described further in the 2004 Annual Report, the Company has written down the carrying value of its investment in the Joint Venture by AUD$3.1 million at 30 June 2004. Following completion of the Proposal, the carrying value of Imdex's stake in Imdex Arabia will be approximately AUD$2 million.

However, the Proposal should improve the financial position of both Shareholders and creditors as detailed below.

7.2 Proforma Balance Sheet as at 30 June 2004 assuming the Proposal is implemented

	Note	Audited as at 30 June 2004	Adjustments required assuming Proposal proceeds	Adjusted Pro-Forma balance sheet as at 30 June 2004 – assuming Proposal proceeds
Current Assets				
Cash	2	56	2,089	2,145
Receivables		9,355		9,355
Inventories		6,340		6,340
Other		7		7
Total Current Assets		15,758		17,847
Non Current Assets				
Other financial assets	1	5,413	(3,339)	2,074
Property, plant and equipment		11,771		11,771
Exploration, evaluation and development expenditure		641		641
Deferred tax assets		595		595
Total Current Assets		18,420		15,081
TOTAL ASSETS		34,178		32,928
Current liabilities				
Payables		7,221		7,221
Interest bearing liabilities		4,429		4,429
Current tax liabilities		39		39
Provisions		639		639
Total Current Liabilities		12,328		12,328
Non Current Liabilities				
Interest bearing liabilities		3,239		3,239
Deferred tax liabilities		370		370
Provisions		130		130
Total Non Current Liabilities		3,739		3,739
TOTAL LIABILITIES		16,067		16,067
NET ASSETS		18,111		16,861
Equity				
Contributed equity	3	21,058	(1,250)	19,808
Reserves		8		8
Retained profits		(2,955)		(2,955)
TOTAL EQUITY		18,111		16,861

Notes:

1 *Represents the carrying value of the Company's investment in the Joint Venture at 30 June 2004;*

2 *Reflects the receipt of net USD$1.5million in cash - approximates AUD$2.089million as at 30 June 2004. NB. Of this total USD$1million is due on the Effective Date and USD$0.5million is due by 31 March 2005. For the purposes of this Pro-forma Balance Sheet the cash is assumed to be received in total;*

3 *Reflects the cancellation of 10,000,000 shares at 12.5cents – reflects trading price of Imdex's Shares as at 30 June 2004.*

7.3 Financial Impact on Creditors

Although all creditors and finance facilities of the Group are within agreed terms, the Proposal shall make available USD$1.5 million net, to the Company with USD$1.0 million due on the Effective Date and USD$0.5 million due on, or before 31 March 2005.

It is envisaged that the cash will be used to pay down some of the longer term borrowings of the Company, and/or be used for working capital purposes, which in turn will improve liquidity.

The Directors believe that implementation of the Proposal will not materially prejudice the Company's ability to pay its creditors.

7.4 Financial Impact on Shareholders

As set out in Section 3 of the Explanatory Memorandum, the Proposal shall make available USD$1.5 million to the Company and provides for the cancellation of 10,000,000 Shares held by Mr H H Al-Merry.

As indicated above, this should have the effect of improving liquidity. From a financial perspective, it would also be expected to:

- Increase net profit after tax (through lower interest charges); and
- Increase earnings per share, when taken together with the cancellation of the 10,000,000 Shares held by Mr H H Al-Merry.

As previously indicated, the Proposal also results in the Company holding a 20% interest in the drilling fluids products and services business in Saudi Arabia: one of the largest oil and gas producing countries in the world.

7.5 Tax Consequences

The Company does not make any statement or recommendation to any person in relation to the taxation implications of the Proposal. Each Shareholder should obtain their own advice in relation to these matters.

8. Approvals and Timetable for the Proposal

Shareholder approval is required for the implementation of the Proposal by reason of ASX Listing Rule 10.1 and sections 208 and 256C of the Corporations Act.

8.1 Listing Rule 10.1

ASX Listing Rule 10.1 requires the Company to obtain shareholder approval, by way of an ordinary resolution, for an acquisition from or disposal to a related party of a substantial asset. RTE is a related party of the Company by reason of Mr H H Al-Merry being a Director of the Company and also being the president and controller/major shareholder of RTE. An asset is substantial, for the purposes of Listing Rule 10.1, if the value of the asset exceeds 5% of the Company's equity interests as set out in its latest accounts given to ASX.

As noted in section 3 of this Explanatory Memorandum:

(a) The Company will dispose of 29/49ths of its interest in the Joint Venture to a related party, RTE, for an agreed price payable to the Company equal to the Joint Venture Sale Price; and

(b) The Company will pay to a related party, being Mr H H Al-Merry, for the cancellation of 10,000,000 Shares held by Mr H H Al-Merry an amount equal to the ASX Buy Price per Share.

Based on the ASX closing price of AUD$0.16 of a Share on 4 October 2004, the value of the consideration payable under paragraph (a) and (b) above shall be approximately AUD$1.6 million. This exceeds 5% of the Company's equity interests as set out in its latest accounts given to ASX.

By reason of the above, approval from Shareholders other than RTE, Mr H H Al--Merry and their associates, is being sought to implement the Proposal, pursuant to Resolution 1 of the AGM Notice for the purposes of, inter alia, Listing Rule 10.1.

For the purposes of Listing Rule 10.1, the Directors engaged KPMG Corporate Finance, as an independent expert, to report on whether the Proposal is fair and reasonable to Shareholders other than Mr H H Al-Merry (or his associates). A summary of the independent expert's conclusion is set out in section 5 above. A full copy of the report is also included in these Meeting Documents.

8.2 Section 208 of the Corporations Act

Section 208(1) of the Corporations Act requires the Company to obtain shareholder approval, by way of an ordinary resolution, if it gives a financial benefit to a related party.

As set out in section 8.1, RTE and Mr H H Al-Merry, being parties to receive financial benefits under the Proposal, are related parties of the Company by reason of Mr H H Al-Merry being a Director and also being the president and controller/major shareholder of RTE.

Pursuant to the Proposal, the Company will dispose of 29/49[th] of its current interest in the Joint Venture to RTE for the Joint Venture Sale Price. As part of the Proposal, it has also been agreed with RTE to restructure Imdex Arabia to reduce the Company's shareholding from 49% to 20%. Further, by reason of the Selective Capital Reduction, pursuant to which Mr H H Al-Merry has agreed to cancel 10,000,000 Shares, the Company is, in effect, "acquiring" an asset from Mr H H Al-Merry for consideration equal to the ASX Buy Price per Share, notwithstanding that the 10,000,000 Shares will be cancelled. The disposal to, and acquisition of an asset from, RTE and Mr H H Al-Merry respectively constitutes the giving of a financial benefit by the Company.

An exemption from the requirement for shareholder approval is available where the transaction is on arm's-length terms, or less favourable to the related party than arm's-length terms. However, the Directors have resolved to seek shareholder approval under section 208 of the Corporations Act in any event, in the interests of transparency and good corporate governance practice.

By reason of the above, approval from Shareholders other than Mr H H Al--Merry is being sought to implement the Proposal, inclusive of the Selective Capital Reduction, pursuant to Resolution 1 of the AGM Notice for the purposes of, inter alia, section 208 of the Corporations Act.

8.3 Section 256C of the Corporations Act

Section 256B of the Corporations Act provides that a company may reduce its share capital (including by the cancellation of shares) if the reduction:

(a) is fair and reasonable to the company's shareholders as a whole;

(b) does not materially prejudice the company's ability to pay its creditors; and

(c) is approved by shareholders in accordance with section 256C of the Corporations Act .

Pursuant to the Proposal, it is proposed to reduce the share capital of the Company by cancelling 10,000,000 Shares held by Mr H H Al-Merry. If approved and implemented, this will reduce the issued share capital of the Company to 110,055,368. This proposed reduction does not apply equally to all Shareholders as the terms of the reduction result in the cancellation of Mr H H Al-Merry's 10,000,000 Shares only. Accordingly, the proposed reduction in share capital is a selective capital reduction.

Pursuant to section 256C(2) of the Corporations Act, in order to implement a selective capital reduction it must be approved by both:

(a) a special resolution of all Shareholders entitled to vote, with no votes being cast in favour of the resolution by any person who is to receive consideration as part of the reduction, or by their associates; and

(b) a special resolution of only those shareholders whose Shares are to be cancelled pursuant to the selective capital reduction.

By reason of the above, approval, by way of a special resolution, from Shareholders other than Mr H H Al--Merry or his associates is being sought to implement the Selective Capital Reduction, pursuant to Resolution 2 of the AGM Notice for the purposes of section 256C(2)(a) of the Corporations Act.

Further, approval of Mr H H Al-Merry to the cancellation of his 10,000,000 Shares under the Selective Capital Reduction is being sought separately pursuant to Resolution 1 of the Notice of the Special Meeting to comply with section 256C(2) of the Corporations Act.

A special resolution must be passed by at least 75% of the votes cast by shareholders entitled to vote on the resolution.

8.4 Timetable

The Annual General Meeting will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, Victoria on 8 November 2004 commencing at 11.00am EST.

The Special Meeting will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, Victoria on 8 November 2004 commencing at 10.30am EST or such earlier time as Mr HH Al-Merry consents to in writing.

All Shareholders are entitled to attend at the Annual General Meeting. Only Mr H H Al-Merry is entitled to vote on the Selective Capital Reduction at the Special Meeting because only 10,000,000 Shares held by him are to be cancelled if the Proposal is approved. All other Shareholders have the opportunity to vote on the Selective Capital Reduction at the Annual General Meeting.

If the Proposal is approved:

(a) the implementation of the Proposed Restructure will proceed in accordance with the terms of the New Shareholders' Agreement (see sections 3 and 9 of this Explanatory Memorandum for further details); and

(b) the Selective Capital Reduction will be effected as soon as is practicable, 14 days after the resolutions approving the reduction of share capital have been lodged with ASIC. The Company intends to lodge the resolutions with ASIC as soon as is practicable after the date of the AGM.

9. Key Documents Relevant to the Proposal

The New Shareholders' Agreement dated 5 October 2004 sets out the terms of the Proposal and, following implementation of the Proposal, will also govern the activities of the Joint Venture and Imdex Arabia.

The key terms of the New Shareholders' Agreement as it relates to the Proposed Restructure are set out in section 3 of this Explanatory Memorandum.

The key terms of the New Shareholders' Agreement as it relates to the governing of the activities of the Joint Venture and Imdex Arabia after implementation of the Proposal (at which time the Company will hold a 20% interest and RTE will hold an 80% interest in both operations) are as follows:

- RTE and the Company will continue with an earlier agency agreement entered into on 7 June 2001 so as to maintain compliance with the laws of the Kingdom of Saudi Arabia providing for the trade of unmodified goods in the Saudi Arabia to be conducted only by wholly owned Saudi–owned entities. The effect of this is for RTE to conduct trading activities which complement the business of Imdex Arabia and, subject to the applicable laws, are treated as an integrated business relationship with Imdex Arabia.
- The Company will grant RTE and Imdex Arabia an exclusive, royalty free license to use the Imdex/Australian Mud Company brand of products in the geographical area encompassed by the borders of the Gulf Cooperation Countries, being Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates.
- The Board of Imdex Arabia will consist of 1 manager appointed by the Company and 3 appointed by RTE. The general manager will be appointed by RTE.

10. Resolutions 4 to 6

Article 17.3 of the Constitution, requires that any Director appointed by the Board, either to fill a casual vacancy or as an addition to the Board, must retire at the next General Meeting following his or her appointment, but is eligible for re-election at that Annual General Meeting.

Mr K A Dundo and Mr R Kelly seek re-election pursuant to Resolutions 4 and 5 respectively of the AGM Notice of Meeting. A record of Mr K A Dundo and Mr R Kelly's attendances at Board meetings of the Company since the date of their appointment on 14 January 2004 to 30 June 2004 is set out in the 2004 Annual Report, each of which have attended all Board meetings since the date of their appointment.

In accordance with ASX Listing Rule 14.4 and Article 17.4 of the Constitution, at every Annual General Meeting, one third of the Directors for the time being must retire from office and are eligible for re-election. The Directors to retire are to be those who have been longest in office since their appointment or last re-appointment or, if the Directors have been in office for an equal length of time and unless mutually agreed, by lot.

Mr H H Al-Merry seeks re-election by reason of retirement by rotation pursuant to Resolution 6 of the AGM Notice of Meeting. A record of Mr H H Al-Merry's attendances at Board meetings of the Company over the 12 month period to 30 June 2004 is set out in the 2004 Annual Report.

11. Glossary

In this Explanatory Memorandum, the following terms have the following meanings unless the context otherwise requires:

AGM	means the 2004 Annual General Meeting of the Company scheduled for 11.00am EST on 8 November 2004.
ASIC	means the Australian Securities & Investments Commission
ASX	means the Australian Stock Exchange conducted by Australian Stock Exchange Limited ABN 98 008 624 691.
ASX Buy Price	means the last price at which a sale is made on the ASX for a Share on the Effective Date.
Board	means the Board of Directors.
Company	means Imdex Limited ABN 78 008 947 813.
Constitution	means the Constitution of the Company.
Corporations Act	means Corporations Act 2001 (Cth)
Director	means a Director of the Company.
Effective Date	means the date upon which Shareholders approve the Proposal.
EST	means Australian Eastern Standard Time.
FY04	means the financial year ended 30 June 2004.
FY05	means the financial year ended 30 June 2005.
Imdex Arabia	means Imdex Arabia Limited, incorporated in the Kingdom of Saudi Arabi having Commercial Registration Number 2051026515.
Independent Expert's Report	means the report prepared by KPMG Corporate Finance (Aust) Pty Ltd dated 5 October 2004 which accompanies these Meeting Documents.
Joint Venture	means the profit sharing arrangement entered into between RTE and the Company pursuant to which the Company has the right to receive a percentage, equal to its interest in the Joint Venture, of the net profits of RTE's business in Saudi Arabia relating to the supply of drilling fluids and chemicals.
Joint Venture Sale Price	means the result, expressed in Australian dollars, of multiplying the ASX Buy Price by 10,000,000.
New Shareholders' Agreement	means the agreement between RTE and the Company dated 5 October 2004 in relation to the Proposal and Imdex Arabia.
Proposal	means the proposal to proceed with the Proposed Restructure and the Selective Capital Reduction.
Proposed Restructure	means the series of transactions set out in section 3 of this Explanatory Memorandum that will result in the Company's current 49% interest in both the Joint Venture and in Imdex Arabia reducing to a 20% interest in both.
RTE	means Rashid Trading Establishment
Share	means fully paid ordinary shares in the Company.
Shareholder	means a shareholder of the Company.
Selective Capital Reduction	means the reduction in the capital of the Company to be effected by cancelling 10,000,000 Shares held by Mr H H Al-Merry.
Special Meeting	means the Special Meeting of only those shareholders in the Company whose Shares are to be cancelled in accordance with the Proposal, being Mr HH Al-Merry, scheduled for 10.30am on 8 November 2004 or such earlier time as Mr HH Al-Merry consents to in writing.
SR	means Saudi Riyals, the lawful currency of the Kingdom of Saudi Arabia.

