

OZEQUITIES NEWSLETTER

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FEATURE

Week's Special

VTX: BROAD PRODUCT OFFERINGS FOR POTABLE WATER, OIL & GAS, SEWERAGE AND MINE PIPELINES ON THE BRINK OF PROFITABILITY

By Jenny Prabhu and Gerald Stanley

Vortex Pipes Ltd, formerly Shieldliner, listed on the ASX on August 10 2004, with the share price almost doubling from the 25c listing price in succeeding months.

Vortex Pipes in the four years since listing has:

- *Completed the development and patented its Shieldliner technology for the in situ discovery and sealing of leaks.
- *Developed an epoxy resin product for sealing potable water pipelines which it believes gives it a major advantage.
- *Acquired exclusive rights to UK based Whirlwind technology for waterless pipe cleaning in Australia and New Zealand and for the Australian resources industry on a global basis.
- *Become a distributor for the German Saertex ultraviolet light curing technology that impregnates fibreglass cured in place pipeliner.
- *Has become exclusive distributor for Fiber Glass Systems LP of San Antonio, Texas of its Glass Reinforced Epoxy (GRE) pipes for the oil and gas industry.
- *Completed the acquisition of Premium Pipe Services Pty Ltd for \$800,000 in interest free promissory notes, repayable by December 31 2007.
- *Won an international award for its ShieldLiner technology.
- *Awarded a \$1.28 million AusIndustry Commercial Ready Grant ..

.. and the share price has fallen from around 45c to 7c!

Part of the reason is heavy and continuing spend on R&D and the buying in of technologies.

Great and growing demand for in situ pipe repair technology

As the need for potable water continues to increase, utilities worldwide are faced with the fact that many of their pipelines, laid up to a hundred years ago, are reaching the end of their natural life and must be repaired or replaced.

In Australia particularly, where the effects of climate change and prolonged drought make the careful husbanding of all water particularly urgent, the opportunities for companies such as Vortex are huge and expanding.

- *In the UK water loss from leakage is estimated by water authorities to exceed 17 pct of water production.
- *Most water systems in the US cannot account for between 10 pct and 25 pct of their water supplies.
- *The coroner's enquiry into the Thredbo ski resort disaster found that the primary cause of the landslide was a leaky water main.
- *The Victorian government has said up to 30 pct of water is lost in transmission in certain lines.
- *The "Australia Infrastructure 2001 Reportcard" in its potable and wastewater" section said about 300 authorities provide water and wastewater services to Australia's 19 million people. About 64 per cent of the Australian population is served by 21 major urban utilities that each serves more than 50,000 connections to residential and business properties.

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There are a further 69 regional utilities serving a further 17 per cent of the Australian population. These have between 10,000 to 50,000 connections. The remaining water utilities generally have fewer than 10,000 connections.

The aggregate length of water mains is a total of 175,000 kilometers - and growing as open canals are planned to be replaced with pipelines to prevent water lost to evaporation.

Although there are competitors in its niche markets, Vortex's potable water pipe in situ repairs has a considerable advantage - and it believes it has other technology advantages.

Directors and management are committed and experienced, Vortex expects to address its cash issue in the short term and at current levels, Vortex looks like a bargain buy for the patient investor.

VORTEX LTD - A SNAPSHOT

Vortex Ltd listed as ShieldLiner on August 10, 2004, closing at 27c vs a 25c float price on the first day. Alinta had a 10 pct stake in the company which it raised subsequently to 20 pct. ShieldLiner Ltd changed its name to Vortex Pipes Ltd on December 24 2007.

Alinta, whose support had been a major plus in the company's early years before and after listing, became internally increasingly unsettled as to its own future direction.

In late September 2006 ShieldLiner was advised by Alinta that it intends to divest its interest in Premium Pipe Services (PPS) and GRE (Glass Reinforced Epoxy) businesses as part of a rationalisation of non core business interests.

*ShieldLiner acquired Alinta's stake in Premium Pipe Services for \$400,000 payable by way of an interest free promissory note that was due and payable on June 29 2007.

In the meantime, ShieldLiner which had listed with a single "trenchless technology" for the repair of pipelines, the ShieldLiner technology still under development at that time, acquired Premium Pipe Services Pty Ltd, a specialist trenchless technology contracting business, moving to 100 pct of Premium Pipes last year.

ShieldLiner also significantly broadened its product range, both through exclusive dealerships and its own R&D (the company's significant R&D expenditure is expensed).

Products on offer:

Epoxy resin technology for sealing leaking potable water pipes

Shieldliner's epoxy resin technology for sealing leaking potable water pipes - under development since before the company listed - has been demonstrated in February this year to have encouraging results in all trials in its in-house testing facilities. On achieving certification for potable water using this industry standard epoxy the company can enter the large marketplace where few technical solutions exist for the refurbishment of high pressure large diameter pipes. The use of epoxy resin using the ShieldLiner System is one of the milestones in the company's R&D program towards a commercial outcome.

