

Imdex News

Issue 18 - Imdex Group Newsletter - February 2009



Dear Shareholders

As this is the first edition of *Imdex News* for the 2009 calendar year, I would like to take this opportunity to thank you for your ongoing support throughout 2008 and wish you a happy and rewarding year ahead.

2008 was certainly a busy and successful year for the Imdex Group with a number of significant milestones achieved in terms of financial performance, strategic acquisitions, geographical and market penetration and new product developments.

The latter months of 2008 also brought unprecedented market volatility for the company. Despite these external conditions, however, I am pleased to report positive results for the first half of the 2009 financial year (1H09) which reflect Imdex's solid foundations and the success of its strategy to build a global business servicing the mining and oil and gas industries.

The principal financial results for 1H09 are as follows:

- Revenue from continuing operations (excluding interest revenue) up 16% to \$80.3 million (1H08 – \$69.1 million);
- EBITA from continuing operations up 1% to \$20.0 million (1H08 – \$19.8 million);
- Net profit after tax from continuing operations down 15% to \$10.1 million (1H08 – \$11.9 million);
- Cash flow from operations up 109% to \$6.6 million (1H08 – \$3.2 million);
- Net debt to equity (gearing) levels at 22% (1H08 – 17%);
- Net assets up 19% to \$120.1 million (30 June 2008 – \$100.5 million); and
- Interim dividend declared of 1 cent per share fully franked.

Both the Drilling Fluids and Chemicals (DFC)

Division, and the Down Hole Instrumentation (DHI) Division performed strongly throughout 1H09 demonstrating the resilience of their business models and strength of their products and management teams.

Drilling Fluids & Chemicals (DFC) Division

The DFC Division experienced strong organic growth, particularly in Australia and the Asia Pacific region. Growth was also achieved in Africa, Latin America, Canada and in the prospective Caspian Sea region with a focus on the division's oil and gas products.

Revenue increased 19% to \$50.5 million (1H08 – \$42.3 million) and operational EBITA increased 4% to \$7.9 million (1H08 – \$7.6 million).

Operational highlights for 1H09 included:

- Completion of a partially hydrolysed polyacrylamide (PHPA) facility at Samchem in South Africa;
- Acquisition of Brisbane based drilling fluids and chemicals manufacturing company Wildcat Chemicals Australia Pty Ltd (Wildcat); and
- Significant developments with the Australian Mud Company's range of equipment for rental and environmental products.

Down Hole Instrumentation (DHI) Division

Revenue for the DHI Division increased 11% to \$29.8 million (1H08 – \$26.8 million) and operational EBITA increased 4% to \$12.5 million (1H08 – \$13.1 million). The EBITA decline is attributed to additional spending to support the Division's long term strategy of expansion into the oil and gas sector with its range of advanced survey and steering instrumentation. The benefits of this expenditure are expected to be realised in FY10 and beyond.

Operational highlights for the first half of FY09 included:

- Streamlining of the manufacture and supply chain to improve operational efficiencies and reduce costs;
- Repositioning of its trading brands, Reflex and Flexit, to target the mining and minerals exploration and oil and gas markets respectively; and
- Continued product innovation and development.

Imdex Limited

Imdex is a Western Australian ASX listed company which provides drilling fluids and leading down hole instrumentation to the mining, oil and gas, water well and civil industries worldwide. The company has streamlined its business into two clearly defined and distinct operational divisions, the Drilling Fluids and Chemicals (DFC) Division, and the Down Hole Instrumentation (DHI) Division.

The Group has a presence in all significant mining and exploration regions and has the global profile and resources to position it for long term growth.

Imdex News is published quarterly to keep Imdex's valued shareholders up to date with Imdex's performance and principal operational activities. Your feedback is always welcome. Please send any comments or suggestions to Kym Clements – Group Marketing & Communications Manager at: kym.clements@imdexlimited.com



New PHPA plant, Samchem

Advanced PHPA Plant for Samchem

In November 2008 construction of a partially hydrolysed polyacrylamide (PHPA) facility at Samchem in South Africa was completed.

The plant was commissioned with the assistance of John Knox from Australian Drilling Specialties (ADS) for the production of PHPA polymer emulsion, which is used to stabilise reactive clay and shale formations in the drilling environment and as an injection fluid for foam drilling.