KPMG Corporate Finance (Aust) Pty Ltd
Australian Financial Services Licence No. 246901

Central Park
152-158 St George's Tce
Perth WA 6000
Australia

GPO Box A29
Perth WA 6837
Australia

ABN: 43 007 363 215

Telephone: +61 8 9263 7171
Facsimile: +61 8 9263 7129
www.kpmg.com.au

The Directors
Imdex Limited
Level 3, 18 Richardson Street
West Perth
WA 6005

5 October 2004

Dear Sirs

Financial Services Guide and Independent Expert's Report

1 Introduction

Background

1.1 Imdex Limited ("Imdex" or "the Company") is a company listed on the Official List of Australian Stock Exchange Limited ("ASX"). The Company's core business is the manufacture and supply of a range of drilling products and services in Australia and internationally to the mining, oil and gas, water well drilling and civil industries.

1.2 In February 2001, the Company entered into a contractual arrangement with the Saudi Arabian based Rashid Trading Establishment ("RTE")[1] to supply drilling fluids and chemicals to the oil and gas industry in Saudi Arabia and the Middle East. It was the original intention of RTE and Imdex (collectively the "Parties") that this business would, where possible, be conducted through Imdex Arabia Limited ("Imdex Arabia"). Imdex was to hold 49% of the equity and RTE would hold 51% of the equity in Imdex Arabia. The parties executed a formal Shareholders' Agreement to this effect in June 2001 ("the Original Shareholders' Agreement").

1.3 Imdex has advised that Imdex Arabia has effectively not yet traded and that the Company's interest in the muds and chemicals business in Saudi Arabia (the "JV Business") has instead been conducted through a profit sharing arrangement whereby the Company receives 49% and RTE receives 51% of the net profits of the JV Business. The Parties refer to this arrangement as the "Joint Venture".

[1] RTE's President and major shareholder is Mr H H Al-Merry who has been a director of Imdex since April 2002 and is also the largest shareholder in Imdex

1.4 Early in the 2004 calendar year, Imdex and RTE entered into discussions on alternative ways to restructure their common interests in Saudi Arabia, with the objective of Mr H H Al-Merry agreeing to the cancellation of the majority of his shareholding in Imdex, Imdex reducing its interest in the business conducted jointly in Saudi Arabia to the benefit of RTE and Imdex receiving a return of cash previously invested in the business.

1.5 As a consequence of these discussions, on 5 July 2004, Imdex announced that it had entered into a Heads of Agreement with RTE in relation to the restructuring of their respective interests in the Joint Venture and in Imdex Arabia ("the Proposed Restructure"). The Heads of Agreement also incorporates the cancellation by the Company of 10 million Imdex shares from Mr H H Al-Merry ("the Selective Capital Reduction) (together "the Proposal"). The main elements of the Proposal as outlined in the Amended and Restated Shareholders Agreement executed on 5 October 2004 (the New Shareholders' Agreement"), are summarised below and discussed in further detail in Section 4 of this report:

- Imdex will transfer 29/49ths[2] of the Company's interest in the Joint Venture to RTE. Following the transfer, RTE's interest in the Joint Venture will increase from 51% to 80% and the Company will reduce its interest in the Joint Venture from 49% to 20%;

- Imdex will cancel 10 million of its fully paid ordinary shares held by Mr H H Al-Merry;

- RTE will pay the Company, or pay on behalf of the Company, a total of USD[3] 2.25 million, of which USD 0.75 million will be paid directly to Imdex Arabia, on behalf of Imdex. Of the USD 0.75 million to be paid directly to Imdex Arabia, SR[4] 20,000 shall be applied in respect to the subscription by Imdex of 20 new shares in Imdex Arabia (the "Imdex Share Capital Contribution"). The remaining balance of funds shall be deposited into a working capital account operated by Imdex Arabia, and is referred to as the Imdex WC Contribution;

- RTE will contribute to Imdex Arabia, cash and assets having a total value of $8.0 million[5]. Of this contribution SR 2.98 million in cash shall be applied in respect of the issue to RTE of 2,980 new shares in Imdex Arabia (the "RTE Share Capital Contribution"). The balance of value to be contributed by RTE to Imdex Arabia in the form of cash and assets, is referred to as the RTE WC Contribution.

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[2] 29/49ths of the Company's interest in the Joint Venture, represents a 29% interest in the Joint Venture given Imdex currently has a 49% interest in the Joint Venture.

[3] United States dollars

[4] Saudi Arabian riyals

[5] All amounts in this report are in Australian dollars ("$") unless otherwise noted.

1.6 Following the completion of the Proposal, the Company will hold 20% of the issued capital of Imdex Arabia and RTE will hold the remaining 80%.

1.7 The Selective Capital Reduction and Proposed Restructure are conditional upon each other. The date on which shareholders approve the Proposal is referred to as the Effective Date.

2 Purpose of our report

2.1 KPMG Corporate Finance (Aust) Pty Ltd ("KPMG Corporate Finance") has prepared this report for inclusion in a Notice of Meeting to convene a General Meeting of the Company, on or about 8 November 2004. The purpose of the meeting will be to seek approval for the Proposal.

2.2 Chapter 10 of ASX Listing Rules prohibits a listed company acquiring a substantial asset from, or disposing of a substantial asset to, a related party unless it receives approval from the non-associated shareholders in a general meeting. An asset is considered to be substantial if its value, or the value of the consideration to be paid for it is, in ASX's opinion, 5% or more of the total issued capital and reserves of the listed company at the date of the last audited accounts.

2.3 Chapter 10 of the ASX Listing Rules also requires that the non-associated shareholders be provided with a report by an expert, stating whether the overall transaction is fair and reasonable to the non-associated shareholders.

2.4 RTE and Mr H H Al-Merry are related parties of the Company as Mr H H Al-Merry is a director of the Company and the President and major shareholder of RTE. Mr H H Al-Merry is also currently the largest shareholder in Imdex. Under the Proposal, Imdex will cancel 10 million of its fully paid ordinary shares held by Mr H H Al-Merry, as part of the consideration for the transfer to RTE of 29/49^{ths} of its interest in the Joint Venture. The Company's preliminary final accounts as at 30 June 2004, reported that the Company had approximately 120.1 million shares on issue. Accordingly the cancellation of 10 million of these shares would represent approximately 8% of Imdex's issued capital and reserves.

2.5 The proposed cancellation of the 10 million Imdex shares held by Mr H H Al-Merry also represents a selective capital reduction. The Australian Securities and Investment Commission's ("ASIC") Practice Note 29 provides that an independent expert's report should usually accompany the explanatory memorandum for a selective capital reduction to satisfy the information requirements of fairness.

2.6 In order to ensure that the shareholders of Imdex, other than Mr H H Al-Merry and his associated entities ("the non-associated shareholders"), are fully informed in reaching a decision as to whether to approve or reject the Proposal, Listing Rule 10.10 requires that the notice of meeting to approve the Proposal be accompanied by a report from an independent expert stating whether the Proposal is fair and reasonable having regard to the interests of the Company's non-associated shareholders. Accordingly, this report considers the fairness and reasonableness of the Proposal to the non-associated shareholders of Imdex.

2.7 The term "fair and reasonable" is not defined in Listing Rule 10 or the Corporation Act 2001, and there are no policy statements or guidelines available to determine what constitutes "fair and reasonable" for the purpose of Listing Rule 10 or ASIC Practice Note 29. Listing Rule 10 can apply to a wide range of transactions. Accordingly, "fair and reasonable" must be capable of broad interpretation to meet the particular circumstances of each transaction. This involves a judgement on the part of the expert as to the alternatives available.

2.8 The basis of our evaluation as to whether the Proposal is fair and reasonable to the non-associated shareholders of Imdex involves an assessment as to whether the non-associated shareholders of Imdex are generally likely to be better off if the Proposal proceeds than if it does not. In forming our opinion as to whether the Proposal is fair and reasonable, we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposal is or is not fair and reasonable.

2.9 This report has been prepared solely for the purpose of assisting the non-associated shareholders in considering the Proposal. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose, including but not limited to investment or lending decisions in relation to Imdex.

3 Summary and conclusions for Imdex's shareholders

3.1 **In our opinion, having regard to the matters set out in this report, the Proposal, on balance, is fair and reasonable to the non-associated shareholders of Imdex.**

3.2 The principal factors that we have taken into account in forming our opinion are summarised below and discussed in more detail in Section 9 of this report.

- the midpoint of the assessed range of values of the assets being received by Imdex under the Proposal exceeds the midpoint of the assessed range of values of the 29% interest in the Joint Venture, being offered as consideration by Imdex under the Proposal. The consideration being paid under the Proposal is the value of the 29% interest in the Joint Venture which is being transferred by Imdex to RTE under the Proposal. We have assessed the indicative value of the 29% interest in the Joint Venture which, is being transferred to RTE under the Proposal, to have a value in the range of \$3.20 million to \$3.38 million, with a midpoint of \$3.29 million. We have assessed the value of the assets being received by Imdex under the Proposal to be in the range of $3.43 million to $3.93 million, with a midpoint of $3.68 million;

- the Proposal makes available to Imdex, USD 1.50 million (USD 1.0 million on the Effective Date and USD 0.50 million on, or before, 31 March 2005) in cash, that, in the absence of the Proposal Imdex has advised would not have otherwise been received. Imdex has advised that net cash of USD 1.50 million received pursuant to the Proposal will be used to pay down some longer term borrowings of the Company and/or for working capital purposes;

- Imdex's exposure to the risks facing the Joint Venture and Imdex Arabia are reduced as a result of the Proposal. Key risks facing the Joint Venture and/or Imdex Arabia include:

  - the historical reliance of the JV Business on a single customer (Saudi Aramco);

  - Imdex's reliance on RTE. Imdex has advised that RTE is critical to the marketing of the Joint Venture's products to Saudi Aramco. RTE has historically been the entity which is engaged by customers, on behalf of the Joint Venture, and is therefore critical to the operations and success of the Joint Venture and Imdex Arabia; and

  - the threat of terrorist activities impacting the operations of Saudi Aramco and therefore also adversely impacting its purchases of products supplied by the Joint Venture.

- the Company will have no further funding obligations in relation to the Saudi Arabian operations. Imdex has historically provided cash advances and management services in relation to the operations in Saudi Arabia. The Company has advised that a major attraction of the Proposal is that the Company will have no further funding obligations in respect to the Saudi Arabian operations; and

- the Company's percentage interest in any future profits of the Joint Venture and Imdex Arabia is reduced as a result of the Proposal. Imdex's interest in the Joint Venture and Imdex Arabia will decrease from 49% to 20% assuming the Proposal is approved and proceeds. Imdex's percentage interest in any future profits achieved by the Joint Venture and/or Imdex Arabia is therefore reduced as a result of the Proposal.

3.3 The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including its appendices.

General warning advice

3.4 In forming our opinion, we have considered the interests of Imdex's non-associated shareholders as a whole. The advice does not consider the financial situation, objectives or needs of Imdex's individual non-associated shareholders. It is not practical or possible to assess the implications of the Proposal on individual shareholders, as their specific financial circumstances are not known to us.

3.5 The decision of Imdex's non-associated shareholders as to whether or not to vote in favour of the Proposal is a matter for individuals based on, amongst other things, their risk profile, liquidity preferences, investment strategy and tax position. Individual Imdex shareholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it.

3.6 As an individual's decision to vote for or against the Proposal may be influenced by his or her particular circumstances, we recommend that individual shareholders consult their financial adviser.

Other considerations

3.7 Our opinion is based solely on information available at the date of this report. We have not undertaken to update our report for events or circumstances arising after the date of this report.

Yours faithfully

Duncan Calder	Steve Scudamore
Executive Director	*Executive Director*

FINANCIAL SERVICES GUIDE

Dated 5 October 2004

KPMG Corporate Finance

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 ("KPMG Corporate Finance" or **"we"** or **"us"** or **"ours"** as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide (**"FSG"**). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- who we are and how we can be contacted;
- the services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**;
- remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- interests in managed investments schemes (excluding investor directed portfolio services); and
- securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG Corporate Finance, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is ultimately wholly owned by and operates as part of KPMG's Australian professional advisory and accounting practice. Our directors may be partners in KPMG's Australian partnership.

From time to time KPMG Corporate Finance or KPMG and/or KPMG related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are 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, KPMG Corporate Finance, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Industry Complaints Service Limited ("**FICS**").

FICS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FICS are available at the FICS website www.fics.asn.au or by contacting them directly via the details set out below.

Financial Industry Complaints Service Limited
PO Box 579
Collins Street West
Melbourne VIC 8007

Toll free: 1300 78 08 08
Facsimile: (03) 9621 2291

Contact details

You may contact us using the details set out at the top of our letterhead on page 1 of this report.

Contents of the remainder of KPMG Corporate Finance's report

The remainder of this independent expert's report is divided into the following sections:

4 The Proposal

Background

4.1 On 7 June 2001, Imdex and RTE executed the Original Shareholders' Agreement, which sets out the nature and terms of the Parties' joint business venture to manufacture and sell drilling fluids and chemicals and provide services to the oil and gas industry in Saudi Arabia and the Middle East and also provided for the formation and registration of Imdex Arabia. The Original Shareholders' Agreement sets out Imdex and RTE's respective understandings, rights and obligations in connection with Imdex Arabia and outlines Imdex and RTE's equity interest in Imdex Arabia being 49% and 51% respectively.

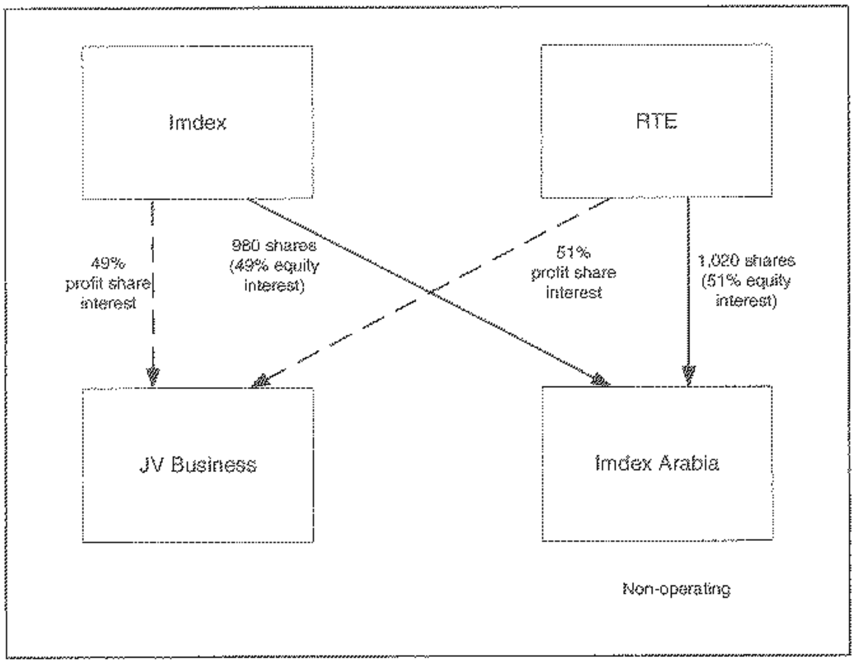
4.2 We understand that the laws and regulations of the Kingdom of Saudi Arabia restrict trading in imported unmodified goods to wholly owned Saudi Arabian entities. To ensure compliance with Saudi Arabian regulations, the Parties therefore also entered into an Agency Agreement dated 7 June 2001 (the "Agency Agreement") whereby RTE would act as Imdex's exclusive agent in Saudi Arabia and the Middle East in circumstances where Saudi Arabian restrictions, in regard to trading in imported unmodified goods, applied.

