IMDEX NEWS

Issue 7—May 2005

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A Message from the Managing Director

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

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

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

Dear Valued Shareholder

I am pleased to report that the Company is meeting the business objectives which we had set at the beginning of the current financial year. At the same time, we have taken some important strategic steps to help build greater value for your shareholding.

During the quarter, there were three highlights.

- A Heads of Agreement was reached for the proposed acquisition of the business of the South African mud company, Samchem.
- A Heads of Agreement was reached with Unimin for the proposed sale of Imdex Minerals.
- Our domestic operational financial performance was in line with our forecasts.

Domestically and internationally, the resources and energy sectors are seeing a strong uplift in activity. We are continuing to experience unprecedented demand for our services and the Imdex group of companies is benefiting from these conditions.

When I wrote to you in the last edition of Imdex News, I expected the Imdex group of companies to record a strong second half which would allow it to meet its $46 million 2004/05 sales target with a trading margin (earnings before interest & tax (EBIT)) of 11%. The strong trading conditions have eventuated and are helping us meet this forecast.

Recent months have been very busy as we have refocussed the company strategically with a view to building on our strengths. There have been ASX announcements which I will summarise briefly for you.

On 21 January 2005, the Directors announced the proposed acquisition of the drilling fluids and chemicals business of the South African Mud Company (Samchem) for a total consideration of approximately $7.6m made up of cash (50%) and Imdex shares (50%).

This acquisition was subject to a detailed due diligence by Imdex and South African Reserve Bank Exchange Control approval. I am pleased to advise that the due diligence process was completed satisfactorily by Imdex with no adverse findings. Exchange Control approval has also been obtained subject to the shares transferred to the owners of Samchem being sold within a period of twelve months. The owners of Samchem, however, would like to retain the shares for long-term growth and may make a further application to Exchange Control.

We are close to finalising the formal Contract of Sale. As part of the sale process, I expect an Extraordinary General Meeting of Shareholders to be held in late June 2005 to approve the acquisition. If shareholder approval is obtained, the two parties should be able to settle on, or about, 1 July 2005.

The second of the corporate initiatives in the last quarter was the proposed sale of Imdex Minerals. Following consideration of the ongoing value of the business and its strategic positioning, Directors concluded that Imdex Minerals is a non-core asset and are proposing that it be sold.

Directors announced to the Australian Stock Exchange (ASX) on 22 March 2005 that a Heads of Agreement was entered into with Unimin Australia Limited (Unimin) for the sale of the Imdex Minerals business, including the freehold property at Jandakot, Perth and the micaceous iron oxide deposit at Mount Gould in Western Australia. The sale was subject to, inter alia, a detailed due diligence by Unimin. I am pleased to advise that the due diligence has been completed and Unimin is proceeding with the acquisition.

Unimin and Imdex expect the sale of the Imdex Minerals business to occur on 1 July 2005. A sale price in excess of $8 million is expected. Of the total selling price, $1.5m of the consideration will be subject to realisation of future profits from certain agricultural products. These are in the early stages of development but are, nevertheless, showing considerable potential.

The cash generated by the Imdex Minerals sale will be used for the acquisition of the Samchem business, debt reduction and working capital.

Financial Performance

Sales by the Australian based businesses for the first nine months of FY05 were $33.34 million at an EBIT margin of 10.4% (unaudited).

EBIT for the nine months ended 31 March 2005 was $3.5 million (unaudited). This is up considerably on the underlying performance for last year.

Sales and EBIT margin are both expected to increase in the final quarter of FY05 as business conditions improve even further and growth initiatives previously undertaken by management come to fruition.

- **The Australian Mud Company** (AMC) had a record year in FY04 and is the major financial contributor to the Group for the first nine months of FY05. Sales for the nine months were $16.2 million, a 6% increase over the previous corresponding period, at an EBIT margin of 12.7%. AMC is likely to be more profitable this year than we expected it to be at the beginning of the financial year.

- **Surtron Technologies** (Surtron) is the big improver within the Group and achieved an impressive 62% increase in revenue over the previous corresponding period. Revenue for the nine months was $6.7 million and EBIT performance was 34% ahead of budget. Surtron is also exceeding our earlier expectations.

- **Ace Drilling Supplies** (Ace) is also showing significant improvement over previous years and generated sales of almost $5.2 million for the nine months, a 17% gain on the previous corresponding period. EBIT margin was a healthy 16%.

- **Imdex Minerals** achieved sales of $5.2 million for the nine months. However, a loss before interest and tax of $149,000 was mainly attributable to zircon sand not being available for toll milling from mineral sand mining companies in the quantities available in previous years.

- **The RTE/Imdex Joint Venture** sales totalled US$19.8m for the nine months with a Net Profit of US$131,000 (100% Joint Venture) for the period. Profit performance remains below target. However, the underlying sales, margin and profit trends are positive.

In summary, the domestically based operations are performing well with further improvement forecast in the final quarter of FY05. Our corporate strategy is also being implemented. The proposed acquisition of Samchem and disposal of Imdex Minerals shows the Group's commitment to the core business of "drilling products and services".

Thank you for your continuing support.

