STOCKRESOURCE

Suite 302, 25 Lime Street, Sydney NSW 2000 Australia t +612 9299 5855 f +612 9279 2727
p.o.box H116 Australia Square NSW 1215 Australia toll free (Australia) 1300 367 597

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Intec 06 Dec, 2006

Coming of Age!

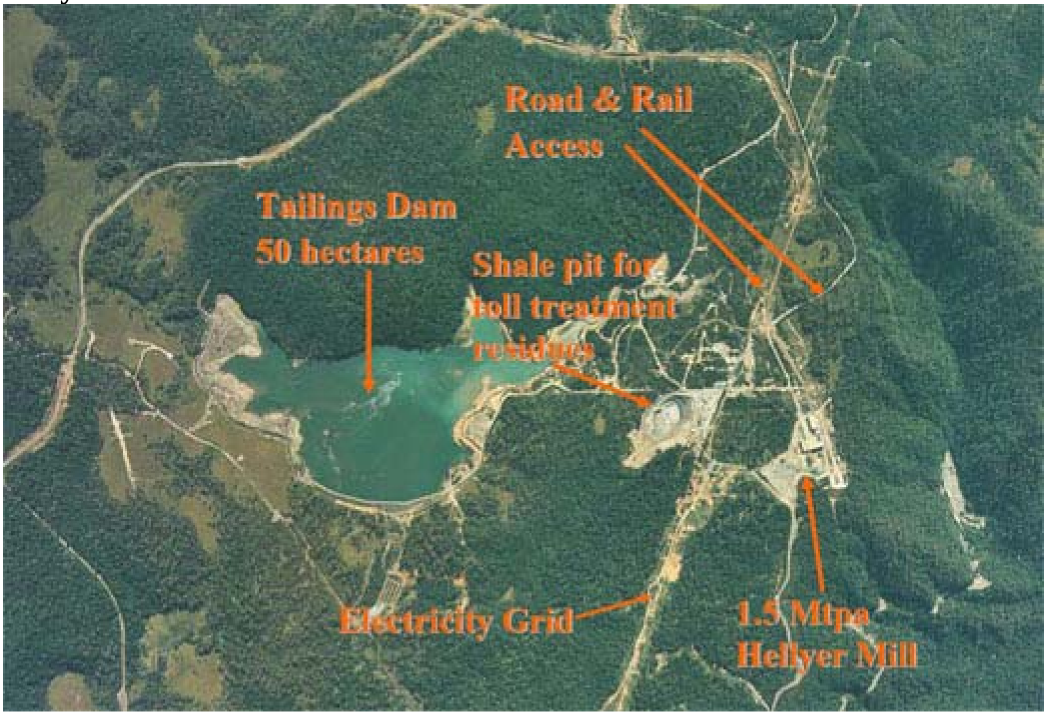
Buy up to 31 cents

Intec has developed an innovative chloride-bromide leach process which can extract metals such as zinc, lead and copper from a variety of products that traditionally cannot be process by normal base metal smelting and refining. It has progressively developed this technology over many years but without being able to fully commercialise the process.

"Intec is now earning a cash flow out of its Polymetals joint venture which is retreating the zinc rich Hellyer tailings. Meanwhile, an increasing supply of EAF dusts containing secondary zinc is providing an impetus to accelerate development of a 10ktpa zinc Intec process plant, also to be based at the Hellyer mine site."

In January 2004 the company purchased the Hellyer mine and treatment plant, located in northwest Tasmania. This was formerly operated by Aberfoyle/Western Metals and comprises a mine with exhausted underground reserves, a zinc/lead concentrator on care and maintenance, buildings and site infrastructure, and a 55 hectare tailings dam containing more than significant zinc, lead, silver, copper and gold grades which reflect tailings losses in the initial processing. The mine site is outlined below:

Hellyer Minesite



Source: Intec

However, there have been two key factors which have changed the outlook for the company. These are:

- In a 50:50 joint venture, Polymetals has commenced retreating the Hellyer tailings project though the existing processing plant (with some modifications). This is providing Intec with its first ever cash flow and transforms the company to become self funding.
- In the restructuring of Pasminco/Zinifex, the Cockle Creek zinc smelter near Newcastle was closed. This was an Imperial Smelting Furnace which used to process waste materials including Electric Arc Furnace dusts (EAF) which have a 27% zinc content from the processing of galvanised steel. These EAF dusts are an environmental nightmare and require treatment. Given the closure of Cockle Creek, Intec is well positioned to process these EAF dusts with its Intec leach process.