4.3 Imdex management has indicated that Imdex Arabia required a service licence to provide services in Saudi Arabia, which it received in July 2002 (the "Service Licence"). Imdex Arabia's Service Licence is valid until July 2012 and allows Imdex Arabia to trade in goods produced or altered in Saudi Arabia and to provide services in Saudi Arabia. The Company has advised us however that Imdex Arabia has not as yet traded.

4.4 The JV Business has instead been operated through the Joint Venture, which has to date, been focused on the trading of imported drilling fluids and chemicals in Saudi Arabia. All contracts to supply muds and chemicals in Saudi Arabia are entered into by RTE, on behalf of the Joint Venture. Imdex has advised that it is currently entitled to 49% of the net profits of the JV Business, but does not have any claim over the assets of the JV Business (which are owned by RTE) nor is it exposed to any of the net liabilities of the JV Business (which are the responsibility of RTE). Imdex has however provided further cash advances to RTE in respect to the JV Business and has also provided some management services to the JV Business.

4.5 The diagram below outlines Imdex and RTE's respective contractual interest in the Joint Venture and equity interest in Imdex Arabia as at the date of this report.

Figure 1: Imdex and RTE's respective interests in the Joint Venture and Imdex Arabia



Source: Imdex

The New Shareholders' Agreement

4.6 The New Shareholders' Agreement, which replaces the Original Shareholders' Agreement sets out the terms and conditions of the Proposed Restructure, and following the implementation of the Proposal, will also govern the future operations of the Parties' joint business operations in Saudi Arabia.

4.7 The key terms of the Proposal as outlined in the New Shareholders' Agreement and the Explanatory Memorandum[6] are summarised below.

4.8 As at the Effective Date, Imdex will transfer 29/49^{ths} of its interest in the Joint Venture to RTE, for market value consideration, which the Parties have agreed shall be equal to the Joint Venture Sale Price[7]. Accordingly, the Company will reduce its interest in the Joint Venture from 49% to 20% and RTE will increase its interest from 51% to 80%.

4.9 Mr H H Al-Merry will agree to, and the Company will cancel, 10 million Imdex shares currently held by Mr H H Al-Merry, for consideration equal to the Joint Venture Sale

[6] Draft Explanatory Memorandum dated 4 October 2004..

[7] The Joint Venture Sale Price is the amount (expressed in Australian dollars) calculated as the product of 10 million and the last price at which a sale is made on ASX for an Imdex share on the Effective Date.

Price. Accordingly, the number of Imdex's shares on issue will reduce from approximately 120.1 million shares to 110.1 million shares.

4.10 Imdex and RTE have agreed that:

- RTE shall satisfy the amount owing to the Company under Paragraph 4.8 by issuing a promissory note in favour of the Company for the Joint Venture Sale Price (the "Promissory Note"); and
- Imdex will satisfy the amount owing to Mr H H Al-Merry under Paragraph 4.9, by way of re-assigning the Promissory Note in favour of Mr H H Al-Merry.

4.11 The Company will receive net cash of USD 1.5 million, from RTE under the Proposal. We note that, whilst the cash payments made by RTE to Imdex are referred to as 'repayments' in the New Shareholders' Agreement, the independent directors of Imdex are of the firm view that the payments actually represent the receipt of cash by Imdex that, in the absence of the Proposal would not have otherwise been received. This receipt of funds has therefore, in substance, been treated by us as having a value to Imdex equal to the amount of the cash received. The specific terms of the payments being received are discussed in greater detail below.

4.12 Under the New Shareholders' Agreement RTE will pay to the Company, or on behalf of the Company, a total of USD 2.25 million of which USD 0.75 million will be paid directly to Imdex Arabia, on behalf of Imdex and in respect of the Imdex Share Capital Contribution and the Imdex WC Contribution. The Imdex Share Capital Contribution of SR 20,000 (approximately USD 5,333[8]) shall be applied in consideration for the issue to Imdex of 20 new shares in Imdex Arabia on the Effective Date (which will result in Imdex having a 20% interest in Imdex Arabia). The remaining balance of approximately USD 744,667 which is referred to as the Imdex WC Contribution shall be deposited into a working capital account maintained by Imdex Arabia. Imdex has advised us that, whilst there is no interest payable and no terms for repayment, in respect to the Imdex WC Contribution, it represents a loan to Imdex Arabia, due and repayable to Imdex.

4.13 The USD 2.25 million cash payment made by RTE to Imdex is described in the New Shareholders' Agreement to comprise:

- the 'repayment' of certain loans made by Imdex to RTE (for the JV Business) having an aggregate amount of USD 1.75 million (the "Working Capital Loans"), on the Effective Date. As noted above RTE shall repay USD 0.75 million of this amount directly to Imdex Arabia, on behalf of Imdex. The directors of Imdex have advised

[8] Converted at the fixed exchange rate of USD 1 = SR 3.75

us, despite this payment being described as a 'repayment' of Working Capital Loans in the New Shareholders' Agreement, that:

- Imdex has no right to demand/call from RTE the repayment of the Working Capital Loans and the Working Capital Loans have no fixed dates for repayment, nor consideration of interest; and

- these payments made by Imdex to RTE in the opinion of Imdex are probably best described as being subordinated debt.

Imdex has therefore advised us that:

"It is therefore unlikely in the absence of the Proposal that there is any obligation on RTE or the Joint Venture to repay these payments to Imdex and Imdex had no expectation of receiving payment in respect of this amount (USD 1.75 million) in the absence of a transaction involving the equity interests of the Joint Venture."; and

- the payment of USD 0.50 million in respect of management services provided by Imdex in respect of the JV Business ("Management Services"), for which, to date, Imdex has not been compensated. The New Shareholders' Agreement provides that, prior to the Effective Date, Imdex shall issue an invoice to RTE for USD 0.50 million in respect of the Management Services (the "Management Fee"). RTE will repay, directly to Imdex, the full amount of the Management Fee on, or before, 31 March 2005. The payment of the Management Fee will be guaranteed by a financial institution acceptable to the Company. Imdex has advised that:

  "In the absence of the Proposal there does not appear to be an obligation on behalf of RTE, or the Joint Venture to repay any of the capitalised expenses (the Management Fee).

  That is to say, the Proposal has given rise to the opportunity for Imdex to present its case to RTE as to why RTE should compensate Imdex for services which Imdex has provided to the JV Business over the last couple of years. As part of the Proposal, RTE has agreed to compensate Imdex to the extent of USD 500,000 notwithstanding the absence of any formal agreement in relation to the services and hence the prima facie absence of any legal requirement for RTE to pay for these services.

  In the absence of the Proposal it is very unlikely that RTE would have agreed to compensate Imdex for the services which it has provided in the past"

4.14 The Company has advised that the receipt of USD 1.0 million from RTE and the payment of USD 0.75 million to Imdex Arabia by RTE, on behalf of Imdex, are condition precedents of the Proposal and if these payments are not made by RTE the Proposal will not proceed. We are advised further that that the deferred payment of USD 0.50 million is to be secured by way of a bank guarantee or unconditional letter of credit for the benefit of Imdex (the "Guaranty"). The New Shareholders' Agreement provides that as at the Effective Date, RTE shall have delivered to Imdex the Guaranty.

4.15 As of the Effective Date, RTE will make a cash contribution to Imdex Arabia in the amount of SR 2.98 million (approximately $1.14 million[9]) in consideration for the issue to RTE of 2,980 new shares in Imdex Arabia (which will result in RTE holding an 80% interest in Imdex Arabia) which as previously noted is referred to as the RTE Share Capital Contribution,

4.16 As soon as practicable after the Effective Date (an in any case prior to 31 December 2005), RTE shall contribute to Imdex Arabia cash and assets having a total value, when combined with the RTE Share Capital Contribution, of $8.0 million. The value of the cash and assets to be contributed by RTE (in addition to the RTE Share Capital Contribution) will be approximately $6.86 million (based on the conversion of SR 2.98 million into $ noted above) and, as previously noted, is referred to as the RTE WC Contribution. Imdex has advised that the assets contributed by RTE will consist of inventory and goodwill of the JV Business. Imdex has advised that details of the inventory and goodwill to be contributed by RTE (to Imdex Arabia) and how these will be valued, is yet to be finalised. The transfer of some of the assets will be subject to Imdex Arabia obtaining necessary approvals as a supplier of certain products. However, it has been agreed that any assets that cannot be transferred to Imdex Arabia will continue to be maintained and operated for the benefit of Imdex Arabia. Imdex has advised that whilst there is no interest payable and no term for repayment in respect of the RTE WC Contribution, that this is represents a loan to Imdex Arabia due and repayable to RTE.

4.17 The Selective Capital Reduction and Proposed Restructure are conditional upon each other. Accordingly, the cancellation of 10 million shares in the Company will not occur unless Imdex's non-associated shareholders approve both Resolutions 1 and 2 of the Company's Notice of General Meeting.

4.18 The diagram below outlines Imdex and RTE's respective contractual interest in the Joint Venture and equity interest in Imdex Arabia assuming the Proposal is approved and proceeds.

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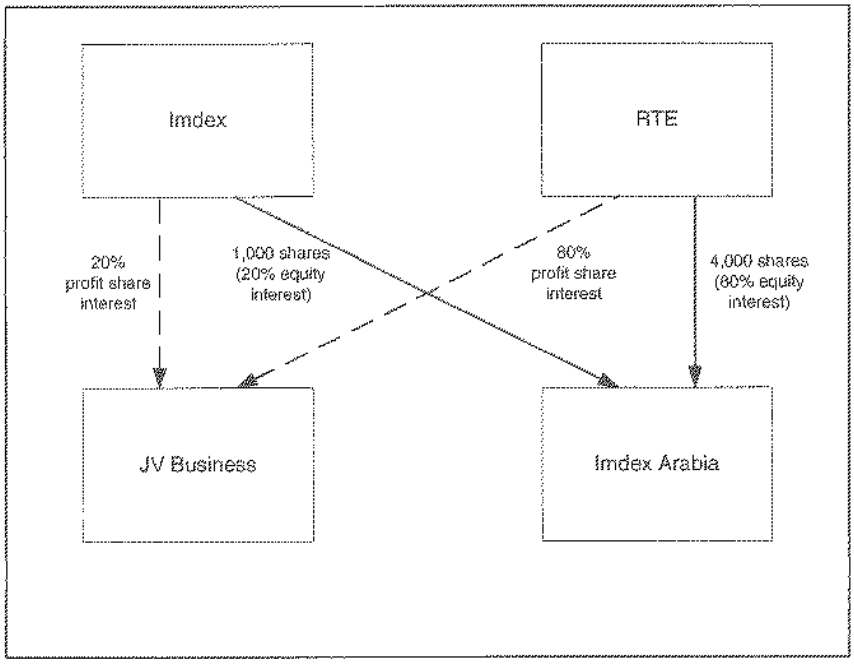
[9] Unless otherwise noted all SR amounts in this report are converted to $ at an exchange rate of approximately $1 = SR 2.62

Figure 2: Imdex and RTE's interests in the Joint Venture and Imdex Arabia assuming the Proposal is successfully implemented



Source: Imdex

Operations of the Joint Venture and Imdex Arabia under the New Shareholders' Agreement

4.19 We are advised by Imdex that it is the intention of the Parties, pursuant to the New Shareholders' Agreement, and assuming the Proposal is successfully implemented that Imdex Arabia will apply to the Government of Saudi Arabia to have its current Service Licence upgraded to a licence that allows it to operate as a manufacturing company in Saudi Arabia. A production plant is also planned to be constructed in Saudi Arabia, which will produce certain muds and chemicals products that will then be sold through Imdex Arabia. Thus some muds and chemical products, which are currently imported and sold through the Joint Venture (due to restrictions applying to the trade in unmodified imported goods), would now be produced and sold through Imdex Arabia under its Service and Manufacturing Licence.

4.20 Imdex has advised that, assuming the Proposal is approved and proceeds, the Parties intend to operate (where possible under the laws and regulations of Saudi Arabia), the business in Saudi Arabia, through Imdex Arabia. As noted above certain assets from the JV Business will be transferred by RTE to Imdex Arabia under the Proposal.

4.21 We are advised by Imdex that some unmodified products will continue to be imported into Saudi Arabia. In this regard the Agency Agreement will continue to apply, whereby

RTE will act as Imdex's exclusive agent in Saudi Arabia (in circumstances where the laws and regulations of Saudi Arabia prevent goods being provided by Imdex Arabia). Imdex has advised us that it is understood by the Parties that trading activities undertaken by RTE pursuant to the Agency Agreement shall complement the business of Imdex Arabia and these trading activities together with the business of Imdex Arabia will, for all intents and purposes, be treated as one integrated business relationship between the Parties.

4.22 The New Shareholders' Agreement notes that, except as otherwise agreed by the Parties, all financial, commercial and legal risks and all net profits arising out of trading activities conducted under the Agency Agreement shall be shared by the Parties in accordance with their respective shareholding interest in Imdex Arabia (i.e. Imdex will be receive 20% of the net profits and RTE will receive 80% of the net profits). Imdex has advised us this does not extend to any future funding obligations by Imdex in respect to Imdex Arabia.

5 Sources of information

5.1 In preparing this report and arriving at our opinion, we have considered a number of sources of information as detailed in Appendix 2 of this report.

5.2 The statements and opinions expressed in this report are made in good faith and have been based on information available at the date of this report that is believed to be reliable and accurate. We have relied upon the information set out in Appendix 2 and have no reason to believe that any material factors have been withheld from us. The preparation of this report does not imply that KPMG Corporate Finance has carried out any form of audit on the accounting or other records of Imdex, RTE or Imdex Arabia or their investments or associates.

5.3 KPMG Corporate Finance has been provided with historic and prospective financial information prepared by Imdex and RTE. Whilst KPMG Corporate Finance has in part relied upon this information in preparing this report, Imdex and RTE remain responsible for all aspects of this information. Achievement of prospective financial results is not warranted or guaranteed by KPMG Corporate Finance. Prospective results are by their nature uncertain and are dependent on a number of future events, which cannot be guaranteed. Actual results may vary significantly from the prospective information and any variations may affect our valuation.

5.4 The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon value either positively or negatively.

6 Basis of assessment

6.1 This report has been prepared by KPMG Corporate Finance to accompany a Notice of Meeting to convene a General Meeting of Imdex on or about 8 November 2004. The purpose of the meeting is to seek approval from the non-associated shareholders of Imdex for the Proposal.

6.2 As discussed in Section 2, an independent expert's report on the fairness and reasonableness of the Proposal to non-associated shareholders of Imdex is required to be prepared under Chapter 10 of ASX Listing Rules. The proposed cancellation of shares by Imdex from Mr H H Al-Merry also represents a selective capital reduction. ASIC Policy Note 29 provides that where non-cash consideration is being paid for a selective capital reduction an independent expert's report containing a valuation of the consideration given for the cancellation of those shares would be appropriate.

Basis of opinion

6.3 The Proposal will be fair and reasonable, having regard to the interests of the non-associated shareholders of Imdex if, on balance, those shareholders are likely to be better off if the Proposal proceeds than if it does not.

6.4 In forming our opinion as to whether the Proposal is fair and reasonable we have treated the concepts of fairness and reasonableness as a single opinion, that is, the Proposal is or is not fair and reasonable.