B Ridgeway

Bernie Ridgeway
Managing Director

The Outlook:

The Board remains committed to its four point plan to build value for shareholders:

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

The foundation for achieving these goals continues to be built as evidenced by the financial performance in the nine months to 31 March 2005, the proposed acquisition of Samchem, and the sale of Imdex Minerals.

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Key Indicators:

- Revenue for the 9 months to 31 March 2005 was $33.34 million, up 12.5% on the previous corresponding period.
- EBIT margin of 10.4% for the nine months and forecast to approximate 11% for the full year in FY05.
- Proposed sale of Imdex Minerals should settle on 1 July 2005.
- Proposed acquisition of Samchem on schedule.

Business Report for the Nine Months ended 31 March 2005

Australian Mud Company provides drilling products and services to the mining, oil and gas, water well and horizontal directional drilling industries. AMC reported a 6% increase in revenue compared to the previous corresponding period. Its sales accounted for almost half (49%) total group sales for the nine month period.

Sales for the March 2005 quarter were highlighted by improved penetration in a number of overseas markets including Eastern Europe, Asia, Africa and PNG. AMC also experienced increased activity in China and the Philippines is expected to offer more opportunities in the June quarter.

Domestic activity was particularly strong in Western Australia and New South Wales with prevailing conditions in the Australian market forecast to continue for the balance of the current financial year. In addition, the mining and onshore oilfield work in PNG should contribute strongly in the final quarter.

Surtron Technologies provides geophysical logging, down hole surveying and steering services. Surtron continued to improve its trading performance with a 62% increase in revenue compared to the previous corresponding period. Actual EBIT for the nine months was 34% ahead of budget.

Geophysical logging services are provided to the major iron ore producers in the Pilbara region of Western Australia, including BHP, Hamersley Iron and Robe River. Surtron has ramped up its logging capacity in the Pilbara region of Western Australia in order to meet demand.

Surtron also provides down hole survey services, primarily to the gold producers in Australia. Demand for survey services is robust and Surtron has been able to increase day rates and utilisation rates to improve the profitability of this division.

Steering services are concentrated on the coal bed methane gas drainage (CBM) market for CH_4 at Moranbah in Queensland and in West Virginia in the USA. The CBM market in Australia continues to grow in stature and remains active in the USA. Opportunities exist to further expand the business in these areas as well as other international markets.

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

The Ace division increased sales by 17% on the previous corresponding nine month period. Increased activity in the resources sector, particularly in the CBM industry, continues to drive sales growth.

The patented electronic core orientation tool is being introduced to the marketplace and is continuing to gain market share and acceptance by drillers and geologists alike. The Ace core tool is the only electronic core tool on the market and is a significant advancement in technology over existing core tools currently available. The roll-out program for this tool will continue in the June quarter with coverage expected to commence in international markets at that time.

As its reputation spreads, Ace will build its profitability within the Imdex group of businesses and is forecasting to exceed last year's EBIT result by approximately 75% in FY05.

Imdex Minerals operates a multi-purpose industrial minerals processing facility in Western Australia. Toll milling for mineral sands producers in Australia is a major part of its activities. Mining, processing and sale of micaceous iron oxide (MIO) and custom packaging are also significant activities within the division which also processes and markets a range of agricultural and sand/gravel products.

Even though this division generated a small EBIT loss of $149,000 for the nine months, significant improvements have been made across all facets of the business. If the supply of zircon sand for toll milling had been robust and in line with previous years, this division would have produced a profit for the nine month period. However, the demand for toll milling of zircon sand has been considerably down on past periods and replacement material for the ball mills has not been available.

Nevertheless, management has been successful in driving margin improvements on all products and has discarded product lines that had been unprofitable or with insufficient margins.

Earlier in the year, Directors decided that Imdex Minerals did not fit the core strategy of the group and a decision to dispose of the business was taken. Unimin was a logical purchaser given its specialisation in industrial minerals and its processing facility in Perth. The integration of the Unimin and Imdex facilities has considerable merit. The sale is currently being finalised and is likely to settle on 1 July 2005.

Rashid Trading Establishment/Imdex Saudi Arabian Joint Venture

Imdex currently has an interest in a Joint Venture with Rashid Trading Establishment (RTE) to provide drilling products and services to the oil and gas industry in the Kingdom of Saudi Arabia (KSA) and the Gulf Co-operation Council countries.

Agreement was reached with RTE in July 2004 to restructure the interests in the Joint Venture. When the re-structure is completed, RTE will have an 80% interest and Imdex will have a 20% interest in the Joint Venture.

A further agreement was reached with RTE at the end of February 2005 in relation to the US$1.5 million due from RTE as part of the re-structure agreement. The February 2005 agreement requires RTE to pay a minimum of US$100,000 to Imdex each month with the entire amount to be repaid by 31 December 2005.

Once the restructuring is completed, it is intended that Imdex Arabia (in which Imdex Limited will have a 20% equity interest) should progressively become a full service mud company in KSA providing drilling fluids, chemicals and services to the oil & gas industry.

Imdex is Australia's Global Drilling Products & Services Company - a service provider to the natural resources industries.

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