

ENCORE METALS NL

ABN 77 084358814

ANNUAL REPORT ON MINERAL EXPLORATION YEAR ENDED 30 JUNE 2006 RETENTION LICENCE RL3/1996

- The Encore owned 450,000 tonne zinc, silver, lead and indium bearing Zeehan slag dumps contains in excess of A\$300,000,000 of metals at prevailing metals prices.
- The Company is actively pursuing several alternative options to initiate production and to extract value from the Zeehan materials given that several options previously considered marginal now appear to be profitable at today's prices.

Intec Limited

- A conditional sale agreement was entered into with Intec Limited, owner of the Hellyer mine and tailings resource in early 2004. This was never finalised but Intec and Encore have continued to work together to develop a viable flow sheet for the inclusion of the slags into the proposed Intec process.
- Intec intends to blend crushed slags with a Hellyer tailing dam concentrate for treatment using a proprietary chloride based hydrometallurgical recovery technology.
- Extensive bench-scale test work on slag samples has been encouraging and provided extremely useful information about the characteristics of the slags and their likely behaviour in a number of full scale plant configurations.
- Consequently, a 20 tonne representative sample was taken and shipped to Western Australia for specialist crushing. It was then shipped back to Burnie (cost \$60,000) to await input into the Burnie demonstration plant.
- The unblended slag bulk sample is now being fed through the demonstration plant in order to provide reliable and definitive performance data for input into the overall project Feasibility Study. This work will cost in the order of \$200,000.
- The parties are renegotiating a sale agreement.

Ausmelt Limited

- Several meetings and discussions have been held with Ausmelt Limited regarding the use of its top submerged lance, high intensity smelting technology to produce a zinc oxide fume for on-sale to zinc refineries.
- A number of metallurgical and financial models have been run using a stand-alone plant at Zeehan and prevailing metal prices and refinery terms as the base case.

- Variations on this base case that are looking mainly at alternative plant locations are also being considered with a view to accelerating start-up to take advantage of robust zinc prices and to reducing initial capital costs.
- The parties are considering options for how they may formally associate to develop the Zeehan slags.

Plasma Arc Furnace

- The 2000 Lycopodium Scoping Study considered both Ausmelt technology and Plasma Arc Furnace based technology to recover zinc and other metals from the Zeehan slags.
- Whilst both options paid back capital, operating surpluses were minimal at the then prevailing metals prices. Overall, the study actually favoured the PAF option principally because it had the potential to produce zinc metal rather than a much lower value zinc-oxide fume.
- Given the considerable improvement in the zinc price Encore is moving to have the study updated. In particular, the new brief will focus on the ability of a PAF placed in line with a splash condenser to produce metal that does not require further costly refining.

Stephen Stone

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