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Moving towards the commercialisation of its high profile hydrometallurgical processes

Intec Ltd (INL)

KEY POINTS

CAPITAL STRUCTURE

ASX Code	INL
Share price	\$0.07
Market cap. ¹	\$25.2m
Ordinary shares on issue	350,112,632
Options ²	7,057,122
Options ³	4,626,008
Options ⁴	1,275,000
12-mth low-high	0.07 – 0.175
12-mth volume	17,922,018

¹Undiluted. Source: IRESS

²A\$0.25 (Exp 16 July 2007)

³A\$0.10 (Exp 26 November 2008)

⁴A\$0.50 (Exp 30 June 2009)

DIRECTORS

Chairman	Richard Jenkins
MD / CEO	Philip Wood
Director (Non Exec)	Ian Ross
Director (Non Exec)	Phil Evans
Director (Non Exec)	Gordon Toll
Director (Non Exec)	Ken Severs
Technical Director	John Moyes

Source: INL

TOP 5 SHAREHOLDERS

Orian Holding Corp (IVN)	15.46%
Invia Custodian Pty Limited	3.15%
Excel Coal Limited	5.48%
Kizoz Pty Ltd	4.90%
Mr Peter Kenneth Everett	3.93%

Source: INL

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Source: INL

24 MONTH PRICE CHART



Source: IRESS

- **INL holds several patented hydrometallurgical processes as well as the 10.9Mt Hellyer Metals Project in Tasmania.**
- **Hellyer Tailings Dam contains over A\$1.7billion of in-situ metal value.**
- **Development of the project is now a priority and a demonstration plant program is underway.**
- **Potential for a blended tailings plus steel furnace zinc dust operation.**
- **Appraised value in excess of A\$120m or A\$0.34/share.**
- **FY08 net profit is estimated at A\$26m, a prospective earnings multiple of just 1.3 times the current share price.**
- **Successful completion of a 5-week pilot plant campaign by Barrick testing the Intec Gold Process.**

Hellyer Metals development underpins INL's strategic plan to convert its hydrometallurgical expertise into a commercially and economically viable project outcome.

Hellyer Metals Project, TAS (INL 100%). Tailings Dam resources are 911,000oz Au, 30.8Moz Ag, 305kt Zn, 327kt Pb and 17.4kt Cu. At current metal prices and forex, it represents **A\$1.7billion** of in-ground value. Construction of the demonstration plant in DQ04 to be followed by a Bankable Feasibility Study scheduled for late 2005. Project expected to be operational in early 2007. Hellyer Metals has a base case NPV_{10%, 30%tax} of around **A\$105m** or **A\$0.28ps fully diluted**.

Intec Gold Process (IGP). The process has been proven at laboratory-scale to recover gold and other by-products from metallurgically complex refractory gold concentrates. Major mining companies currently undertaking laboratory testwork. Significant progress has been made towards the commercialisation of the process following Barrick's successful pilot plant campaign.

Strong base metal and gold markets to support the Hellyer Metals development and the commercialization of Intec hydrometallurgical processes.

Capitalised at less than 1.5% of Hellyer's in-situ value and holding a highly prospective group of patented technologies, INL's share price does not reflect the value of its asset base.

Recommendation: Speculative Buy

Financial forecasts

		2006F	2007F	2008F	2009F	2010F
Revenue	A\$m	0.0	9.1	89	89	89
Net Profit	A\$m	(0.6)	(6.5)	26	24	25
EPS	A¢	----	----	5.5	5.0	5.4
PER	times	----	----	1.3	1.4	1.3
Shares on issue	millions	464.9	472	475	476	476

Fig1.1

Source: MPS estimates

INTEC LTD – IN PROFILE

Intec was established in 1973 and ever since it has been developing electrochemical and hydrometallurgical processes for the extraction of metals from ores, concentrates and residues.

In the 1980s, current shareholder Anglo American entered into a licence/royalty agreement to jointly advance Intec's hydrometallurgical electrowinning technology, leading to the development of the Intec Copper Process (ICP) by 1989.

In 1990 BHP funded a \$1m study which proved the economic advantage of the ICP over conventional techniques. In 1992 the ICP was patented and Intec Copper Pty Ltd formed to develop and commercialise the process.

The Intec Copper stage 1 pilot plant (55kg per day) was funded by an international consortium of mining and metals companies and operated for a total of 290 days between 1994 and 1995, by which time it was producing LME 'A' Grade purity copper. In 1998 a US\$10m stage 2 demonstration plant (1 tonne per day), funded by industry and the Federal Government, was constructed in Sydney, and in 8 months produced 190 tonnes of copper metal.