While the Hellyer tailings re-treatment will provide a handy cash flow and has justified the recent share price increases, the main game is the development of the Intec processing plant on the Hellyer mine site capable of producing 10ktpa of zinc (either as metal or as zinc oxide). This plant is expected to cost in the $30 – $50m range and construction is expected over an 18 month period with first production late 2008. It is also expected to be funded from cash flow and some debt.

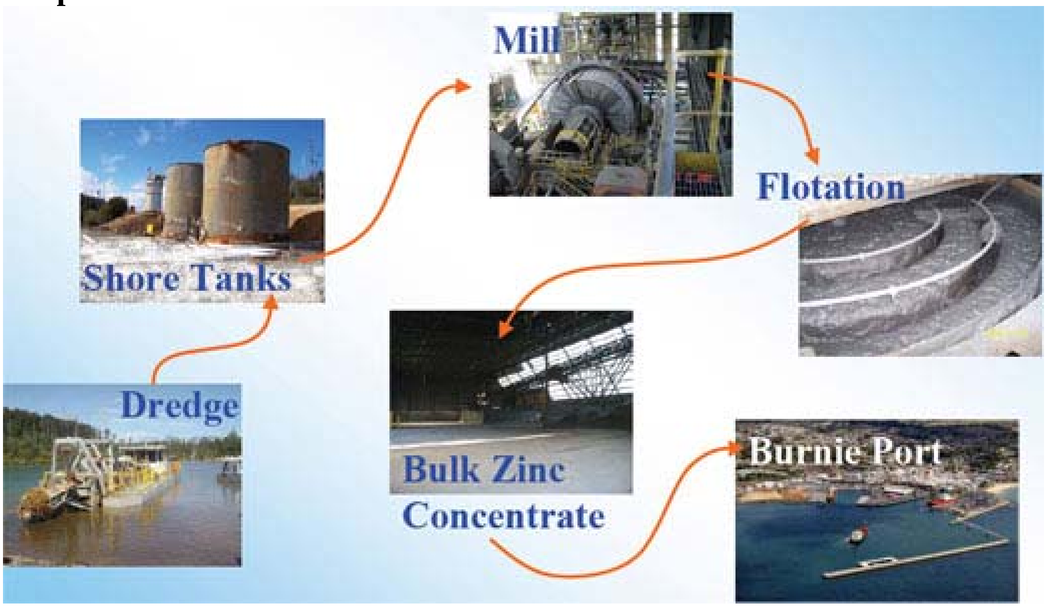
This plant will process the EAF dusts described earlier, as well as other zinc materials including the recently acquired zinc rich slag from old lead smelting operations near Zeehan, also in Tasmania. This is estimated to contain 460,000t @ 13.6% Zn for 62,000t zinc metal, as well as lead and silver credits.

However, if the company can establish an adequate supply of zinc (Australia's total production of EAF dusts is 25 – 30ktpa or 8,000tpa of zinc metal), it will seek to increase the capacity of its plant to 40ktpa. The attraction of EAF dusts is that the zinc essentially comes 'for free' as steel mills often pay for someone to take the material away. Both OneSteel and Smorgons have Electric Arc Furnaces in Australia while the company is also considering opportunities to import EAF dusts given total global production is around 6 million tonnes pa.

Hellyer Tailings Retreatment
Late last week, Intec announced that commercial zinc production had commenced at Hellyer as part of the re-processing of tailings under the Polymetals/Intec 50:50 joint venture. It reports that the tailings dredge, grinding mill and flotation circuits are now operating at 80% of the capacity planned in the 65,000 tonnes per annum 'base-case' projections, and this output is improving daily.