6.5 In forming our opinion as to whether the Proposal is fair and reasonable we have had regard inter alia:

- the value of the 29% interest in the net profit of the Joint Venture (which is being transferred from Imdex to RTE) in comparison with the value of the consideration being received by Imdex under the Proposal being:
  - the 10 million Imdex shares being cancelled;
  - USD 1.5 million net cash received; and
  - 20% of the additional value to be contributed to Imdex Arabia comprising the Imdex Share Capital Contribution and RTE Share Capital Contribution.
- the advice from Imdex that in the absence of the Proposal, it would not expect to receive any net cash payment of USD 1.5 million, which is noted in the New Shareholders' Agreement to comprise the Working Capital Loans (USD 1.75 million) and Management Services (USD 0.5 million) and of which USD 0.75 million will be paid directly to Imdex Arabia, on behalf of Imdex;

- the Joint Venture's historical and prospective operating performance including the prospective cash flow model prepared by Imdex and RTE and reviewed by Deloitte Touche Tomatsu Bakr Abulkhair & Co ("Deloitte Saudi Arabia");
- the share price history and liquidity of Imdex's shares;
- the net tangible asset backing of an Imdex share as at 30 June 2004;
- the carrying value of the investment in the Joint Venture reported in the Imdex accounts as at 30 June 2004;
- the value of Imdex's current contractual interest in the JV Business and shareholding interest in Imdex Arabia;
- the advice from Imdex that it does not have any rights to the assets of the JV Business nor is it accountable for any of the liabilities of the JV Business;
- the implications of Imdex's position as a minority party to the Joint Venture and Imdex Arabia;
- discussions with the directors and management of Imdex regarding the outlook for operations in Saudi Arabia;
- the terms and conditions of the Proposal; and
- other advantages and disadvantages, which may impact the non-associated shareholders of Imdex in the event that the Proposal proceeds.

6 Profile of Imdex

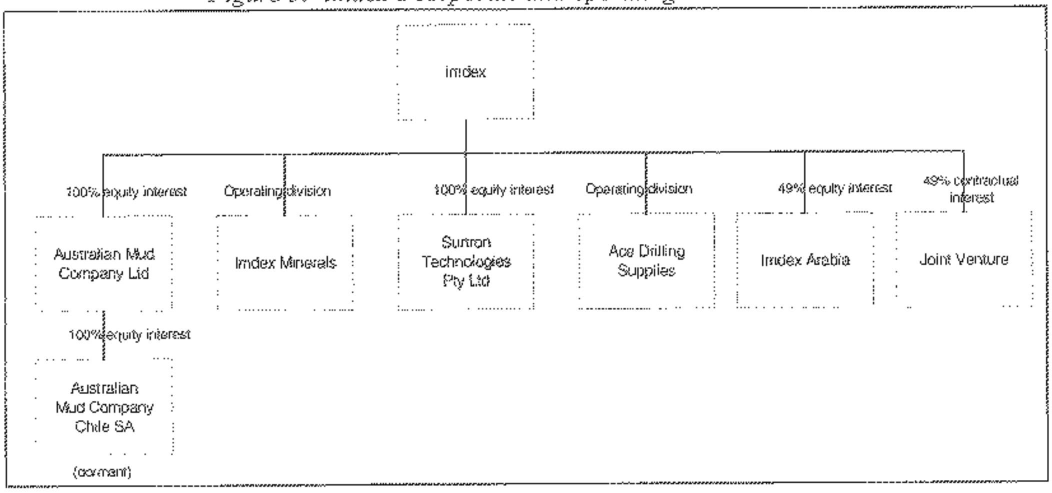
Corporate background

6.1 Imdex was incorporated on 17 December 1980 as Pilbara Gold NL and subsequently changed its name to Imdex NL on 11 September 1985. The Company listed on ASX on 24 September 1987, following the public issue of 20.0 million shares at $0.20 per share. The Company changed to a limited liability company on 9 August 1995.

Corporate and operating structure

6.2 The diagram below provides an overview of Imdex's corporate and operating structure, outlining the Company's key subsidiaries and business units.

Figure 3: Imdex's corporate and operating structure



Source: Imdex's 2003 Annual Report and Imdex management

Business operations

6.3 Imdex manufactures drilling fluids and chemicals and provides technical services to the mining, oil and gas, water well drilling, and civil industries in both Australia and internationally. The Company's three key operational areas are:

- the provision of drilling fluids, chemicals, tools and equipment;
- drilling services; and
- minerals processing.

6.4 We have discussed below the key business units through which the Company undertakes its operations.

Australian Mud Company Ltd ("AMC")

6.5 AMC supplies drilling fluids, chemicals and services to the drilling industries in more than 25 countries including Australia, Asia, Africa and Eastern Europe.

6.6 AMC is the market leader in Australia in the provision of drilling products and services to the mining, water well, horizontal directional drilling and civil industries in Australia and is increasing its market share in the onshore oil and gas business.

6.7 In the 2004 financial year AMC was the Imdex Group's strongest performer, with earnings before interest and tax reported to have increased by 88% from the prior year.

Imdex Minerals

6.8 Imdex Minerals operates a multi-purpose industrial minerals processing facility at Jandakot, Western Australia. The facility's operations include:

- Toll milling. The Company has three ceramic lined ball mills, which are able to dry grind minerals to flour size. Toll milling customers are sourced primarily from Australia's mineral sands producers. The main product milled by the Company is zircon sand which is milled into zircon flour;

- Custom packaging. Imdex Minerals custom packages industrial minerals such as silica, cement, rutile, ilmenite, gypsum and quick lime;

- Agricultural products and sand/gravel packs. Imdex Minerals' agricultural products operations incorporate the screening, packaging and sale of limestone and gypsum for agricultural purposes. In addition, it also produces a range of silica and gravel pack sands for water filtration, water wells and pool filters; and

- Micaceous iron oxide ("MIO") mining, processing and marketing. Imdex Minerals' MIO mine is situated at Mt Gould, Western Australia. Imdex processes and markets MIO, as an anti corrosive pigment used in industrial paints, which it exports to markets in the USA, Japan and parts of Asia as a proprietary product branded "Imdox".

Surtron Technologies Pty Ltd ("Surtron")

6.9 Surtron provides downhole surveying, geophysical logging, steering and directional drilling to mining and civil construction industries in Australia, Africa and Asia.

Ace Drilling Supplies ("Ace")

6.10 Ace is the distributor of a range of diamond drilling products including Asahi diamond products, Bradley drilling pipe and a range of miscellaneous consumable items.

6.11 Ace also hires, markets and repairs a range of down hole equipment for the drilling industry.

The Joint Venture and Imdex Arabia

6.12 The operations of the Joint Venture and Imdex Arabia are outlined in Section 7.

Share capital and ownership

6.13 Imdex currently has on issue approximately 120.11 million ordinary shares, which are quoted on ASX. Imdex's top ten shareholders as at 21 September 2004 are set out below:

Table 1: Imdex's top ten shareholders

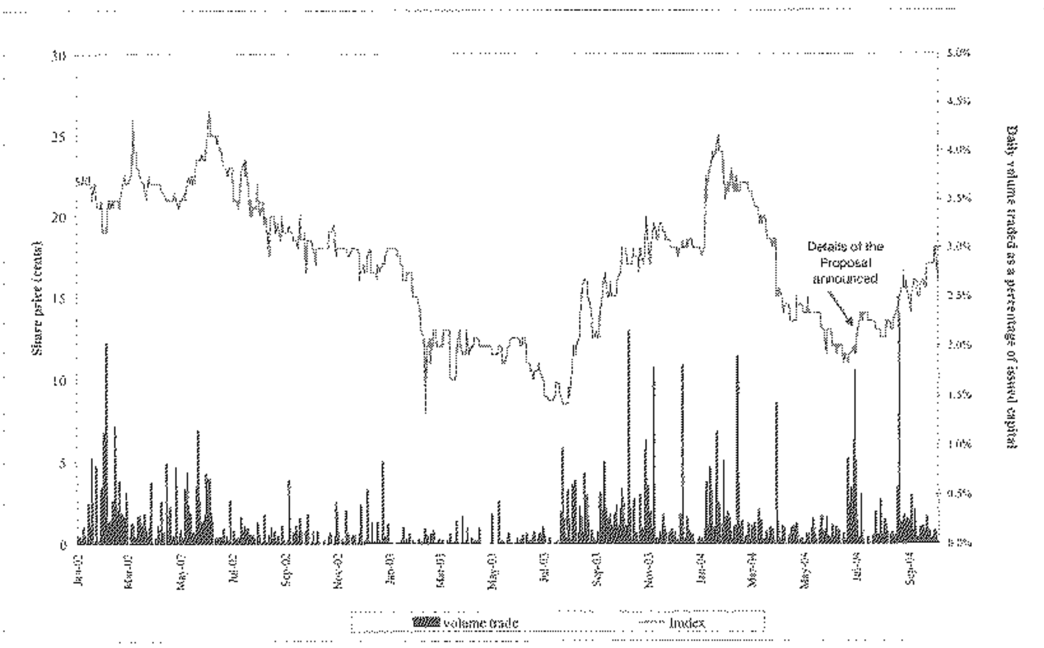
	Number of shares held 000s	**% of issued shares**
Mr H H Al-Merry	10,755	8.96%
Midcontinent Equipment (Australia) Pty Ltd	6,132	5.11%
Wear Services Pty Ltd	6,000	5.00%
Chartac Pty Ltd	4,966	4.15%
JP Morgan Nominees Australia Ltd	3,382	2.82%
Mr C J Roycroft	3,321	2.77%
Telic Alcatel (Australia) Pty Ltd	2,900	2.42%
Total Meat Exports Pty Ltd	2,000	1.67%
Primbee Investments Pty Ltd	1,616	1.35%
Chippell Pty Ltd	1,581	1.32%
Total number of shares held by the top 10 shareholders	**38,508**	**32.07%**
Other shareholders	81,547	67.93%
Total number of shares on issue	**120,055**	**100.0%**

Source: Imdex's Top 20 shareholder listing as at 21 September 2004

Imdex's share price and volume history

6.14 The chart below depicts Imdex's daily closing share price since 1 January 2002, against the volume of shares traded expressed as a percentage of issued capital.

Figure 4: Imdex's historic share price and percentage of issued shares traded



Source: Bloomberg

6.15 Since January 2002 Imdex's shares have exhibited considerable volatility trading as high as 26.5 cents on 4 June 2002 before falling to a low of 8.0 cents on 2 February 2003. In the period from late July 2003 to late January 2004 the Company's shares experienced an upward trend increasing from 8.5 cents on 28 July 2003 to 25.0 cents on 22 January 2004. Since this time Imdex's shares have traded downward and on the day prior to the announcement of the Proposal being, 2 July 2004, Imdex's shares closed at 13.0 cents. Since the announcement of the Proposal Imdex's shares have traded slightly higher at between 12.5 cents per share and 18.0 cents per share. The Company's shares closed at 16.0 cents on 4 October 2004.

6.16 Recent announcements since January 2004 that may have had an impact on the market price for Imdex shares include:

- on 14 January 2004, the Company announced a restructuring of its Board of Directors with the appointment of two new directors Mr Ross Kelly and Mr Kevin Dundo and the resignation of Mr Michael Gasson;

- on 2 February 2004, Imdex released its 31 December 2003 half yearly accounts, which reported an increase in revenue of approximately 32% from the 6 months ended 31 December 2002. Net profit after tax for the period was reported to be approximately $1.27 million, which represented an increase of approximately 76% from the prior period;

- Imdex requested a trading halt on 26 March 2004 pending the release of an announcement by the Company;

- on 29 March 2004, the Company announced that its forecast results for the 2004 financial year would be adversely impacted by the write off of approximately $3.95 million in the carrying value of inventory and debtors within the Imdex Minerals division, as recommended by independent investigating accountants PPB Consulting. The adjustment reflects the overstatement of debtors and the carrying value of stock in Imdex Minerals. The Company reported that a senior employee was dismissed and another employee resigned as a consequence of these events;

- on 14 April 2004, the Company appointed Mr Iggy Tan as the general manager of Imdex Minerals. Mr Tan is a mining/chemical engineer with over 20 years experience;

- on 3 May 2004, the Company released its April 2004 quarterly newsletter;

- on 28 June 2004, Imdex released an update of business conditions having regard to its announcement of 29 March 2004 concerning Imdex Minerals in which it reported amongst other matters that:

  - an audit by the Company's external auditors was carried out across its domestic businesses for the 10 months ended 30 April 2004;

  - it was decided to make an adjustment totalling $3.97 million in relation to the carrying value of stock and debtors; and

  - system improvements, which had been confirmed by PBB Consulting, had been implemented at Imdex Minerals.

- on 5 July 2004, the Company announced details of the Proposal; and

- on 30 August 2004, the Company released its preliminary final report for the year ended 30 June 2004.

6.17 An analysis of the volume of trading in Imdex's shares in the period prior to the announcement of the Proposal on 5 July 2004 is set out below.

Table 2: Trading liquidity in Imdex's shares prior to the announcement of the Proposal

Period prior to announcement of the Proposal on 5 July 2004	**High** $	**Low** $	**Weighted average** $	**Cumulative volume**	**As a % of issued shares**
1 week	0.13	0.12	0.12	4,749,555	3.96%
1 month	0.13	0.11	0.12	8,520,872	7.10%
3 months	0.16	0.11	0.12	12,979,647	10.81%
6 months	0.25	0.11	0.18	32,547,053	27.11%
12 months	0.25	0.09	0.17	67,404,658	56.14%
18 months	0.25	0.08	0.16	73,406,434	61.14%

Source: Bloomberg

6.18 The above analysis illustrates that Imdex's shares have historically exhibited moderate liquidity. In the three months prior to the announcement of the Proposal Imdex shares traded between \$0.11 and \$0.16 with approximately 10.8% of issued shares being traded in this period.

6.19 Since the announcement of the Proposal until 4 October 2004 Imdex shares have traded between approximately \$0.13 per share and \$0.18 per share, with approximately 12% of the Company's shares on issue being traded as outlined in the table below.

Table 3: Trading liquidity in Imdex's shares following the announcement of the Proposal

Period following the announcement of the Proposal on 5 July 2004	**High** $	**Low** $	**Weighted average** $	**Cumulative volume**	**As a % of issued shares**
1 week	0.14	0.14	0.14	867,200	0.72%
1 month	0.14	0.13	0.13	3,089,305	2.57%
65 trading days to 4 October 2004	0.18	0.13	0.15	14,960,200	12.46%

Source: Bloomberg

Unlisted options

6.20 Imdex currently has 3.0 million unlisted options on issue, which are held by directors of the Company. The options carry no rights to dividends and no voting rights. The table below outlines the terms of Imdex's options on issue

Table 4: Imdex's unlisted options on issue

Tranche	Expiry date[1]	Exercise price $	Number on issue
1	24 October 2004	0.20	1,000,000
2	24 October 2004	0.35	1,000,000
3	24 October 2004	0.45	1,000,000

Note 1: Options expire on the earlier of the expiry date noted or three calendar months from ceasing to be a director of the Company.