Intec Ltd (INL) was listed on the ASX in May 2002 after raising A\$5m in a fully subscribed IPO, with Ivanhoe Mines Ltd taking 19.9%.

In January 2004, Intec's wholly-owned subsidiary Intec Hellyer Metals Pty Ltd completed the acquisition of the Hellyer Project from the Receivers of Western Metals Copper Limited. The transaction involved the acquisition of the Hellyer mining and exploration tenements, the Burnie Research Laboratory, the Hellyer tailings dam, the 1.5Mtpa Hellyer mill and the intellectual property of the Mt Gordon Copper Process.

The Burnie Research Laboratory was then acquired by ASX-listed Ammtec Ltd and is planned to be the site of INL's proposed demonstration plant.

Intec is currently focused on technical development, marketing and commercialisation of its patented hydrometallurgical processes. The company plans to advance development of the Hellyer Metals Project as well as the Intec Gold Process.

Top 10 shareholders

Holder name	Shares	%	Holder name	Shares	%
Orian Holding Corp (Ivanhoe Mines Ltd)	54.1m	15.46	Ms Michelle Joy Everett	5.2m	2.11
Invia Custodian Pty Limited	15.3m	3.15	Mosheva Pty Ltd	5.0m	2.01
Excel Coal Limited	13.6m	5.48	Grizzly Holdings Pty Ltd	3.8m	1.54
Kizoz Pty Ltd	12.2m	4.90	Mr Ian Willian Hodgson	3.6m	1.45
Mr Peter Kenneth Everett	9.8m	3.93	Mr William E Conway	2.9m	1.17

Fig. 1.2

Source: INL

Directors and management

Non-Executive Chairman: Richard H Jenkins, former head of Macquarie Bank's Equities Group and Investment Bank.

Managing Director: Philip R Wood, legal and corporate adviser with extensive experience in the minerals industry.

Non-Executive Director: J Philip Evans, president of H.G. Engineering with over 40 years of experience in hydrometallurgy.

Non-Executive Director: Ian W Ross, senior executive with Ivanhoe Capital Corporation with extensive international experience.

Non-Executive Director: Kenneth J Severs, chemical engineer with over 40 years of experience in the mining industry.

Non-Executive Director: Gordon L Toll, senior executive with extensive experience in commercial and technical fields.

Technical Director: A John Moyes, director with over 30 years of experience in the mining and metals industry.

Financial history

Year end 30 th June		2001	2002	2003	2004
Cash	A\$m	4.97	3.75	0.73	1.10
Gross assets	A\$m	5.08	3.87	0.88	3.15
Net assets	A\$m	4.56	3.61	0.41	2.47
Shares on issue	millions	146.0	146.0	146.0	248.7

Fig. 1.3

Source: INL

INVESTMENT REVIEW

INL is well positioned to commercialise its hydrometallurgical process using the polymetallic tailings of the Hellyer project. Potential also exist to improve project economics by co-treating Hellyer tailings with other zinc-bearing residues such as EAF dust.

Hellyer Metals Project – Near Zeehan, TAS (INL 100%)

The project comprises several mining and exploration tenements, a 1.5Mtpa mill and the Hellyer tailings dam, which contains resources of 911,000oz Au, 30.8Moz Ag, 305kt Zn, 327kt Pb and 17.4kt Cu. Based on current commodity prices and exchange rates, Hellyer has an in-ground value of over **A\$1.7billion**.

Hellyer Tailings Measure Resource

	Grade	Contained	Commodity Prices	In-site US\$m Value	In-site A\$m*
Gold	2.6g/t	0.91Moz	US\$450/oz	410	532
Silver	88g/t	30.85Moz	US\$7.50/oz	231	301
Zinc	2.8%	305kt	US\$1,150/t	351	456
Lead	3.0%	330kt	US\$970/t	320	416
Copper	0.16%	17.4kt	US\$3,050/t	53	69
Total				1,365	1,772

Fig. 1.4

* A\$/US\$ = 0.77

Source: INL and MPS

Since Hellyer's acquisition in early 2004, INL has conducted a pilot leach plant campaign and completed a pre-feasibility study. The company is now in process of raising A\$15m to fund the construction of a demonstration plant in MQ05. With Bankable Feasibility Study scheduled for late next year, Hellyer is planned to be operational by early 2007.

Hellyer's development plan has considered two different scenarios – a base case treating 1Mtpa of Hellyer tailings and an enhanced case treating a blend of 500ktpa of Hellyer tailings with a 100ktpa of secondary feeds.

Base Case Scenario

It proposes the treatment solely of Hellyer tailings at 1Mtpa over 11 years. MPS has estimated production to commence in early 2007 at 500,000tpa, then ramping up to 1Mtpa by 2008. Annual operating earnings are modeled at around **A\$36m** for FY08 and beyond.