The dredge is collecting 130 tonnes per hour of tailings which translates to 1.5Mt pa of tailings grading 2.2% Zn from an 11Mt resource. This slurry is then transported to shore tanks for temporary storage, prior to being pumped over 2.5 km to the Hellyer Mill. The process involves regrinding the tailings slurry to 20 microns before flotation.

Simplified Process Flow Sheet



Source: Company

The bulk concentrate grades 41% zinc, 10% lead and 200g/t silver, and the joint venture has two offtake agreements with Chinese smelters totalling over two thirds of the 65,000 tonnes per annum bulk zinc concentrate 'base case' production. The joint venture also reports that strong demand has been received for the remaining 20,000 tonnes per annum of expected non-committed 'base-case' production.

The company reports that at current metal prices, US$/A$ exchange rate, and 'base case' throughput, the total project is forecast to generate annual revenue of A$128m, and an EBITDA of $70.5m with Intec's share at $35m. Based on our enterprise value calculation below, this leaves Intec on a 5 times cash flow multiple million which we believe represents 'fair value'. However, the joint venture is now looking at the opportunity for expanding production to 2Mtpa which could theoretically increase cash flow by 33% at modest additional capex.

1.5Mtpa Base Case Returns for Intec's Share

Zinc Price US$/lb	0.90	1.50	1.90
US$/A$	0.74	0.75	0.77
Revenue A$m	34.5	54.5	67.0
Operating Costs A$m	25.0	30.0	30.5
EBITDA A$m	9.5	24.5	36.5

Source: Company

Intec Process

Intec likes to claim that it is the world's leader in chloride hydrometallurgy. The Intec Process operates in the chloride medium to recover base and precious metals from ores, concentrates and residues including EAF dusts and other zinc-bearing residues. This recovery includes substantial environmental and economic benefits; for example no roasting of material and associated emissions while the company argues that every tonne of zinc that is recycled saves at least ten tonnes of fresh ore that needs to be mined. For detailed review of the leach process, Members are referred to the company's website at intec.com.au.

In 2005 the company constructed a Demonstration Plant in Burnie, Tasmania to test Intec Zinc Process at higher throughputs than its earlier smaller scale demonstration plants. The demonstration plant program was successfully completed in August, 2006 after nearly 12 months of continuous operations and has achieved 9 weeks of 'steady state' operation.

This has led the company to embark on the Intec Hellyer Metals Demonstration Plant which would operate at a production rate of 10ktpa of zinc 'units' (saleable units as either metal or zinc oxide). While capex and operating costs are continually being refined, as mentioned, we expect that capex to be in the $30 – 50m range and operating costs to be low to mid quartile.

Stock Resource Recommendation

While the Intec share price has moved up in recent weeks, we have been keen to ensure that the project has been 'derisked' before considering investing in Intec. Discussions with management indicate that Polymetals are good operators and that the joint venture will generate strong cash flows for both companies. With this cash flow justifying the current share price, we are comfortable at recommending investment in Intec for the medium term development of its Intec process on a commercial scale. We believe that with mounting EAF dusts around the world, the company will quickly expand a 10ktpa plant to 40ktpa. Nevetheless, a 10ktpa plant is likely to generate revenues in the order of A$40m pa on a US$1.50/lb zinc price and A$/US$ = 0.75 exchange rate.

Hence, **Stock Resource recommends Intec as a Buy up to 31 cents for all Members.**

Capital Structure & Funding

At a 31 cents share price, we estimate that Intec's enterprise value is $183m. This includes a value of $3.7m for its 18.5% interest in Bass Metals (ASX code: BSM).

Market Valuation	**Issued Shares (m)**	**Share Price (cents)**	**Market Cap (A$m)**
Fully paid shares	555.5	$0.31	$172.2
Options	92.8	$0.31	$28.8
Cash from options			$11.1
Diluted Market Cap			$189.8
Listed investments			$3.7
Cash			$2.8
Enterprise value			**$183.4**

The company has an undrawn working capital facility of $2.5m.

Share Price Graph

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Reference within the Stock Resource Report to the “Stock Resource Portfolio” is a reference to the hypothetical portfolio on the “Past Predictions” page, which includes details on the methodology used to derive the performance figures.