The PHPA plant allows greater control over the manufacturing process and is yielding a number of benefits including:

- The ability to supply superior quality PHPA products;
- Significant cost efficiencies and shorter lead times associated with local production; and
- The ability to produce a greater range of products.

This plant is completely automated and one of the most advanced, safest and environmentally friendly systems of its kind. The computerised system allows a single plant supervisor to monitor the entire production process, including endothermic and exothermic reactions, agitation processes, heating and cooling, and the pump and valve systems. It is supported by a 361 amp generator to eliminate the risk of power failure and utilises state-of-the-art pumps supported by stop-start controls that reduce electricity consumption and wear and tear. The plant is also designed to eliminate effluent runoff into the drainage system. All waste is stored in a separate tank where it is collected by an environmental disposal company.

Focusing on Oil & Gas

The DFC Division has a dedicated oil and gas department to focus on niche markets in the onshore oil and gas and coal bed methane (CBM) industries.

This department forms part of Imdex's existing DFC Division, and markets drilling fluids and treating chemicals via the Australian Mud Company, Samchem (South Africa) and Suay Energy (Kazakhstan) globally.

The DFC Oil and Gas Division is overseen by the DFC Divisional Manager (Oil and Gas) who is supported by specialist oilfield and CBM personnel. The DFC Minerals Division will continue to be managed by DFC Divisional Manager (Minerals) Paul Mander.



Wildcat Facility



AMC OIL & GAS
an *imdex* limited company

Imdex's recent acquisition, Wildcat Chemicals Australia Pty Ltd (Wildcat) based near Brisbane in Queensland Australia, manufactures specialty oilfield chemicals and will play a significant role in the development and manufacture of new product lines for the DFC Oil and Gas Department. In addition, an oilfield mud laboratory with an attached engineer training centre is planned for Perth Western Australia to be utilised for performance testing and ongoing research and development.

The DFC Oil and Gas Department aligns with Imdex's key strategies to further penetrate the oil and gas and CBM industries which offer significant future growth opportunities for Imdex.

A Complete Solution for the Mineral Drilling Industry

Due to strong and increasing customer demand, the Australian Mud Company (AMC) established an equipment and rental division in January 2008 to service the mineral drilling industry.

Since that time, the Equipment and Rental Division has been developing prototypes and conducting field trials to finalise its equipment range. Annular bags, wire line lubricators, and Sykes fluid transfer pumps, in 4" and 6" sizes, are currently available and additional equipment including frac tanks, solids control units (surface and underground), and cementing units will be finalised by early to mid 2009.

Field trials utilising the solids control units for diamond drilling were undertaken at Olympic Dam in South Australia in September 2008. The trials were very successful and demand is robust.

AMC is the only drilling fluids company to provide this equipment range to the Australian market and supports its range with on site pump and well control courses. The equipment and rental range complements AMC's drilling fluids, environmental and site remediation products, allowing the company to offer a complete solution to the mineral drilling industry.



Sykes fluid transfer pumps



Flexit's Target INS



Flexit's Target INS

Market Focused Branding Structure

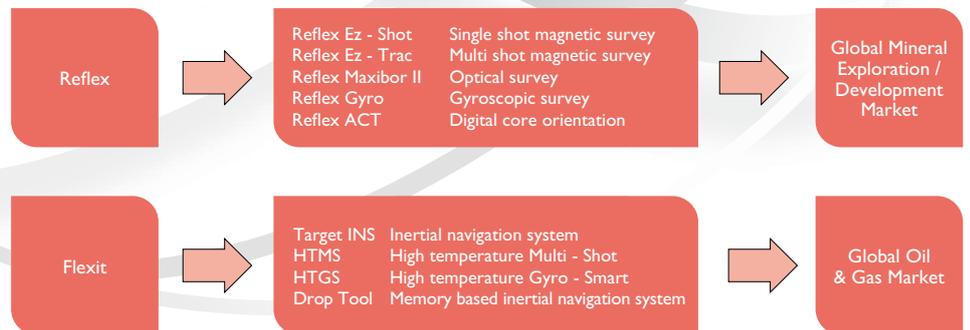
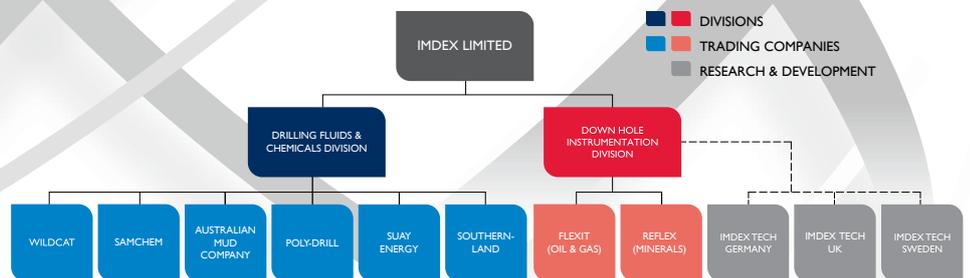
In order to offer specialised products and a higher level of customer service, the DHI Division has aligned its branding structure with its principal markets, the mining and mineral exploration market, and the oil and gas market.