INL should apply its Intec Hydrometallurgical Process to simultaneously extract zinc, lead, copper, silver and gold. The operation only involves conventional dredging and pumping with no hard rock mining, crushing, grinding or flotation required.

Based on an A\$150m 11-year 1Mtpa operation, Hellyer has a base case NPV_{10%} of around **A\$146m** pre-tax. This represents **A\$0.42ps** undiluted, **A\$0.40ps** on the current diluted equity capital or **A\$0.27ps** after the raising of the new project equity at the time of development. MPS's valuation has assumed a mix of equity(20%) and debt(80%) to fund the project's A\$150m capital requirement. In the case of full debt financing of the project, Hellyer has a pre-tax NPV_{10%} of **A\$141m** or **A\$0.39ps** fully diluted.

Enhanced Case Scenario

This scenario considers the co-treatment of 500,000tpa of Hellyer tailings with 100,000tpa of Electric Arc Furnace (EAF) dust. By using EAF dust from steel mini mills as supplementary feed, INL could increase the project mine life to 22 years using a 40% lower capacity plant and extract metals from a much higher grade feed. While EAF dust grades up to 40% zinc, Hellyer tailings average just 12% zinc equivalent.

At the same assumptions for commodity prices, forex and production starting date used above, this 22-year 500ktpa operation generates a pre tax NPV_{10%} of **A\$223m** or **A\$0.41ps** after the raising of the A\$135m capital requirement (20% Equity /80% Debt).

Additional value for the project should arise from receipt of EAF dust treatment fees. Smorgon Steel and other EAF dust producers around the world have paid from A\$200/t to A\$800/t for the disposal/treatment of their dust from hazardous waste. Importantly, MPS valuation does not incorporate the potential there for additional revenues from long term dust supply contracts.

INVESTMENT REVIEW - CONTINUED

Hellyer Project – Key Parameters

	Base Case	Enhanced Case
Initial Capital Expenditure	A\$150m	A\$135m
Maintenance Capital Expenditure	A\$3m	A\$3m
Project Life	11 years	22 years
Production	1Mtpa of tailings	0.5Mtpa tailings plus 0.1Mtpa EAF dust
Sales Revenues	A\$89m	A\$84m
Operating Costs	A\$35/t	A\$28/t
Annual EBIT ¹	A\$40m	A\$44m
After-tax NPV @ 10%	A\$105m	A\$155m

Fig. 1.5

Source: INL and MPS

¹ At max production rates

* Both scenarios assumed A\$/US\$ = 0.77 and USD prices of 1,000/t (Zn), 2,500/t (Cu), 950/t (Pb), 400/oz (Au) and 7.0/oz (Ag)

Hellyer Mill

The well maintained 1.5Mt p.a. Hellyer mill is not required for the operation of the Hellyer project. With the replacement cost of the mill estimated to be around A\$80m, INL is now seeking to transfer the asset to a suitable base metals project in exchange for project interest.

Intec Gold Process

Intec Gold Process (IGP) has been proven to recover, on a laboratory-scale basis, gold and other by-products from metallurgically complex refractory gold concentrates (i.e. those containing arsenopyrite, pyrite and carbon).

The IGP typically involves the simultaneously oxidation and leaching of metals from a gravity/flotation concentrate by a halide-based solution, followed by precipitation of contaminants (which can be valuable, eg. Base metals) and then gold recovery onto activated carbon.

Comprehensive laboratory testwork has been undertaken by Rio Tinto, Barrick and Placer Dome. Importantly, Barrick has recently completed a 5-week pilot plant campaign as part of an intensive evaluation program. The successful outcome of this campaign represents an important step towards the commercialisation of the Intec Gold Process as an alternative route for refractory materials.

Valuation

Based on the 100% debt funding base case scenario, MPS has estimated the proposed Hellyer operation to have a NPV_{10%,30%tax} of around **A\$105m or A\$0.28ps fully diluted**. Without incorporating any value from the enhanced scenario and associated dust treatment revenues, the project equals 4 times INL's current share price.

At this stage, after assessing the likelihood of the company achieving its research, development and production goals, MPS has an appraised value for INL of **A\$121m or A\$0.34ps**.