Source: Imdex's 2004 Annual Report

Financial performance

6.21 Imdex's audited consolidated financial results for the three years ended 30 June 2004 are summarised below.

Table 5: Summary of Imdex's consolidated historic financial performance

	Note	Audited Year ended 30 June 2002 $000	Audited Year ended 30 June 2003 $000	Audited Year ended 30 June 2004 $000
Revenue from sale of goods		27,270	26,297	33,423
Revenue from rendering services		3,390	4,326	5,948
Other revenue	1	5,317	276	460
Total revenue		**35,977**	**30,899**	**39,831**
Share of profit/(loss) from investments	2	-	(894)	(292)
Write down in value of investment in the Joint Venture		-	-	(3,108)
Prior year adjustments	3	-	-	(2,796)
Raw material and consumables		(19,200)	(15,487)	(19,338)
Employee expenses		(5,047)	(5,677)	(6,739)
Other expenses		(10,088)	(4,990)	(8,837)
Earnings before interest, tax, depreciation and amortisation		**1,642**	**3,851**	**(1,279)**
Depreciation and amortisation		(1,940)	(1,834)	(1,938)
Earnings before interest and tax		**(298)**	**2,017**	**(3,217)**
Net interest expense		(490)	(539)	(559)
Operating profit/(loss) before tax		**(788)**	**1,478**	**(3,776)**

Notes:

1 Excludes interest revenue.

2 Share of the equity accounted losses from the Joint Venture and RTE International. Imdex relinquished its interest in the business of RTE International during 2003.

3 In March 2004, discrepancies in the recorded value of stock and debtors, totalling approximately $4.06 million were uncovered at Imdex Minerals. Of this total, approximately $1.30 million related to the 2004 financial year, and approximately $2.80 million relates to prior financial years.

Source: Imdex's 2003 and 2004 Annual Reports

6.22 As noted in the table above, Imdex reported strong growth in sales for the year ended 30 June 2004 with total sales increasing approximately 29% from the prior year to $39.83 million. The Company however reported a loss before interest, tax, depreciation and amortisation of approximately $1.28 million for the year ended 30 June 2004. The Company's earnings for the 2004 financial year were significantly impacted by the write down in the value of the Joint Venture and the prior year inventory and debtor write downs, noted above.

Financial position

6.23 Imdex's consolidated audited net assets as at 30 June 2002, 30 June 2003 and 30 June 2004 are summarised below.

Table 6: Summary of Imdex's consolidated historic net asset position

	Note	Audited 30 June 2002 $000	Audited 30 June 2003 $000	Audited 30 June 2004 $000
Current assets				
Cash		145	325	56
Receivables		7,504	7,617	9,355
Inventories		5,223	6,723	6,340
Other		139	42	7
Non current assets				
Investments	1	6,379	8,811	5,413
Other financial assets		56	-	-
Property, plant and equipment		11,355	12,027	11,771
Exploration, evaluation and development expenditure		572	686	641
Deferred tax assets		556	605	595
Total assets		**31,929**	**36,836**	**34,178**
Current liabilities				
Bank overdraft		(2,450)	(1,347)	(1,509)
Payables		(5,521)	(5,645)	(7,221)
Interest bearing liabilities		(1,566)	(1,824)	(2,920)
Current tax liabilities		-	(561)	(39)
Provisions		(535)	(595)	(639)
Non current liabilities				
Interest bearing liabilities		(2,646)	(4,460)	(3,239)
Deferred tax liabilities		(694)	(489)	(370)
Provisions		(71)	(115)	(130)
Total liabilities		**(13,483)**	**(15,036)**	**(16,067)**
Net Assets		**18,446**	**21,800**	**18,111**
Ordinary shares on issue (000s)		107,881	120,055	120,055
Net assets per share - undiluted ($ per share)	2	**0.17**	**0.18**	**0.15**

Notes:

1. *Represents Imdex's equity accounted investment in the Joint Venture which is discussed further in Paragraphs 6.25 to 6.26.*
2. *Net assets per share are shown undiluted as options on issue are currently "out of the money".*

Source: Imdex's 2003 and 2004 Annual Reports

6.24 As outlined above, Imdex had total assets of approximately $34.18 million and net assets of $18.11 million as at 30 June 2004. Net assets decreased in the 2004 financial year due to the operating loss recorded for the period. As noted previously the Company's earnings in the 2004 financial year were significantly negatively impacted by the write down in the value of the Joint Venture investment and the inventory and debtor write downs at Imdex Minerals. As at 30 June 2004 the Company had a net asset backing of approximately $0.15 per share.

Investment in the Joint Venture

6.25 Imdex's investment in the Joint Venture was written down as at 30 June 2004 by approximately $3.11 million, to $5.41 million. The table below outlines the breakdown of the equity accounted investment in the Joint Venture as at 30 June 2004.

Table 7: Carrying value of Imdex's investment in the Joint Venture

	Note	$000
Capitalised investment costs and receivables	1	3,458
Receivable- RTE	2	2,921
Issue of shares to Mr H H Al-Merry	3	2,000
Formation capital and establishment costs for Imdex Arabia		1,326
Share of losses for the 2003 financial year		(894)
Carrying value of investment as at 30 June 2003		**8,811**
Share of loss for the 2004 financial year	4	(292)
Write down in value of investment as at 30 June 2004		(3,106)
Carrying value of investment as at 30 June 2004	5	**5,413**

Notes

1. *Further details outlined in Paragraph 6.26.*
2. *Inventory supplied by Imdex to the JV Business for which, to date, Imdex has not been paid.*
3. *Imdex Arabia was issued with a formal certificate of registration on 29 July 2002. On issue of the formal registration of Imdex Arabia, Mr H H Al-Merry was issued with 10 million shares in Imdex at an issue price of $0.20 per share.*
4. *Represents 49% of the operating loss of approximately $595,000 reported for the Joint Venture as outlined in Table 9.*
5. *Imdex advises us that this amount represents the carrying value of its investment in the Joint Venture being the contractual right to receive 49% of the net profits of the JV Business (as distinct from Imdex Arabia, which we are advised, is a dormant company).*

Source: Imdex's 2002, 2003 and 2004 Annual Reports

6.26 Imdex has advised that the following amounts have been capitalised forming part of the Company's carrying amount of the investment in the Joint Venture:

- a receivable from the Joint Venture of approximately $2.675 million which relates to various cash payments that were made by Imdex to, or on behalf of, RTE or parties associated with RTE, and which are "generally" described as being for formation and working capital in connection with the JV Business and are termed in the New Shareholders' Agreement to be the Working Capital Loans. Imdex has advised us that these payments were capitalised into the carrying amount of the investment in the Joint Venture; and
- capitalised expenses of approximately $0.642 million representing costs incurred by Imdex in relation to the activities in Saudi Arabia. The costs relate to travel, accommodation, legal fees etc generally relating to Imdex's management of the investment in the Joint Venture/Imdex Arabia. In the New Shareholders' Agreement the term "Management Fee" is designated as the fair compensation to Imdex for these expenses. Imdex has advised that these expenses were capitalised into the investment balance in Imdex's accounts on the basis that there were no agreements between RTE and Imdex whereby Imdex would be guaranteed to be compensated for the costs it had incurred in providing services in relation to the JV Business, however it acknowledged that the expenses should provide a long term benefit to Imdex and on this basis it would not be appropriate to expense the costs to the statement of financial performance.

6.27 Imdex has advised us that the carrying value of the investment in the Joint Venture as at 30 June 2004 was determined by the Company after consideration of forecast cash flows for the Joint Venture discounted to present value, which were prepared by the management of Imdex and RTE and reviewed by Deloitte Saudi Arabia. We note that the carrying value adopted by Imdex in its financial accounts of approximately $5.41 million is below the net present value of the investment based on the forecast cash flow model, which was approximately $7.14 million. Imdex has advised that a lower carrying value was adopted based on a conservative view adopted by the Board of Imdex having consideration to the Proposed Restructure and Selective Capital Reduction.

6.28 The prospective cash flows for the Joint Venture are discussed further in Section 7.

Summary of cash flow statements

6.29 Imdex's audited consolidated cash flow statements for the three years ended 30 June 2004 are summarised below.

Table 8: Summary of Imdex's historic cash flow statements

	Audited Year ended 30 June 2002 $000	Audited Year ended 30 June 2003 $000	Audited Year ended 30 June 2004 $000
Cash flows from operating activities			
Receipts from customers	30,852	32,218	40,747
Payments to suppliers and employees	(30,433)	(29,487)	(38,366)
Interest received	9	12	-
Interest and other costs of finance paid	(391)	(407)	(378)
Income taxes paid	(282)	(131)	(543)
Net cash provided by/(used in) operating activities	**(245)**	**2,205**	**1,460**
Cash flows from investing activities			
Payments for property, plant and equipment	(1,759)	(2,162)	(1,926)
Proceeds from disposal of property, plant and equipment	227	223	343
Proceeds from sale of shares	-	54	-
Proceeds from sale of controlled entities	4,156	500	-
Payments for mine development	-	(150)	-
Payments for other assets/investments	(3,458)	(1,325)	-
Net cash (used in) investing activities	**(834)**	**(2,860)**	**(1,583)**
Cash flows from financing activities			
Proceeds from the issue of equity securities	3,103	-	-
Payment for share issue costs	(210)	-	-
Repayments hire purchase and lease borrowings	(1,402)	(868)	(1,234)
Proceeds from borrowings	622	3,806	2,176
Repayment of borrowings	(1,750)	(1,000)	(1,250)
Net cash provided by financing activities	**363**	**1,938**	**(308)**
Net increase/(decrease) in cash held	**(716)**	**1,283**	**(431)**
Cash at the beginning of the period	(1,589)	(2,305)	(1,022)
Cash at the end of the period	**(2,305)**	**(1,022)**	**(1,453)**

Source: Imdex's 2003 and 2004 Annual Reports.

6.30 Imdex reported a net cash inflow from operations of approximately $1.46 million for the year ended 30 June 2004. The Company's investment activities for the year ended 30 June 2004 were funded by a combination of net cash flows from operations and the proceeds from borrowings.

Contingent liabilities

6.31 Imdex has noted in its 2004 Annual Report that the estimated maximum amount of contingent liabilities that may become payable as at 30 June 2004 is $155,000 comprising bank guarantees supporting the extension of credit or the performance of the Company, or its subsidiaries, in respect of its operations. The directors have indicated that they are not aware of any circumstances or information, which would lead them to believe that these liabilities will crystallise, and consequently no provisions are included in the financial accounts as at 30 June 2004.

6.32 Imdex has advised us that two complaints were received from the Department of Environmental Protection ("DEP") during the 2004 financial year with regard to dust emissions from the Company's processing plant in Jandakot. On both occasions corrective measures were taken by the Company and consequently no further action was taken by the DEP.

6.33 Imdex's management has advised us that they are not aware of any material commitments or contingent liabilities including inter alia environmental issues or legal action underway or pending which may have a material impact on the Company's financial position as at 30 June 2004.

7 The Joint Venture and Imdex Arabia

Operations

7.1 The Joint Venture's operations comprise the provision of drilling fluids and chemicals to the oil and gas industry in Saudi Arabia. These Products are unmodified and imported primarily from the United States, Europe and the United Arab Emirates ("UAE"). Imdex has advised that a company called Sepico in the UAE manufactures a significant proportion of the Products sold by the Joint Venture. Sepico is 60% owned by RTE.

7.2 The Joint Venture's main customer is Saudi Aramco, which has historically accounted for the majority of the Joint Venture's sales. Saudi Aramco is the largest producer of oil and the fourth largest producer of gas in the world. Imdex has advised that contracts to provide Products to Saudi Aramco are usually for a period of approximately 24 months. Saudi Aramco provides RTE, on behalf of the Joint Venture, with a schedule of its expected usage of material over a 12 month period. Imdex has advised that usage and therefore the volume of Products sold is generally in line with the scheduled usage.

7.3 Assuming Saudi Aramco is satisfied with the quality/reliability of the Products supplied by the Joint Venture the contracts will either be renewed or RTE, on behalf of the Joint Venture, will be requested to re-tender for the contract.

7.4 Imdex Arabia, as previously noted, was established as a service company through which Imdex and RTE would provide services to the oil and gas industry in Saudi Arabia. Imdex has advised that no services have been provided by Imdex Arabia.

7.5 As we understand, however, should the Proposal be approved, it is the intention of the Parties to upgrade Imdex Arabia's Service Licence to allow it to operate as a manufacturing company and to construct a production facility in Saudi Arabia to manufacture products for sale to customers in the Kingdom and Middle East through Imdex Arabia. Imdex has advised that it is also the intention of the Parties that Imdex Arabia in the future will expand its operations to provide services to the oil and gas industry. Imdex has advised that the profit margins achieved on the provision of services are expected to be higher than those achieved on a number of product sales.

Financial performance of the Joint Venture

7.6 The Joint Venture's audited financial results for the three years ended 30 June 2004 are summarised below.

Table 9: Summary of the Joint Venture's financial results

	Note	Audited 30 June 2002[1]		Audited 30 June 2003		Audited 30 June 2004	
		SR 000	**$000[2]**	**SR 000**	**$000[3]**	**SR 000**	**$000[4]**
Sales		**31,226**	**15,932**	**51,915**	**23,814**	**66,109**	**24,668**
Cost of sales		(26,094)	(13,313)	(48,949)	(22,454)	(61,904)	(23,099)
Gross profit		**5,132**	**2,619**	**2,967**	**1,360**	**4,205**	**1,569**
Gross profit %		*16%*	*16%*	*6%*	*6%*	*6%*	*6%*
Other income		3	2	17	8	-	-
General and administrative expenses		(4,732)	(2,414)	(6,676)	(3,060)	(5,799)	(2,164)
Operating profit/(loss)	5	**403**	**207**	**(3,693)**	**(1,694)**	**(1,594)**	**(595)**

Notes:

1 *The Joint Ventures 30 June 2002 financial results are based on the chemical financial results reported in RTE's sole proprietorship accounts for the year ended 30 June 2002. Imdex has advised that the chemical component of RTE's accounts represents the financial results of the Joint Venture.*

2 *Translated at the average cross exchange rate for the year ended 30 June 2002 being approximately $1= SR 1.96.*

3 *Translated at the average cross exchange rate for the year ended 30 June 2003 being approximately $1= SR 2.18.*

4 *Translated based on a cross rate of approximately $1 = SR 2.68 as noted in Imdex's Joint Venture restructuring spreadsheet.*

5 *Imdex currently equity accounts for 49% of the operating results recorded by the JV Business.*

Source: Audited Joint Venture accounts for the two years ended 30 June 2004 and RTE's audited statement of income for the year ended 30 June 2002

7.7 The Joint Venture recorded a net operating profit of approximately $0.21 million in the year ended 30 June 2002. Since this time the Joint Venture has recorded net operating losses of approximately $1.69 million and $0.60 million in the years ended 30 June 2003 and 30 June 2004 respectively.

7.8 The Joint Venture has recorded strong sales growth since commencing operations in June 2001, with sales growth averaging 66% and 27% for the years ended 30 June 2003 and 30 June 2004 respectively. This strong historical sales growth is a function of the start up phase of the Joint Venture's operations, but as Imdex has also noted indicates the Joint Venture's ability to maintain and grow its current contracts with end users in the oil and gas industry in Saudi Arabia.

7.9 Imdex notes that poor profit margins reported by the Joint Venture have been a result of it being a start-up business entering a market to build market share. Imdex has advised that as the business becomes more established, margins should increase through operating efficiencies. The Joint Venture has achieved improved profitability in the early months of the current financial year as discussed in Paragraph 7.15 below.

Financial position of the Joint Venture

7.10 We have outlined below the audited summarised statement of assets and liabilities for the Joint Venture as at 30 June 2003 and 30 June 2004.