Reflex will service the mining and mineral exploration market and will continue to directly offer its range of instruments for mining and exploration applications. In addition, the company will market and support the Reflex Gyro (GyroSmart) previously offered by Flexit.

Flexit will focus on the energy sector marketing instrumentation specifically designed for the oil and gas industry, including the inertial navigation system known as the Target INS developed by Imdex's subsidiary System Entwicklungs GmbH (SEG).

The DHI R&D department, Imdex Technology, is finalising a number of projects which will enhance Flexit's product range for the oil and gas market. This process has taken longer than previously expected, however the company's strategy of differentiating itself with leading technology has been successful in the past and Imdex remains very confident that this range of instruments will provide attractive returns in FY10 and beyond.

Imdex Group Structure



PDAC Convention 2009

Reflex will be showcasing a number of new core orientation and survey developments at this year's Prospectors & Developers Association of Canada's (PDAC) Convention held from the 1 – 4 March in Toronto.

The PDAC Convention is one of the most significant events for companies within the exploration and mining industries and has played an important role in launching new products for Reflex in previous years.

Poly-Drill Drilling Systems will also be exhibiting its range of drilling fluids and equipment at the PDAC Convention for the first time to enhance its presence in the Canadian drilling fluids market.



Enhancing Communication and Quality

In December 2008 Imdex implemented a new intranet system known as Imforma with the view to:

- Improving communication and knowledge sharing throughout the global Group;
- Enhancing efficiency and accuracy by having a central place for all company information;
- Providing greater access to industry information for all employees; and
- Providing an induction tool for any new employees.

A new Quality Alert system was developed in parallel to the intranet project which is accessed via Imforma and will enhance quality control throughout the Group.





Outlook

The volatility of global market conditions makes it difficult to provide an accurate outlook and guidance for the second half of FY09 (2H09) at this time. The company, however, has responded to current and forecast marketing conditions by implementing a number of initiatives including:

- Extending bank facilities out to 2014;
- Prudently managing margins, inventory, debtors and expenses;
- Deferral of the December 2008 salary reviews until June 2009;
- A 13% reduction of the global workforce without affecting initiatives for growth;
- Relocation of the UK manufacturing activities to Perth Western Australia which will increase efficiencies; and
- Continuing investment in R&D for both the DFC and DHI divisions, with a view to maintaining their positions in the market and capitalising on medium to long term growth opportunities.

Notwithstanding current challenging global

market conditions, Imdex has a strong balance sheet with low gearing, an excellent business model, and an experienced management team which allows the company to pursue initiatives for growth in 2H09 and beyond including:

- A continued focus on the company's global alliances for both the DFC and DHI divisions;
- Further expansion into niche oil and gas and CBM markets with its range of specialty drilling fluids and chemicals and leading down hole instrumentation;
- Leveraging the company's global presence with expansion into new and underpenetrated geographical markets, with particular focus on Latin America, Canada and the Caspian Sea region;
- Continued focus on rental rather than sales models which provide more sustainable returns;
- Commissioning of a drilling fluids manufacturing plant at Imdex's premises in Chile to manufacture locally for the Latin American market; and

- Commercialisation of new products including solids control units for the diamond drilling industry globally, and new and improved orientation and survey instruments.

Despite the current downturn in exploration for both the minerals and oil and gas industry, I remain confident that the medium to long term outlook is positive. The absence of new world class discoveries in recent years, and the cost, time and complexities associated with extracting remaining reserves, suggests that there will be an imbalance in supply and demand which will elevate prices and stimulate exploration activity. When this occurs, Imdex remains well placed to capitalise on opportunities with its range of drilling fluids, equipment and leading technology.

Yours Faithfully,

Bernie Ridgeway
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