Year end 30 June EBIT						Book value*		Appraised value*	
	2006F	2007F	2008F	2009F	2010F	A\$m	A\$/sh	A\$m	A\$/sh
Hellyer Metals Project	-	2.5	40	40	40	0.1	0.00	141	0.39
Hellyer Mill / Exploration	-	-	-	-	-	1.6	0.00	10	0.02
Intec Gold Process	-	-	-	-	-	0.1	0.00	5	0.01
Net 'Other Items'	-1.3	-1	-1	-1	-1	-0.7	0.00	-5	-0.01
Net Interest	-	-8	-7	-6	-5	7.4*	0.02	7.4	0.02
Pre-tax	-0.6	-6.5	32	33	34	8.5	0.03	158	0.44
Income Tax	-	-	-6	-9	-9	-	-	-37	0.10
After tax	-0.6	-6.5	26	24	25	8.5	0.03	121	0.34

*Including the recent \$7m capital raising
Assuming capex funded by 100% debt

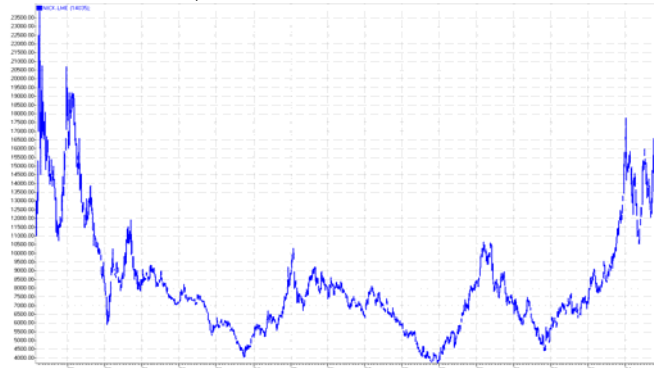
Source: MPS

Although the cash flows from the proposed Hellyer operation are undoubtedly attractive, the economic implication of the successful commercialisation of INL's mineral processing technology is likely to be far more significant to shareholders.

METALS: PRICE AND INVENTORY 1986 -2004

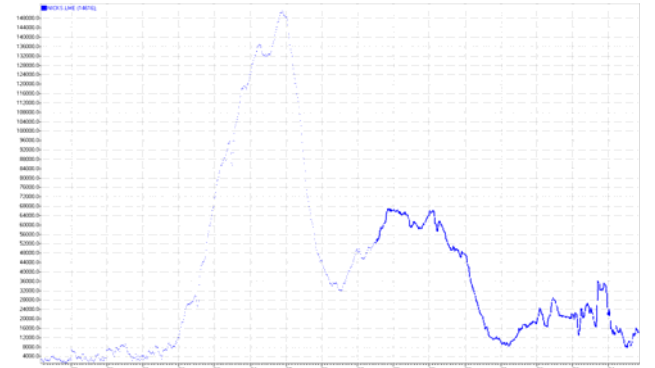
Nickel

LME Price US\$ / tonne



Nickel

LME Stock Levels



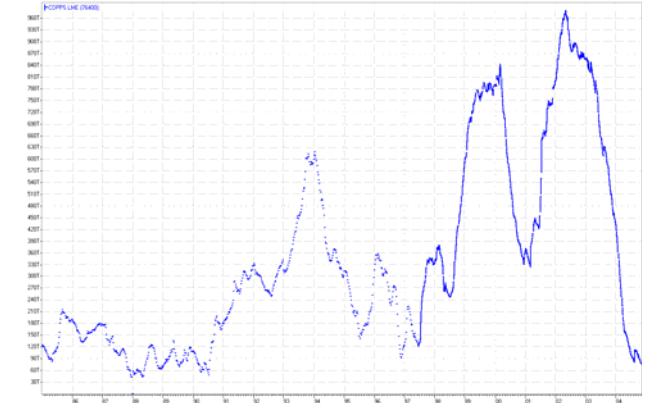
Copper

LME Price US\$ / tonne



Copper

LME Stock Levels



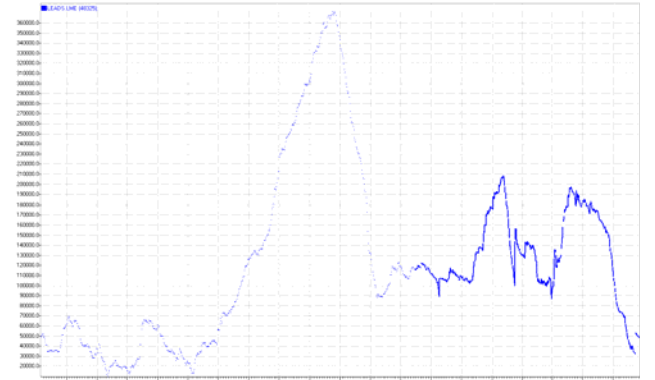
Lead

LME Price US\$ / tonne



Lead

LME Price US\$ / tonne



Gold

NY Price US\$ / oz



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