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FEATURE

Week's Special

INTEC: STRONG PROFITS AHEAD ON HELLYER METALS PROJECT + EAF DUST TREATMENT

By Jenny Prabhu and Gerald Stanley

Intec Ltd a mining technology company that had its beginnings in the 1970's, is the world leader in the development of chloride-based hydrometallurgical processes for the extraction of base and precious metals. It has a range of international licensees of its locally developed technology.

Intec's patented hydrometallurgical process, which treats concentrates, run-of-mine ore and/or tailings to produce top grade metal with no noxious fumes emitted or cyanide exposed to the environment, has always commanded attention. Investors have subscribed for several issues through its nearly three year listed existence and various pilot plants have been undertaken, but in the 20 year bear market for metals, miners were reluctant to spend the extra dollar on a new technology, even if it reaped cost savings a little further down the track.

This has changed - in the current booming metals market, a new interest in Intec's technologies has developed with global gold and base metals companies developing pilot plants and showing keen interest.

Future lies in acquiring projects and producing metals using its own technology

But it is through the development of its Hellyer tailings dam project, enhanced by the co-treatment of Electric Arc Furnace dust, that Intec expects to become a very profitable company in the not too distant future. Intec's corporate strategy is now to acquire interests in projects where the application of its technology creates significant additional value.

What the brokers say

Grange Securities analyst Piers Reynolds, in a comprehensive 21 page report on Intec put out in connection with its underwriting of a \$12 million capital raising for Intec in October last year, placed a "speculative buy" recommendation on the stock with a target price of 29c for the base case scenario and 36c for the enhanced case scenario.

"Additional co-treatment of high grade zinc dust will add further significant upside" he said in the report.

INTEC LTD – A SNAPSHOT

Intec Ltd has been in operation since 1973, specialising in the field of chloride hydrometallurgy. Its subsidiary Intec Copper Pty Ltd was initially owned 55 percent by Intec and with Rio Tinto, Bangkok Cable, North, Nippon Mining, Nittetsu Mining and Resource Finance Corp among the 15 other shareholders. Intec, based in Sydney, was also the recipient of significant government grants from time to time to develop its environmentally benign process that would potentially cut the cost of processing metals – particularly copper at that stage – in half.

GTN Resources Ltd in 1998 bought into the Intec technology, funding a new subsidiary, GTN Copper Technology to commercialise the process. Today GTN has only some residual options over some sub licences as a remnant of its former involvement.

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Intec listed on May 2 2002, closing at its 20c float price on the first day with by then, Ivanhoe Mines Limited (controlled by Robert Friedland) as its main shareholder (still the major, and supportive, shareholder with 13 percent of Intec).

While pilot plants were established for Intec's patented copper and later gold process (notably by Nippon Mining & Metals Co at its facilities in Hitachi in early 2003, a successful pilot run by Barrick Mines completed last year, as well as comprehensive laboratory testwork/desktop studies undertaken by Placer Dome, Rio Tinto and others), the gap between successful pilot plant and significant commercial orders remained unfilled, partly because of very low treatment charges by copper smelters and other processing plants at the time.

Although this has now changed – and there is now keen interest in the Intec Copper and Gold Processes, with a large number of enquiries received (one of the most advanced is in the Middle East) - Intec has seized the opportunity of acquiring for itself the Hellyer Metals Project, where its unique technology can add significant value.

Brief history of the Hellyer mine and tailings dam

The zinc-silver-gold-lead-copper Hellyer and Que River mines in Tasmania were mined by Aberfoyle from 1983 to 1998, later bought by Western Metals.

On June 23 2000 Western Metals ceased operations at Hellyer, with 10.9 million tonnes of polymetallic tailings being the residual asset.

Dominion Mining in 2000 briefly examined processing the re-treatment of the tailings, which grade 2.8 pct Zn, 3 pct Pb, 0.2 pct Cu, 88 gpt silver and 2.55 gpt gold but its proposed processing route was uneconomic at prevailing metals prices.

Intec Ltd then acquired the tailings dam from the Receivers for Western Metals for a purchase price of \$1.34 million in January 2004.