Table 10: Summary of the Joint Venture net asset position

	Audited 30 June 2003		Audited 30 June 2004	
	SR 000	**$000[1]**	**SR 000**	**$000[2]**
Current assets				
Trade receivables	5,925	2,369	9,112	3,524
Other receivables	38	15	44	17
Advance to suppliers	57	23	-	-
Inventories	8,215	3,285	10,803	4,178
Prepayments	242	97	150	58
Non current assets				
Property, plant and equipment	338	135	754	292
Goodwill	3,295	1,318	2,965	1,147
Total assets	**18,110**	**7,242**	**23,828**	**9,214**
Current liabilities				
Trade payables – Affiliate	(5,821)	(2,328)	(20,837)	(8,058)[3]
Trade payables - Others	(3,245)	(1,298)	(2,307)	(892)
Amounts due to Affiliate	(9,238)	(3,694)	(2,232)	(863)
Accrued liabilities and other	(349)	(14)	(589)	(228)
Total liabilities	**(18,653)**	**(7,459)**	**(25,966)**	**(10,041)**
Net asset/(deficiency)	**(543)**	**(217)**	**(2,138)**	**(827)**

Notes:

1 Translated at the cross exchange rate as at 30 June 2003 being approximately $1=SR 2.50.

2 Translated at the cross exchange rate as at 30 June 2004 being approximately $1= SR 2.59.

3 Comprises approximately $5.81 million payable to RTE and $2.25 million payable to Imdex.

4 Imdex has advised that under the Joint Venture it does not have any contractual rights to the assets of the Joint Venture nor any exposure to its liabilities.

Source: Audited Joint Venture accounts for the years ended 30 June 2003 and 30 June 2004

7.11 As noted in the table above, the Joint Venture has a net asset deficiency of approximately $827,000 as at 30 June 2004. The Joint Venture's key assets comprise trade receivables, inventory and goodwill as outlined above.

Prospective cash flows for the Joint Venture

7.12 The management of Imdex and RTE have jointly developed a prospective cash flow model for the Joint Venture for the 6.5 years ended 31 December 2010. The prospective cash flows are real geared[10] cash flows and assume the continued operation of the JV Business. In this regard Imdex has advised that capital expenditure and improved margins expected from the Imdex Arabia business have not been incorporated into this cash flow model.

7.13 The cash flow model was reviewed by Deloitte Saudi Arabia, who noted:

> *"based on our review of the evidence/or explanations supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions."*

7.14 We have considered the cash flow model prepared by Imdex and RTE and reviewed by Deloitte Saudi Arabia and discussed some of the key underlying assumptions with Imdex's management and note:

- approximately 99% of forecast sales are expected to be made to Saudi Aramco;
- Saudi Aramco sales forecasts for the 18 months to 31 December 2005 are based on contracted product sales. Imdex has advised that the selling prices are generally fixed through the contract and volumes are based on the schedule of expected usage provided by Saudi Aramco. Imdex has advised us that historically, product sales to Saudi Aramco have not been significantly different to expected usage schedules as noted previously;
- Saudi Aramco sales from 31 December 2005 until 31 December 2010 are forecast to increase at a rate of 10% per annum. The Joint Venture has historically recorded strong sales growth, averaging 66% and 27% for the years ended 30 June 2003 and 30 June 2004 respectively. Imdex management has indicated that sales growth is forecast to continue (at a slower rate than historically) as a result of an increase in the volume of current products supplied as well as the sale of a number of new products. Whilst a small proportion of new customers have been incorporated into the Joint

[10] The cash flows do not incorporate the effect of inflation and include interest payments to debt holders.

Venture's forecast cash flows, Saudi Aramco is expected to remain the primary revenue driver for the Joint Venture.

- gross profit margins over the forecast period are expected to average approximately 15%, we note that this represents a significant improvement from the gross profit margin reported in the 2004 financial year of approximately 6%. Imdex management have indicated that the improvement in the gross profit margin is expected to be achieved through:
  - the provision of new products which are expected to be sold at higher gross margin than some of the current products sold; and
  - a reduction in the unit costs of certain products currently sold.
- Imdex has advised that contracts to provide Products to Saudi Aramco are in USD and the Products are generally sourced through contracts also denominated in USD. We note that the Saudi Riyal remains fixed to the USD at USD 1 = SR 3.75.
- an exchange rate of approximately $1 = SR 2.8 is assumed in the cash flow model;
- the discount rate applied to the cash flows is 25% representing the cost of equity, given the cash flows incorporate interest payments.;
- the cash flow model does not include any terminal value for the Joint Venture after the discrete cash flow period to 2010; and
- the cash flow model includes a sensitivity analysis using differing exchange rates and discount factors.

7.15 We have reviewed the Joint Venture's operating results against budget for July 2004 and August 2004. We note that actual sales for the month ended 31 July 2004 were reported to be approximately SR 7.72 million which was approximately 8% less than forecast sales for the month ended 31 July 2004. The actual gross profit margin achieved for July 2004 was approximately 10% compared with the forecast gross margin of approximately 11% for the month. In August 2004 the Joint Venture exceeded its sales forecast reporting sales of SR 8.96 million compared to budgeted sales of SR 8.42 million. Net profits in August 2004 were however lower then budgeted given a shortfall in the gross margin which was reported at approximately 6% compared to a budgeted margin of 11%. Whilst there has been some improvement against historic performance, the Joint Venture is not currently operating at the profitability levels anticipated in the prospective cash flows;

7.16 As previously noted, the carrying value adopted by Imdex in its financial accounts as at 30 June 2004 is less than the net present value of the investment based on the forecast cash flow model, which was approximately $7.14 million. Imdex has indicated that the carrying value as at 30 June 2004 represents a conservative assessment of the cash flows of the Joint Venture having regard to the Proposed Restructure and Selective Capital Reduction.

7.17 We consider that an arm's length purchaser of part or all of Imdex's 49% interest in the Joint Venture would most likely seek to acquire this interest at a discount to the theoretical value set out in the cash flow forecasts given the significant forecast improvement, not yet realised, on historic profitability and the lack of control over the future cash flows.

Financial position of Imdex Arabia

7.18 We have outlined below the unaudited net assets of Imdex Arabia as at 30 June 2003 and 30 June 2004.

Table 11: Imdex Arabia's historical net asset position

	Unaudited 30 June 2003		Unaudited 30 June 2004	
	SR 000	**$ 000**	**SR 000**	**$ 000**
Assets				
Cash at bank	64	26	64	25
Security deposit	1,500	600	1,500	579
Due from affiliates	430	172	430	166
Total assets	**1,994**	**798**	**1,994**	**770**
Liabilities	-	-	-	-
Net assets	**1,994**	**798**	**1,994**	**770**

Notes:

1 Translated at the cross exchange rate as at 30 June 2003 being approximately $1 = SR 2.50.

2 Translated at the cross exchange rate as at 30 June 2004 being approximately $1 = SR 2.59.

Source: Imdex Arabia's unaudited summary of assets and liabilities as at 30 June 2003 and 30 June 2004

7.19 As at 30 June 2004, Imdex Arabia had net assets of approximately SR1.99 million ($0.77 million). Imdex has advised us that, to the best of its knowledge, Imdex Arabia has no material unrecorded contingent liabilities.

8 Comparison of the value of consideration being paid by Imdex under the Proposal with the value of the consideration received by Imdex under the Proposal

Assessment of the value of the consideration paid by Imdex under the Proposal

8.1 The consideration being paid (assets being given up) by Imdex under the Proposal is the value of the 29/49ths of the Company's interest in the value of the Joint Venture (in its current state) that is being transferred to RTE. We have assessed this value to be in the range of \$3.20 million to \$3.38 million as set out in the table below. This assessment is based principally upon prospective cashflows which have been independently reviewed by Deloitte Saudi Arabia.

Table 12: Indicative value of 29/49ths of Imdex's interest in the Joint Venture

	Low \$000	High \$000
Carrying value of investment in Joint Venture (low) and 49% proportional interest in the net present value of Joint Venture based on prospective cash flow model (high)	5,412[1]	7,145[2]
Discount for minority interest (lack of control) of 20%	-	(1,429)
Assessed value of Imdex's 49% interest in the Joint Venture	5,412	5,716
Implied value of the 29/49th of Imdex's interest in the current Joint Venture being transferred to RTE	**3,203**	**3,383**
Midpoint	**3,293**	

Notes:

1 Carrying value of Imdex's interest in the Joint Venture adopted in the 2004 financial accounts.

2 Net present value of the Company's investment in the Joint Venture based on a pro-rata allocation of 49% of the forecast before tax cash flows of the Joint Venture, based on the prospective cash flow model prepared by Imdex and RTE and reviewed by Deloitte Saudi Arabia.

8.2 We note that, when assessing the value of the Company's interest in the Joint Venture at the low end of our range, we have adopted the carrying value of the investment in the Joint Venture reported in the Company's accounts. We have not discounted this for the minority interest position having regard to the discount already factored into the carrying value by Imdex. We note that if such a discount was to be applied then the lower end of our range of values as to the consideration paid by Imdex would reduce further and, in value terms, the Proposal would become more attractive. Whilst the carrying value of the investment in the Joint Venture has been supported by the prospective cash flow model prepared by Imdex and RTE, there is no certainty that these cash flows will be achieved. Historically the Joint Venture has not achieved a profitable or cashflow positive track record. As previously noted, Imdex directors have chosen to adopt a value for this investment, which is below the net present value of the cash flows noted in the prospective cash flow model.

8.3 We have adopted a value for Imdex's current 49% contractual interest in the Joint Venture to have a value of between $5.41 million being the carrying value adopted by Imdex in its 2004 financial accounts and $5.72 million being the net present value of the Company's investment in the Joint Venture based on the prospective cash flow model, less a discount to reflect the position of Imdex as the minority party. As previously noted, the net present value of Imdex's 49% interest in the Joint Venture based on a pro rata allocation of the prospective cash flow model is approximately $7.14 million. The net present value based on the prospective cash flow model does not however include any discount for Imdex's minority interest and lack of control over the forecast cash flows.

8.4 In general terms, minority interests will trade at a discount to the full underlying value of a company and/or investment. The quantum of the discount will vary on a case-by-case basis. Factors influencing the discount include the existence or otherwise of a controlling shareholding, the liquidity of the investment, the level of information asymmetry and the dividend policy. In this instance RTE has a 51% interest in the net profits of the JV Business and Imdex has advised RTE, on behalf of the Joint Venture, wholly owns and control the assets of JV Business. Imdex further advises us that RTE also enters into all contracts in Saudi Arabia on behalf of the Joint Venture. Given this, we are of the view that it is appropriate in this instance to apply a 20% discount to the net present value of Imdex's 49% interest in the Joint Venture.

8.5 Assuming the Proposal is successfully implemented, Imdex will transfer 29/49^{ths} of its interest in the Joint Venture to RTE. Based on the assessed range of value of the Company's 49% interest in the Joint Venture being $5.41 million to $5.72 million, the value of the Company's 29/49^{ths} interest in the Joint Venture, to be transferred to RTE under the Proposal is in the range of $3.20 million to $3.38 million as outlined in Table 12 above.

Assessment of the value of the consideration received by Imdex under the Proposal

8.6 The consideration received by Imdex under the Proposal comprises:

- 10 million Imdex shares which are to be cancelled by the Company;
- the net cash of USD 1.5 million to be received by Imdex from RTE under the Proposal, which the independent directors of Imdex have indicated would not have been received in the absence of the Proposal; and

- 20% of the Imdex Share Capital Contribution and the RTE Share Capital Contribution.

8.7 We have assessed the value of the consideration being received under the Proposal to be within the range of \$3.43 million to \$3.93 million, with a midpoint of \$3.68 million as outlined below.

Table 13: Assessment of the value of the consideration received by Imdex under the Proposal

	Paragraph	Low \$000	High \$000
10 million Imdex shares being cancelled	8.9 to 8.13	1,100	1,600
USD 1.5 million	8.14 to 8.18	2,143	2,143
20% interest in the enlarged Imdex Arabia	8.19 to 8.24	183	183
Assessed value		**3,426**	**3,926**
Midpoint		**3,676**	

8.8 The assessed values above are discussed further below.

Valuation of Imdex shares being received and cancelled by the Company

Valuation approach

8.9 In assessing the fair market value of the Imdex shares to be cancelled by the Company, we have considered the various methodologies set out in ASIC Practice Note 43, which an independent expert is required to consider in completing a valuation. These include:

- the discounted cash flow method;
- the capitalisation of future maintainable earnings or cash flows methodology;
- the amount that would be distributed to shareholders on an orderly realisation of assets;
- the amount which an alternative acquirer might be prepared to pay; or
- the most recent quoted price of listed securities.

8.10 In the absence of unusual circumstances, the share market normally provides an objective measure of the fair value of the shares in a listed company. Market prices incorporate the influence of all available information on a company's prospects, future earnings and risk. Under ASX's continuous disclosure requirements, price sensitive information should already be within the public domain and therefore should be incorporated into the market price of the shares being offered as consideration. Accordingly, in an efficient market and in the absence of unusual circumstances, the share market price should represent an unbiased estimate of the market as to the fair value of an Imdex share, incorporating the influence of all available information on Imdex's prospects, future earnings and risk.

Valuation of Imdex shares

8.11 In assessing the value of the Imdex shares being cancelled by the Company we have considered inter alia:

- the recent trading price of a share in Imdex;
- that the share price of a company represents the value of a portfolio interest in the company and does not include any premium for control;
- the 10 million shares in the Company to be cancelled (which are currently held by Mr H H Al-Merry) represent 8.3% of the Imdex's current shares on issue;
- the liquidity of trading in Imdex shares. In this regard we note that the number of shares to be bought back is less than the number of shares traded in Imdex in the 3 months prior to the announcement of the Proposal;
- we have not attributed any premium to the assessed value of a share in Imdex to account for any premium which may attach to the sale of a 10 million parcel (8.3% of Imdex's current issued capital) of shares in the Company. Conversely we have not applied any discount to the assessed value of a share in Imdex to account for the potential of an extended realisation period as in our opinion the Company's shares are sufficiently liquid;
- the weighted average trading price of an Imdex share on the day prior to the announcement of the Proposal; and
- the average trading price for an Imdex share at various points in the three month period prior to the announcement of the Proposal.

8.12 Having consideration to the above, we have assessed the value of an Imdex share to lie in the range of $0.11 per share to $0.16 per share. Therefore the value of the 10 million Imdex shares received by Imdex have been assessed as having a value in the range of $1.10 million to $1.60 million, with a midpoint of $1.35 million.

Table 14: Summary of assessed fair value of Imdex shares being bought back

	Low	High
Assessed value of a share in Imdex ($)	0.11	0.16
Number of shares being cancelled (000)	10,000	10,000
Assessed value of shares being cancelled by Imdex ($000)	**1,100**	**1,600**
Midpoint ($000)	**1,350**	

Valuation cross check

8.13 We have performed a cross check on the above valuation by reference to the capitalisation of the future maintainable earnings methodology and concluded that the value determined based on recent share trading in the Company does not appear unreasonable having regard to the indicative valuation range assessed using the capitalisation of future maintainable earnings.

Net cash of USD 1.50 million

8.14 RTE will pay to the Company, or on behalf of the Company, a total of USD 2.25 million which as outlined in the New Shareholders' Agreement comprises the following:

- the payment of the Working Capital Loans of USD 1.75 million of which USD 0.75 million will be paid directly to Imdex Arabia, on behalf of Imdex in respect of the Imdex Share Capital Contribution and the Imdex WC Contribution; and
- the payment of the Management Fee of USD 0.5 million.