In the late winter, Vortex expects to conduct trials with water corporations of its epoxy lining system to repair leaks in potable water pipelines. It does not see significant competition in the large diameter potable water mains area. By the end of this calendar year, Vortex expects to have a commercial product to offer water corporations.

Whirlwind technology for waterless pipe cleaning - of particular interest in drought affected areas

On April 3 this year, Vortex announced it had signed an agreement with UK based Whirlwind Utilities Ltd for exclusive use of the Whirlwind™ technology for waterless pipe cleaning in Australia and New Zealand and the Australian resources industry on a global basis.

The patented Whirlwind technology was developed by Whirlwind Utilities to clean potable water mains in the United Kingdom, prior to being relined and rehabilitated. It has been successfully deployed in the UK water industry through contractors and directly with water authorities.

The Whirlwind technology is a unique pipe cleaning system that creates a constant velocity of air flow within the pipe (a "whirlwind"), before a controlled feed of aggregate or cutting agent is introduced, to provide a uniform cleaning pattern along the pipeline being cleaned. The turbulent nature of the air flow causes the aggregate to be thrown against the pipe wall, impinging and dislodging the undesired matter (such as tubercles, sludge, silt) that has accumulated in the pipe. The air flow then carries the aggregate along the pipeline until it is collected in a receival chamber at the end of the pipe section.

Vortex Managing Director Trevor Gosatti said that obtaining the Whirlwind technology is part of the Company's strategy to offer smart, sustainable solutions to the pipe industry.

"The Whirlwind system gives us a competitive edge in providing a solution to clean the thousands of kilometres of pipes in Australia's water reticulation and sewage system", he said in the press release.

"It is more cost efficient than traditional methods and its use of controlled air flows instead of water is attracting particular interest from eastern states based utilities that, in the face of severe water restrictions, are searching for waterless based cleaning systems."

"We are also very keen to introduce the technology to the resources sector. Our initial investigations have demonstrated that Whirlwind can be effectively used across a wide variety of situations in the oil and gas industries, resources processing industries and in the chemical industries" said Mr Gosatti.

Ultra violet light curing equipment and associated robotics

*On Apr 23 07 Vortex acquired the latest available ultra violet light curing equipment and associated robotics and has been tested and utilised for the first commercial installation of a Saertex cured in place pipe liner in Western Australia. The Saertex multicom product is resin impregnated fibreglass cured in place pipeliner for rehabilitating pipes. The liner is installed in the pipe to be rehabilitated and then cured using an ultra violet light train which travels inside the pipe. The UV light fully cures the pipe to provide a new fully structural close fit pipe inside of the old pipe. This is the fastest and most environmentally friendly method presently being used in the world market.

PPS has been appointed an official Australian and NZ distributor of the German manufactured range of Saertex cured in place liners.

Glass Reinforced Epoxy pipes and fittings

Vortex is focussing on the sale and supply of new Glass Reinforced Epoxy (GRE) pipes for the oil and gas industry, a sector expected to expand as new major projects are developed. Vortex subsidiary Premium Pipe Services on September 25 2006 was appointed an exclusive distributor for Australia and New Zealand for a range of glass reinforced epoxy (GRE) pipes and fittings manufactured by Fiber Glass Systems LP of San Antonio, Texas. During the 18 months to June 30 2006 the GRE business unit being acquired by Vortex had sales in excess of \$11.8 million.

The Shieldliner Technology

Vortex acquired the ShieldLiner System and associated intellectual property from SORD Technologies Ltd in February 2002, with SORD agreeing last year to relinquish all royalty rights for a once only payment of \$150,000 in lieu of any future royalty payments.. The ShieldLiner System, which was still under development when Vortex listed as ShieldLiner, was invented by Neil Graham, who remains the company's major shareholder.

The ShieldLiner System was granted an Australian patent in the December 2007/08 half year (it also has patents granted in New Zealand).

*The ShieldLiner System is a unique multi layered pipe lining technology that has the potential for lining, repairing and sealing pipelines in situ to prevent leakage, improve structural integrity and decrease flow friction. Lower costs, better sealing and reinforcement of the existing pipe together with improved mechanical performance and faster project turnarounds combined with the potential to reconnect lateral connections without digging are the major expected competitive advantages of the ShieldLiner system.

*The ShieldLiner System can repair both small and large diameter pipes, it is suitable for both pressure and gravity pipes, it has the ability to form the liner in the pipe and has the capacity to use a range of materials and combinations such as epoxies, ceramics, industrial coatings and cements to suit specific end customer requirements.

It requires two access points to the pipe being rehabilitated. At one access point is a pressure chamber through which a liner package is introduced and then inverted using air pressure. At the other access point is a containerised surface rig and pumping system that applies resin and grout to the everting liner material. The liner is pumped through lines to a specialised ShieldLiner developed tool by means of which the liner package is bonded inside the old pipe. It can use materials other than resin and fibreglass and saves time, energy, cost and surface space over other systems.

It also provides the unique advantage of forming a new pipe underground.