Intec's Hellyer opportunity

1/Pre Feasibility Study

In September 2004, Intec engaged HG Engineering of Toronto Canada to undertake a pre-feasibility study on the Hellyer Metals Project. The study determined the engineering design and capital and operating cost for two project scenarios – “Base Case” treatment solely of Hellyer tailings at the annual rate of 1 million tpa for an 11 year project life and an “Enhanced Case” co-treatment of Hellyer tailings and zinc bearing residues such as electric arc furnace dust.

The throughput rates for the Enhanced Case assume the treatment of 0.5 mtpa of Hellyer tailings and the treatment of 0.1 mtpa of 20% zinc-bearing residues.

The indicative financial analysis has been undertaken in real terms with metal prices and the \$US/\$A exchange rate prevailing at September 6 2004 employed, with 100 per cent equity funding assumed.

Base case analysis: Project life of 11 years, capital cost \$A153 million, Net Annual Cashflow \$67 million, Annual net sales revenue \$A103 million, Annual Operating Cost \$A35 million, Net Present Value Post Tax \$A165 million (at a 10 per cent discount rate), Internal Rate of Return Post Tax 30.1 per cent.

Enhanced case analysis: Project life of 21 years, capital cost \$A137 million, Annual Net Sales Revenue \$A85 million, Annual Operating Cost \$A 28 million, Net Annual Cashflow \$A56 million, Net Present Value Post Tax \$A205 million (at a 10 per cent discount rate), Internal Rate of Return Post Tax 29.3 per cent.

Intec said the financial evaluation of the project at the pre-feasibility stage appears very attractive even before optimisation of the co-treatment rates of Hellyer tailings and zinc-bearing residues.

2/Pilot Plant Program

On August 17 2004 Intec Ltd announced it had completed the pilot plant program for the Hellyer Metals Project.

The pilot plant program extended over 4 months at Ammtec's Sydney facility and included three steady state campaigns solely on Hellyer tailings material and two steady state campaigns on a blend of Hellyer tailings and zinc-bearing electric arc furnace dust.

Average per cent extraction over three campaigns included 99 per cent for lead, 98.8 per cent for zinc, 93.5 per cent for copper, 91.2 per cent for silver and 32.8 per cent for gold.

At current metal prices and the \$A exchange rate against the US dollar the Hellyer tailings dam contains approximately \$A1.7 billion of in-situ metal value. The average metal extractions achieved over three pilot plant campaigns correspond to an average of 78.1 per cent of in situ metal value and 83.2 per cent of in-situ metal value was extracted in the best performing pilot plant campaign.

*Subsequent to the completion of the Hellyer Metals Project pilot plant campaigns, two additional campaigns have been completed on a blend of Hellyer tailings with EAF (Electric Arc Furnace) dust. (EAF dust typically contains 20-30 per cent zinc plus small amounts of other valuable metals and is an inevitable waste from the re-processing of scrap steel in mini mills).

The first pilot plant on a blend of Hellyer tailings and EAF dust received from Smorgon Steel resulted in extraction levels of 95 per cent for the zinc contained in the Smorgon Steel EAF dust.

3/The key points

*Intec does not have the expense of mining, crushing, grinding and floating the considerable in situ metals, which are already very finely ground to an average of 30 microns and are suitable for being directly fed into the Intec plant to be treated by the Intec Polymetallic Process for simultaneous zinc, lead, copper, silver and gold extraction.

*The total metal value, nearly 11 million tonnes of metal valued at \$A1.7 billion is undisputed.

*The pre feasibility study for pumping the tailings into Intec's plant is at a cost per tonne of \$1.14 with the metal value at \$165 per tonne.

*The project becomes even more profitable when residual materials like Electric Arc Furnace dust is added, with the value of contained zinc at around \$US350 per tonne and 95 percent extraction possible.

*For steel mills such as Smorgon Steel and OneSteel in Australia, the cost of disposing of EAF dust is about \$A200 per tonne (in Japan the cost is around \$A800 per tonne) which offers an arbitrage opportunity of around \$A800 per tonne. The operating costs are tiny compared to the added value.