8.15 Therefore the net cash amount received by Imdex is USD 1.5 million. As discussed earlier it is the firm opinion of the independent directors' of Imdex that, in the absence of the Proposal, the cash payment would not have been received.

8.16 The New Shareholders' Agreement provides that, prior to the Effective Date, Imdex shall issue an invoice to RTE for the Management Fee of USD 0.50 million. RTE will pay, directly to Imdex, the full amount of the Management Fee on or before 31 March 2005. The New Shareholders' Agreement also provides that, on the Effective Date, RTE shall repay the full amount of the Working Capital Loans of USD 1.75 million to Imdex, provided that RTE shall pay USD 0.75 million directly to Imdex Arabia, in respect of the Imdex Share Capital Contribution and the Imdex WC Contribution.

8.17 Imdex has advised us that, in its opinion, in the absence of the Proposal there is unlikely to be any obligation on RTE or the Joint Venture to repay Imdex for the Working Capital Loans and/or the Management Services and that Imdex certainly has no expectation of receiving payment for either the Working Capital Loans or Management Services in the absence of an equity transaction involving the contractual interests of the Joint Venture.

8.18 The Proposal therefore makes available USD 1.0 million in cash to Imdex on the Effective Date and a further USD 0.50 million in cash on or before 31 March 2005. Imdex has advised us that net cash of USD 1.50 million received pursuant to the Proposal will be used to pay down some of the longer term borrowings of the Company and/or for working capital purposes. We have assessed the value of the net cash of USD 1.50 million to be received by Imdex under the Proposal to have a value in the order of $2.14 million as outlined in the table below.

Table 15: Assessed value of USD 1.5 million cash received by Imdex under the Proposal

	Note	$000
USD 1.0 million received on the Effective Date	1	1,429
USD 0.5 million received on, or before, 31 March 2005	1,2	714
Assessed value		**2,143**

Notes:

1 Based on an exchange rate of approximately USD 1 = $0.70.

2 We have not applied any discount to reflect that the USD 0.5 million may not be received until 31 March 2005 as this is not considered to have a material impact on the value of the funds received, given the General Meeting to approve the Proposal is currently planned to be held on or around 8 November 2004.

20% of the Imdex Share Capital Contribution and the RTE Share Capital Contribution

8.19 As noted above, Imdex Arabia is currently a dormant company with net assets of approximately SR 1.99 million ($0.77 million) as at 30 June 2004. Pursuant to the Proposal, RTE, on behalf of Imdex will contribute cash to Imdex Arabia of USD 0.75 million ($1.07 million)[11], comprising the Imdex Share Capital Contribution and the Imdex WC Contribution. The Imdex Share Capital Contribution as previously noted comprises the payment of SR 20,000 (approximately $7,633) as consideration for the issue to Imdex of 20 new shares in Imdex Arabia (which will result in Imdex holding a 20% interest in Imdex Arabia). The balance of funds contributed represents the Imdex WC Contribution. Imdex has advised that, whilst the Imdex WC Contribution does not accrue interest and there is no term for repayment, it represents a loan repayable by Imdex Arabia to Imdex.

[11] Unless otherwise noted USD are converted into $ at an exchange rate of USD 1 = $0.70

8.20 As of the Effective Date, RTE, in its own right will also contribute SR 2.98 million (approximately $1.14 million) in cash consideration for the issue to RTE of 2,980 new shares in Imdex Arabia (which will result in RTE holding an 80% interest in Imdex Arabia).

8.21 As soon as practical after the Effective Date, and in any case no later than 31 December 2005, RTE shall also contribute cash and assets (in any combination) which, when combined with the RTE Share Capital Contribution, will have a total value of $8.0 million. The cash and assets representing the RTE WC Contribution will therefore have a total value of approximately $6.86 million (based on the conversion of the SR 2.98 million to $ noted above). The assets to be contributed pursuant to the RTE WC Contribution will comprise inventory and goodwill of the JV Business. The Company has further advised us that it has not yet been confirmed what proportion of inventory and goodwill will be transferred by RTE from the JV Business to Imdex Arabia or how these assets will be valued. Imdex has advised that whilst the RTE WC Contribution does not accrue interest and there is no term for repayment, it represents a loan repayable by Imdex Arabia to RTE.

8.22 Following the Proposed Restructure, Imdex will have a 20% interest in Imdex Arabia. Imdex will therefore have a 20% interest in the additional equity contributed to Imdex Arabia by the Parties which comprises the Imdex Share Capital Contribution and the RTE Share Capital Contribution. Whilst the Imdex WC Contribution represents a loan repayable to Imdex after consideration of the attaching terms, we have not placed any value of this at this stage. Neither have we placed any value on the RTE WC Contribution as this represents a loan repayable to RTE.

8.23 As previously noted in Paragraph 8.4, a minority interest will generally trade at a discount to the full underlying value of a company. In our opinion it is therefore appropriate to apply a discount to Imdex's share of the additional value to reflect the Company's minority position. Accordingly we have applied a discount of 20%.

8.24 We have assessed the value of Imdex's 20% interest in the additional cash contributed to Imdex Arabia by Imdex and RTE to have a value in the order of $0.18 million.

Table 16: Imdex's share of additional value contributed to Imdex Arabia

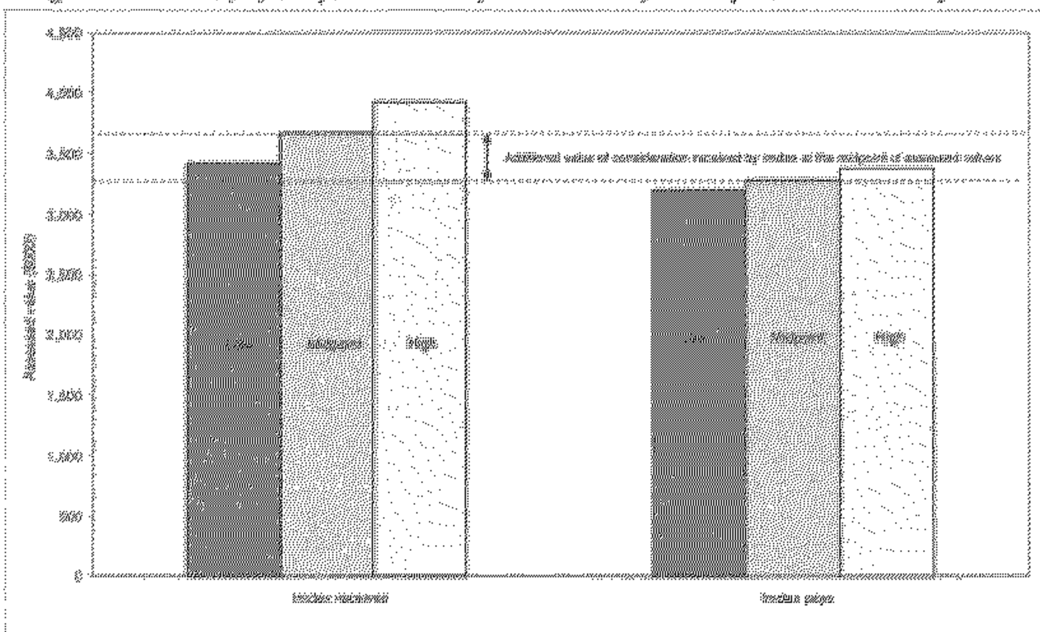
	Note	$000
Value of Imdex Share Capital Contribution	1	8
Value of RTE Share Capital Contribution	1	1,137
Share capital contributed to Imdex Arabia		**1,145**
Imdex's 20% interest in the share capital contributions to Imdex Arabia		229
Discount for minority interest of 20%		(46)
Assessed value of Imdex's 20% interest in the share capital to be contributed to Imdex Arabia		**183**

Notes:
1 Based on exchange rate of approximately SR 1 = $ 2.62.

Summary of comparative value paid and received by Imdex pursuant to the Proposal

8.25 The diagram below illustrates the comparative value of the assets received by Imdex under the Proposal with the value of the assets paid pursuant to the Proposal.

Figure 5: Summary of comparative value paid/received by Imdex pursuant to the Proposal



9 Assessment as to whether the Proposal is fair and reasonable to non-associated shareholders of Imdex

9.1 In assessing whether the Proposal is fair and reasonable to the non-associated shareholders of Imdex we have considered the advantages and disadvantages that are likely to accrue to them assuming the Proposal is approved and proceeds.

Advantages

The midpoint of the assessed range of values of the assets being received by Imdex under the Proposal, exceeds the midpoint of the assessed range of values of the 29% interest in the Joint Venture, being offered as consideration by Imdex under the Proposal

9.2 The consideration being paid under the Proposal is the value of the 29/49[ths] of the Company's interest in the Joint Venture which is being transferred to RTE under the Proposal. We have assessed the indicative value of Imdex interest in the Joint Venture which is being transferred to RTE under the Proposal to have a value in the range of $3.20 million to $3.38 million, with a midpoint of $3.29 million. This value has been assessed having consideration to the current carrying value of the Company's 49% interest in the Joint Venture and the net present value of the cash flows of the Joint Venture based on the cash flow model prepared by Imdex and RTE and audit reviewed by Deloitte Saudi Arabia, discounted to reflect the Company's minority interest.

9.3 We note whilst the carrying value of the Company's investment in the Joint Venture is supported by the prospective cash flow model reviewed by Deloitte Saudi Arabia as previously noted prospective information is by its nature uncertain. In the event that actual cash flows of the Joint Venture are less than the prospective operating cash flow model then the value of the consideration paid by Imdex will decrease. Conversely, if the Joint Venture's actual performance exceeds the prospective operating performance the value paid by Imdex will be greater.

9.4 We have assessed the value of the assets being received by Imdex under the Proposal to be in the range of $3.43 million to $3.93 million, with a midpoint of $3.68 million. The assessed value of the assets being received by Imdex is based on:

- the assessed range of values for 10 million shares received by Imdex having a value between $1.10 million and $1.60 million;
- the net cash of USD 1.5 million to be received by Imdex pursuant to the Proposal which we have assessed as having a value in the order of $2.14 million; and
- Imdex's 20% interest in the Imdex Share Capital Contribution and the RTE Share Capital Contribution.

9.5 The midpoint of the assessed range of values of the assets being received under the Proposal exceeds the midpoint of the range of values of the 29% interest in the Joint Venture being given up by Imdex. We note also that the valuation of the assets being given up by Imdex is highly subjective as it is based on prospective positive cashflows from a business that has historically not operated profitably.

The Company receives USD 1.50 million in cash

9.6 The Proposal makes available to Imdex USD 1.50 million, ($1.0 million on the Effective Date and USD 0.5 million on or before 31 March 2005) in cash that in the absence of the Proposal, Imdex has advised would not have otherwise been received.

9.7 Imdex has advised that net cash of USD 1.50 million received pursuant to the Proposal will be used to pay down some of the longer term borrowings of the Company and/or for working capital purposes.

Imdex's exposure to risks facing the Joint Venture and Imdex Arabia are reduced

Reliance on a single customer

9.8 The Joint Venture operation is currently highly reliant on a single customer, Saudi Aramco, and based on the Joint Venture's forecast cash flows in the medium term, Saudi Aramco is expected to remain the Joint Venture's primary customer accounting for on average 99% of forecast sales. Whilst Imdex has indicated that to date RTE, on behalf of the Joint Venture, has been invited by Saudi Aramco to re-tender for existing contracts and has secured new contracts with Saudi Aramco, should Saudi Aramco decide to source products supplied by the Joint Venture elsewhere this would have a significant negative impact on the Joint Venture's operations. The Parties are conscious of the need to reduce reliance on one major customer and, we understand, are actively pursuing other customers.

Reliance on RTE

9.9 Imdex has advised us that RTE, being a wholly Saudi Arabian owned entity, is critical to the marketing of the Joint Venture's products to Saudi Aramco. RTE has historically been the entity which is engaged by customers in Saudi Arabia (due to laws and regulation restricting the trading in certain good to wholly owned Saudi Arabian entities), on behalf of the Joint Venture, and is therefore critical to the operations and success of the Joint Venture and Imdex Arabia.

Country risk

9.10 The Economic Intelligence Unit's August 2004 country outlook for Saudi Arabia notes that the Kingdom is expected to continue to face security threats over the forecast period, despite the efforts by security forces to counter these challenges. Whilst Imdex have indicated that they understand that Saudi Aramco is establishing security measures at all its sites, the risk of terrorist activity disrupting Saudi Aramco's operations and adversely impacting purchases of products supplied by the Joint Venture is present.

The Company will have no further funding obligations in relation to the Saudi Arabian operations

9.11 Imdex has historically provided cash advances and management services in relation to operations in Saudi Arabia. Imdex has advised that following the restructure of the Company's interest in the Saudi Arabian operations (with its interests being reduced from 49% to 20%) the Company has confirmed that notwithstanding the terms of the New Shareholders' Agreement set it on Paragraph 4.22 above, a major attraction of the Proposal is that the Company will have no further funding obligations in respect to the Saudi Arabian operations. Imdex has advised us that all future funding and working capital requirements will be the responsibility of RTE.

Disadvantages

The Company's percentage interest in any future profits of the Joint Venture and Imdex Arabia is reduced

9.12 Imdex's interest in the Joint Venture and Imdex Arabia will decrease from 49% currently to 20% assuming the Proposal is approved and proceeds. Imdex's percentage interest in any future profits achieved in the Joint Venture and Imdex Arabia is therefore reduced as a result of the Proposal. We note, however, that to date the Joint Venture has not yielded profits to Imdex.

9.13 We are advised by Imdex that it is the intention of the Parties, pursuant to the New Shareholders' Agreement, and assuming the Proposal is approved and proceeds, that Imdex Arabia will upgrade its Services Licence to allow it to operate as a manufacturing company in Saudi Arabia. A production plant is planned to be constructed in Saudi Arabia, which will produce Products that will then be sold through Imdex Arabia. Thus certain Products, which are currently imported and sold through the Joint Venture (due to restrictions applying to the trade in unmodified imported goods), will now be produced and sold through Imdex Arabia under a Service and Manufacturing Licence. Imdex advised that it is also planned that Imdex Arabia will provide services to the oil and gas industries in Saudi Arabia..

9.14 There is therefore potential that the profit pool being generated by the Parties' business operations in Saudi Arabia will increase. Imdex's percentage interest in this potential future profit pool will be reduced as a result of the Proposal.

Other considerations

The Selective Capital Reduction may possibly improve liquidity in Imdex's shares

9.15 The cancellation of the 10 million shares currently held by Mr H H Al-Merry will result in Imdex having a slightly more 'open' share register. This may lead to an improvement in liquidity of the Company shares and may lead to a small improvement in the likelihood of a takeover.

9.16 **Having regard to the above advantages and disadvantages, we have concluded that, on balance, the Proposal is fair and reasonable to the non-associated shareholders of Imdex.**

Appendix 1 - Qualifications and declarations

Purpose of the report

This report is provided solely for the purpose of expressing our opinion as to whether the Proposal is in the best interests of the shareholders of Imdex. This report is not provided for any other reason whatsoever and may not be relied upon by any person other than the shareholders of Imdex, or for any purpose whatsoever other than that stated above.

Neither the whole nor any part of this report of its attachments of any reference thereto may be included in or attached to any documents, other than the Notice and Explanatory Memorandum to be sent to Imdex shareholders, without the prior consent of KPMG Corporate Finance as to the form and context in which it appears.