Continuing R&D

The company is currently undertaking R&D to modify the existing ShieldLiner System to also provide a coating only solution to the inside of pipes. A further variation to this testing program is the application of materials into only the pipe joints.

The company is also planning projects involving the use of cements, grouts and resins and reinforcing materials at the same time so as to provide a multi layered defensive shield to the inside of the host pipe.

*In September 2005 in Rotterdam the company was awarded the 2005 No Dig award for New Machine, Tool, Material System or Technique by the International Society of Trenchless Technologies for its ShieldLiner technology.

Orders to date include:

*June 30 07: Premium Pipe Services Pty Ltd was awarded a contract with the City of Kalgoorlie-Boulder for 1.5 km of Sewer Replacement Works, valued at \$632,473. The original value of the awarded contract continues to increase with additional work being awarded. During the tender process Premium Pipe Services provided an option to reline the existing pipe using the Saertex-liner system. The ultraviolet cured fibreglass pipe has proved to be an outstanding system for the relining of the old sewer pipes in Kalgoorlie. In addition the company successfully pipe burst four sewer lines where the size of the sewer pipe was required to be up sized from a 150 mm pipe to a 225 mm pipe in Kalgoorlie.

*The company has also relined a small number of pipes for the Water Corporation of WA and several local government councils in Perth using the Saertex product.

The City of Canning was the first customer, where 78m of 225 mm root affected storm water pipe was successfully lined. The liner thickness was 5 mm and the curing process took just 1 hour 40 minutes vs 4 hour curing time of other cured in place lining systems.

Competitors

In the sewer pipe relining area the main competitor is Interflow, the largest pipeline repair company in Australia.

Kembla Watertech is also a competitor, mainly in the sewerage pipe relining area and so is global giant Veolia, based in France.

Vortex Ltd financials

Last Traded price 7.3 cents

Shares Issued 62.75 mln

Options Issued 20 mln, exercisable at 15 cents by June 26, 2008

Market Cap \$4.6 mln

Year ended June 30, Values in Millions\$

INCOME	2008 Int	2007	2006
Op Revenue	2.2	1.7	0.5
Op Profit (loss)	(1.4)	(1.9)	(1.1)
Net profit (loss)	(1.0)	(1.5)	(0.9)
EPS (Cents)	(1.54)	(4.0)	(2.45)

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BALANCE SHEET	2008 Int	2007	2006
Current Assets	1.3	5.1	4.2
Non Current Assets..	2.8	2.5	1.8
Current Liabilities	1.1	3.6	1.8
Non Current Liabilities	0.5	0.5	0.1
Net Assets & Shareholders' Funds	2.5	3.5	4.1
Intangibles	1.0	1.1	0.6
Net Tangible Assets	1.5	2.4	3.5
Gearing (Net of Cash) %	17.3	Nil	nil
NTA per share (cents)	3.8	3.4	5.5
Shares Issued (Millions)	62.75	62.75	37.3

Cash Flows:	2008 Int	2007	2006
Cash on hand (at open)	3.5	1.2	1.4
Operating Activities	(1.8)	(0.5)	-
Investing	(0.3)	0.1	(0.5)
Financing Activates	(1.2)	2.7	0.3
Cash on hand at Year end	0.2	3.5	1.2

*The company was awarded an AusIndustry \$1.28 million grant in 2006 to support further development and commercialisation of the ShieldLiner system. Excellent progress has been made on the first two of eleven milestone grant projects.

*The company completed a capital raising of \$2.855 million by way of an underwritten placement in mid 2007.

Directors:

Jim McDonald, 67, appointed chairman in May 2006. Jim McDonald is also chairman of Walter Diversified Service Ltd and non exec director of Pearlstreet Ltd. He was appointed to the Hastings Board as an independent non exec director on July 1 2008. He was managing director and CEO of Australian Pipeline Trust from 2000 to 2005 and before that GM Pipeline Division of Australian Gas Light Company from 1996-2000. He was 15 years with ESSO Australia Ltd in oil and gas production in the Bass Strait.

Trevor Adriano Gosatti, 45, appointed acting managing director and company secretary on April 19 2007, appointed managing director on September 11 2007. Was a non executive director of Shieldliner since it floated, previously managing director of Premium Pipe Services.

Julian Land, 63, BSc (Hons), MSc, [MBA](#), non exec director - former Principal Commercial Adviser at CSIRO Corporate.

Antony Zuiderwyk, 48, B Eng, non exec director - executive director of National Power Services Pty Ltd (a subsidiary of Alinta Ltd).

Company secretary: *G J Nairn* FCA, appointed company secretary in June 2007. He was an audit partner for the last 15 years of his career PriceWaterhouseCoopers before joining ShieldLiner.

John Wilford Hassen, managing director at the time of listing, resigned on April 18.

Major shareholders

Golden Rivers Mining Pty Ltd (family company of inventor of ShieldLiner technology, Neil Graham)

18.63 pct

Gosatti family interests – 9.07 pct

Sord Technologies Ltd (Neil Graham) 3.34 0 pct

(Our first Week's Special on ShieldLiner was dated September 17 2004).

ends

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