*An additional plus is that while processing EAF dust consumes acid, the gold pyrites in the tailings are acid producing.

4/Timetable at Hellyer

A bankable feasibility study is expected to be completed in 2005, construction and commissioning of a commercial plant completed in 2006 with first commercial production targeted for 2007.

The treatment of EAF dust, looked at globally, is a huge opportunity

*While Smorgon Steel and OneSteel produce EAF dust in Australia at around 35,000 tonnes per annum, production of EAF dust worldwide is some 6 million tonnes, offering a huge market.

Talks are underway for worldwide collaboration within the steel industry , focussing first on Asia.

Smorgon Steel is expected to technically collaborate in the demonstration plant being built at Burnie in Tasmania.

While there are several competitors who seek to treat EAF dust, most merely immobilise it so that it can be safely buried in landfill, whereas the Intec Polymetallic Process is significantly more profitable to the producers of EAF dust as well as to itself.

Divestment of peripheral Hellyer exploration assets

On March 30 2005 Intec transferred its exploration assets comprising three mining leases, two exploration licences and a retention lease covering an area of 68 sq km, but excluding the Hellyer Mill and Tailings Dam themselves, to Resource Finance and Investments Ltd (RFI).

Intel will receive 8 million RFI shares at an issue price of 15c per share and 2 million free attaching options and will hold 21.9 percent of RFI's fully diluted issued capital on its listing.

Additionally, INL shareholders will receive a priority offer to subscribe for shares in RFI which has been funded to date by associates and clients of DJ Carmichael Pty Ltd.

Intec Financials

Last Traded price 6.2 cents

Shares Issued 424.7 m

Market Cap \$26.3 m

Year ended June 30, Values in Millions\$

INCOME	2005 Int	2004	2003
Op Revenue	0.7	1.9	0.3
Op Profit (loss)	(2.3)	(2.6)	(3.2)
Net (Loss) (attributed Members)	(2.3)	(2.0)	(3.2)
(Loss) per share cents	(0.83)	(0.92)	(2.19)

BALANCE SHEET	2005 Int	2004	2003
Current Assets	10.6	1.2	0.8
Non Current Assets..	2.0	2.0	0.1
Current Liabilities	0.8	0.6	0.4
Non Current Liabilities	0.1	0.1	0.4
Net Assets & Shareholders' Funds	11.7	2.5	0.4
Intangibles	-	1.7	0.1
Net Tangible Assets	11.7	0.8	0.3
Gearing (Net of Cash) %	Nil	Nil	Nil
NTA per share (cents)	2.75	0.99	0.28
Shares Issued (Millions)	422.6	248.71	146.0
Options Issued *	13.0	13.0	8.6

Future income tax benefits \$9.3 m. (as at June 30)

* Options on issue now 19 m following the April 5 issue of 6.1 m at an exercise price of 6.9 cents and which expire Feb 24, 2010.

Cash Flows:	2005 Int	2004	2003
Cash on hand (at open)	1.1	0.7	3.7
Operating Activities	(2.3)	(1.7)	(2.9)
Investing	(0.2)	(2.0)	(0.1)
Financing Activities	11.7	4.1	(0.0)
Cash on hand at Year end	10.3	1.1	0.7

Directors:

Richard Jenkins, Chairman, was an Executive Director of Macquarie Bank from 1986 to 2001 and later co-headed Macquarie Investment Bank.

Philip Wood, MD/CEO, has been a Director since 1993, appointed MD and CEO on March 26 2001.

John Moyes, Technical Director, has over 30 years experience in the mining and metals industry, has been a Director since 1995.

Ian W Ross, Nonexecutive Director, represents the Ivanhoe group, Intec's major shareholder. His alternative director is Gordon Toll, former Vice-Chairman of Ivanhoe Mines.

Kenneth Severs, Non-executive Director (former Chairman of Intec) was for nine years from 1990 to 1999 Group Metallurgical Executive for Rio Tinto and for 24 years prior to that was a senior executive with Anglo American.

Robert Waring, Company Secretary.

Major shareholder

Ivanhoe with 13 percent

ends

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