Qualifications

KPMG Corporate Finance is a specialist corporate advisory practice owned by the partners of KPMG and is a licensed dealer within the terms of the Act. KPMG Corporate Finance provides a full range of corporate advisory services and has advised on numerous corporate valuations, restructures and mergers and acquisitions.

KPMG is a firm of Chartered Accountants and part of the international firm of Klynveld Peat Marwick Goerdeler.

The following persons, whose qualifications and experience are stated below and which are appropriate to the tasks performed, were responsible for the preparation of this report.

Duncan Calder is a director and authorised representative of KPMG Corporate Finance as well as a partner of KPMG. He is an Associate of The Institute of Chartered Accountants in Australia and has been involved in the preparation of numerous independent expert's reports and other financial advisory and valuation assignments.

Steve Scudamore is a director and authorised representative of KPMG Corporate Finance as well as a partner of KPMG. He is a Fellow of The Institute of Chartered Accountants in Australia and has been involved in the preparation of numerous independent expert's reports and other financial advisory and valuation assignments.

Disclosure of interest

At the date of this report, none of KPMG Corporate Finance, KPMG, Duncan Calder, Steve Scudamore nor any other member, director, partner or employee of any of KPMG Corporate Finance or KPMG has any interest in the outcome of the Proposal, except that KPMG Corporate Finance are entitled to receive professional fees for the preparation of their respective reports based on time occupied at normal professional rates.

With the exception of these fees, none of KPMG Corporate Finance nor KPMG will receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

Consents

KPMG Corporate Finance

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Notice of Meeting to be issued to Imdex's shareholders. Other than this report, neither KPMG Corporate Finance nor KPMG has been involved in the preparation of the notice of meeting. Accordingly, we take no responsibility for the content of the notice of meeting as a whole.

Reliance on information

The sources of information upon which this report has been based are set out in Appendix 2 to this report. Whilst KPMG Corporate Finance, has no reason to believe that such information is anything but reliable and accurate, KPMG Corporate Finance has not in any way caused such information to be independently verified or audited. We have however evaluated the information provided by Imdex, as well as other parties, through inquiry, analysis and review and nothing has come to our attention to indicate the information provided was materially misstated or did not afford reasonable grounds upon which to base our opinion. We have no reason to believe that any information relied on by us is incomplete or incorrect.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon value either positively or negatively.

We have had discussions with the Directors and management of Imdex regarding the information contained in this report and extracts from an earlier draft of this report. The earlier draft required amendment following changes to the details of the Proposal. There was no alteration to the methodology, conclusions or recommendations as a result of these discussions.

As this report has been prepared specifically for Imdex's non- associated shareholders, none of KPMG Corporate Finance, KPMG, or any director, member or employee thereof undertakes responsibility to any other person in respect of this report, including any errors or omissions howsoever caused.

Indemnification

A condition of KPMG Corporate Finance's agreement to prepare this report was that Imdex indemnify KPMG Corporate Finance against any and all losses, claims, damages and liabilities arising out of or related to reliance on information provided by the Company.

Appendix 2- Sources of information

In preparing this report and arriving at our opinion, we have considered, amongst others, the following principal sources of information:

- draft copies of the Notice of Meeting and Explanatory Memorandum, dated 27 September 2004 and 4 October 2004, to be sent to Imdex shareholders in respect of the Proposal;
- draft copies of the Amended and Restated Shareholders Agreement dated 27 July 2004 and 8 August 2004 and the final copy of the Amended and Restated Shareholders Agreement dated 5 October 2004;
- a copy of the Shareholders' Agreement dated 7 June 2001;
- a copy of the draft Amended and Restated Agency Agreement dated 8 August 2004;
- a discussion paper in relation to "working capital loans" forming part of the investment in the RTE/Imdex joint venture;
- a document prepared by Corrs Chamber Westgarth dated 27 July 2004, outlining Australian regulatory issues in respect of Imdex's Heads of Agreement with RTE regarding Imdex Arabia;
- the audited financial accounts for the RTE/Imdex Muds and Chemicals Joint Venture for the years ended 30 June 2003 and 30 June 2004;
- the audited financial accounts for Rashid Trading Establishment (a Saudi Sole Proprietorship) for the year ended 30 June 2002, which incorporated the financial results for the Joint Venture;
- Imdex Arabia's unaudited summary of assets and liabilities as at 30 June 2003 and 30 June 2004;
- the Joint Venture management accounts and report for July 2004 and August 2004;
- RTE/Imdex Joint Venture restructure workings in respect to the carrying value of the Joint Venture following the Proposal;
- cash flow model for the Joint Venture for the period December 2004 to December 2010, reviewed by Deloitte & Touche Bakr Abulkhair & Co;
- a memorandum (draft subject to audit review) to the Board in respect to the carrying value of the Imdex/RTE Joint Venture dated 18 August 2003;

- Imdex's top 20 shareholder listing as 21 September 2004;
- details in regard to options on issue and environmental regulation (extracted from the notes to the draft 2004 Annual Report);
- Imdex's 2002, 2003 and 2004 audited Annual Reports,
- historical share price and liquidity data from Bloomberg in relation to Imdex;
- company background information from Huntley's DatAnalysis;
- historical exchange rates from Oanda.com; and
- country outlook information from the Economic Intelligence Unit.

In addition we have held discussions with the independent directors and management of Imdex.

ABN 78 008 947 813

NOTICE OF SPECIAL MEETING

Notice is given that the Special Meeting of Shareholders of Imdex Limited whose shares are to be cancelled under the Proposal, being HH Al-Merry only, will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, Victoria, on 8 November 2004, commencing at 10.30am or such earlier time as Mr HH Al-Merry consents to in writing

Agenda

Special Business

1 To consider and, if thought fit, pass the following resolution as a Special Resolution:

That, subject to Resolutions 1 and 2 of the AGM Notice of Meeting being passed, for the purposes of section 256C of the Corporations Act and for all other purposes, the share capital of the Company be reduced by cancelling 10,000,000 ordinary shares held by Mr H H Al-Merry for consideration equal to the ASX Buy Price (as defined in the accompanying Explanatory Memorandum) per share.

Voting Exclusion Statement

In accordance with section 256C of the Corporations Act, the Company will disregard any votes cast in favour of Resolution 1 other than votes cast by shareholders whose ordinary shares are to be cancelled pursuant to Resolution 1, unless the vote is cast by such persons as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on a proxy form to vote as the proxy decides.

NB: Mr H H Al-Merry, being the only person whose shares are to be cancelled pursuant to Resolution 1 is the only person entitled to attend at the Special Meeting and vote on the resolution.

Proxies

Please note that:

(a) a member of the Company entitled to attend and vote at the Special Meeting is entitled to appoint a Proxy;
(b) a Proxy need not be a member of the Company; and
(c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each Proxy is appointed to exercise, but where the proportion or number is not specified, each Proxy may exercise half of the votes.

The enclosed Proxy Form for the Special Meeting provides further details on appointing Proxies and lodging the Proxy Form.

Dated 6 October 2004

By Order of the Board of Directors

Stephen J Lyons
Company Secretary
Imdex Limited

PROXY FORM
SPECIAL MEETING

Shareholder Details

Name: ....

Address: ....

Contact Telephone No: ....

Contact Name (if different from above): ....

Appointment of Proxy

I/We being a shareholder/s of Imdex Limited and entitled to attend and vote hereby appoint:

☐ The Chairman of the Meeting (mark with an 'X') **OR** [ ] Write here the name of the person you are appointing if this person is someone other than the Chairman of the Meeting.

or failing the person named, or if no person is named, the Chairman of the Meeting, as my/our Proxy to attend and act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the Proxy sees fit) at the Special Meeting of Imdex Limited to be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, Victoria on 8 November 2004 at 10.30am EST and at any adjournment of that meeting.

Important information if appointing the Chairman as your Proxy

If you appoint the Chairman as your Proxy, but do not wish to direct your Proxy how to vote on a Resolution, you must place a mark in the boxes below headed "Proxy's Discretion" in respect of that Resolution. By marking this box, you acknowledge that the Chairman may exercise your Proxy even if he has an interest in the outcome of the Resolution and votes cast by him other than as Proxy Holder will be disregarded because of that interest. If you appoint the Chairman as your Proxy, but do not mark any box, the Chairman will be unable to exercise your Proxy vote. If you appoint the Chairman as your Proxy and place a mark in any box headed "Proxy's Discretion", the Chairman intends to exercise your Proxy to vote in favour of that Resolution.

Voting directions to your Proxy – please mark ☒ to indicate your directions

Special Business	For	Against	Abstain*	Proxy's Discretion
Resolution 1: Selective Capital Reduction	☐	☐	☐	☐

* If you mark the Abstain box for a particular Resolution, 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.

Appointment of a second Proxy (see instructions overleaf)

If you wish to appoint a second Proxy, state the percentage of your voting rights applicable to the Proxy appointed by this form. [ ] %

PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented

Individual or Shareholder 1	Shareholder 2	Date
Sole Director and Sole Company Secretary	Director	

How to complete this Proxy Form

1 Your Name and Address

Please print your name and address as it appears on your Holding Statement and the Company's Share Register. If shares are jointly held, please ensure the name and address of each joint Shareholder is indicated. Shareholders should advise the Company of any changes. Shareholders sponsored by a broker should advise their broker of any changes. Please note, you cannot change ownership of your securities using this Form.

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your Proxy, mark the box. If the person you wish to appoint as your Proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named Proxy does not attend the meeting, the Chairman of the Meeting will be your Proxy. A Proxy need not be a Shareholder of the Company.

3 Votes on Resolutions

You may direct your Proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Resolution 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 a given Resolution, your Proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on that Resolution will be invalid.

4 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 Secretary, Mr Stephen Lyons on (08) 9481 5777 or you may photocopy this form. To appoint a second Proxy you must on each Proxy Form state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant Proxy. If both Proxy Forms do not specify that percentage, each Proxy may exercise half your votes. Fractions of votes will be disregarded.

5 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, all of the Shareholders should sign.
Power of Attorney:	to sign under Power of Attorney, you must have already lodged this document with the Company's Share 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.

6 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address given below not later than 48 hours before the commencement of the meeting; ie. no later than 10.30am EST on 6 November 2004. Any Proxy Form received after that time will not be valid for the scheduled meeting.

This Proxy Form (and any Power of Attorney and/or second Proxy Form) may be sent or delivered to the Company's Registered Office at Level 3, Redgum House, 18 Richardson Street, West Perth WA, 6005 or sent by facsimile to the Registered Office on (08) 9481 6527.

PROXY FORM
2004 ANNUAL GENERAL MEETING

Shareholder Details

Name: ____________________

Address: ____________________

Contact Telephone No: ____________________

Contact Name (if different from above): ____________________

Appointment of Proxy

I/We being a shareholder/s of Imdex Limited and entitled to attend and vote hereby appoint:

☐ The Chairman of the Meeting (mark with an 'X') **OR** [ ] Write here the name of the person you are appointing if this person is someone other than the Chairman of the Meeting.

or failing the person named, or if no person is named, the Chairman of the Meeting, as my/our Proxy to attend and act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the Proxy sees fit) at the Annual General Meeting of Imdex Limited to be held at Le Meridien at Rialto, 495 Collins Street, Melbourne, Victoria on 8 November 2004 at 11.00am EST and at any adjournment of that meeting.

Important information if appointing the Chairman as your Proxy

If you appoint the Chairman as your Proxy, but do not wish to direct your Proxy how to vote on a Resolution, you must place a mark in the boxes below headed "Proxy's Discretion" in respect of that Resolution. By marking this box, you acknowledge that the Chairman may exercise your Proxy even if he has an interest in the outcome of the Resolution and votes cast by him other than as Proxy Holder will be disregarded because of that interest. If you appoint the Chairman as your Proxy, but do not mark any box, the Chairman will be unable to exercise your Proxy vote. If you appoint the Chairman as your Proxy and place a mark in any box headed "Proxy's Discretion", the Chairman intends to exercise your Proxy to vote in favour of that Resolution.

Voting directions to your Proxy – please mark ☒ to indicate your directions

	For	Against	Abstain*	Proxy's Discretion
Special Business				
Resolution 1: Implement Proposal	☐	☐	☐	☐
Resolution 2: Selective Capital Reduction	☐	☐	☐	☐
Ordinary Business				
Resolution 4: Re-election of Mr KA Dundo	☐	☐	☐	☐
Resolution 5: Re-election of Mr R Kelly	☐	☐	☐	☐
Resolution 6: Re-election of Mr HH Al-Merry	☐	☐	☐	☐

* If you mark the Abstain box for a particular Resolution, 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.

Appointment of a second Proxy (see instructions overleaf)

If you wish to appoint a second Proxy, state the percentage of your voting rights applicable to the Proxy appointed by this form. [ ] %

PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented

Individual or Shareholder 1	Shareholder 2	Date
Sole Director and Sole Company Secretary	Director	

How to complete this Proxy Form

1 Your Name and Address

Please print your name and address as it appears on your Holding Statement and the Company's Share Register. If shares are jointly held, please ensure the name and address of each joint Shareholder is indicated. Shareholders should advise the Company of any changes. Shareholders sponsored by a broker should advise their broker of any changes. Please note, you cannot change ownership of your securities using this Form.

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your Proxy, mark the box. If the person you wish to appoint as your Proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named Proxy does not attend the meeting, the Chairman of the Meeting will be your Proxy. A Proxy need not be a Shareholder of the Company.

3 Votes on Resolutions

You may direct your Proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Resolution 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 a given Resolution, your Proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on that Resolution will be invalid.

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5 Signing Instructions

You must sign this form as follows in the spaces provided:

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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.

If a representative of the corporation is to attend the meeting a "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the certificate is included with the Notice of Annual General Meeting or may be obtained from the Company.

6 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address given below not later than 48 hours before the commencement of the meeting; ie. no later than 11.00am EST on 6 November 2004. Any Proxy Form received after that time will not be valid for the scheduled meeting.

This Proxy Form (and any Power of Attorney and/or second Proxy Form) may be sent or delivered to the Company's Registered Office at Level 3, Redgum House, 18 Richardson Street, West Perth WA, 6005 or sent by facsimile to the Registered Office on (08) 9481 6527.

imdex

CORPORATE REPRESENTATIVE CERTIFICATE

Shareholder Details

This is to certify that by a resolution of the Directors of:

(Company)

(Insert name of shareholder company)

The Company has appointed:

(Authorised corporate representative)

(Insert name of corporate representative)

in accordance with the provisions of section 250D of the Corporations Act 2001, to act as the body corporate representative of that Company at the Annual General Meeting of Imdex Limited to be held on 8 November 2004 and at any adjournments of that meeting.

DATED ______________________________ 2004

Please sign here

Executed by the Company
in accordance with its constituent documents

Signed by authorised representative

Signed by authorised representative

Name of authorised representative (print)

Name of authorised representative (print)

Position of authorised representative (print)

Position of authorised representative (print)

Instructions for Completion

1. Insert name of appointor Company and the name or position of the appointee (eg "John Smith" or "each Director of the Company").
2. Execute the Certificate following the procedure required by your Constitution or other constituent documents.
3. Print the name and position (eg Director) of each Company officer who signs this Certificate on behalf of the Company.
4. Insert the date of execution where indicated.
5. Send or deliver the Certificate to Imdex Limited, Level 3, Redgum House, 18 Richardson Street, West Perth WA 6005 or fax to (08) 9481 6527.