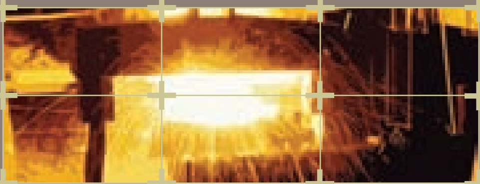
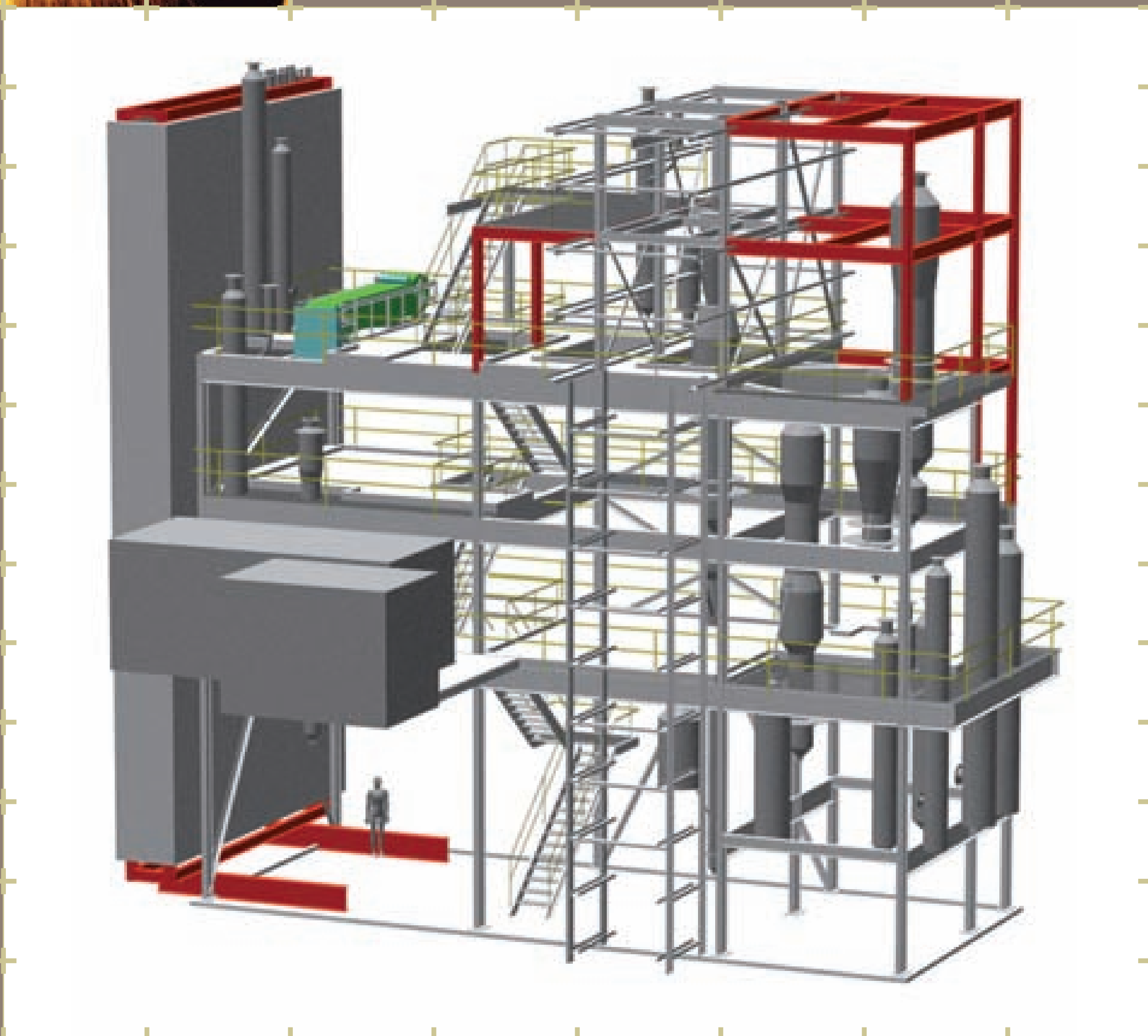
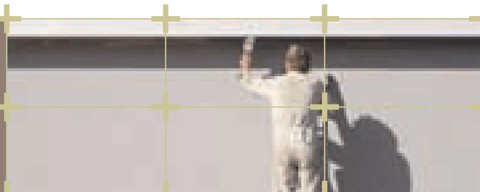
AUSTPAC
RESOURCES N.L.

Annual Report 2007







Contents

Highlights

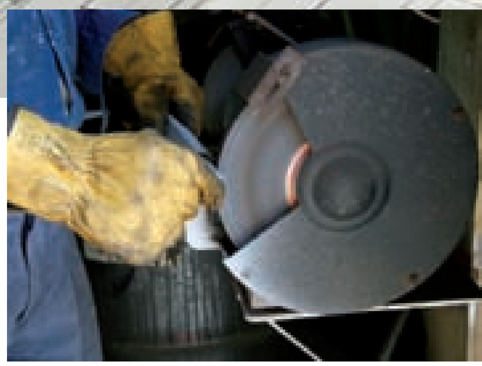
- Austpac has developed world-leading technology for the production of synthetic rutile ("synrutile") from ilmenite for the titanium pigment and metal industries, and new technologies for the treatment of iron oxide waste and iron ore fines, with significant environmental benefits for steel producers worldwide.

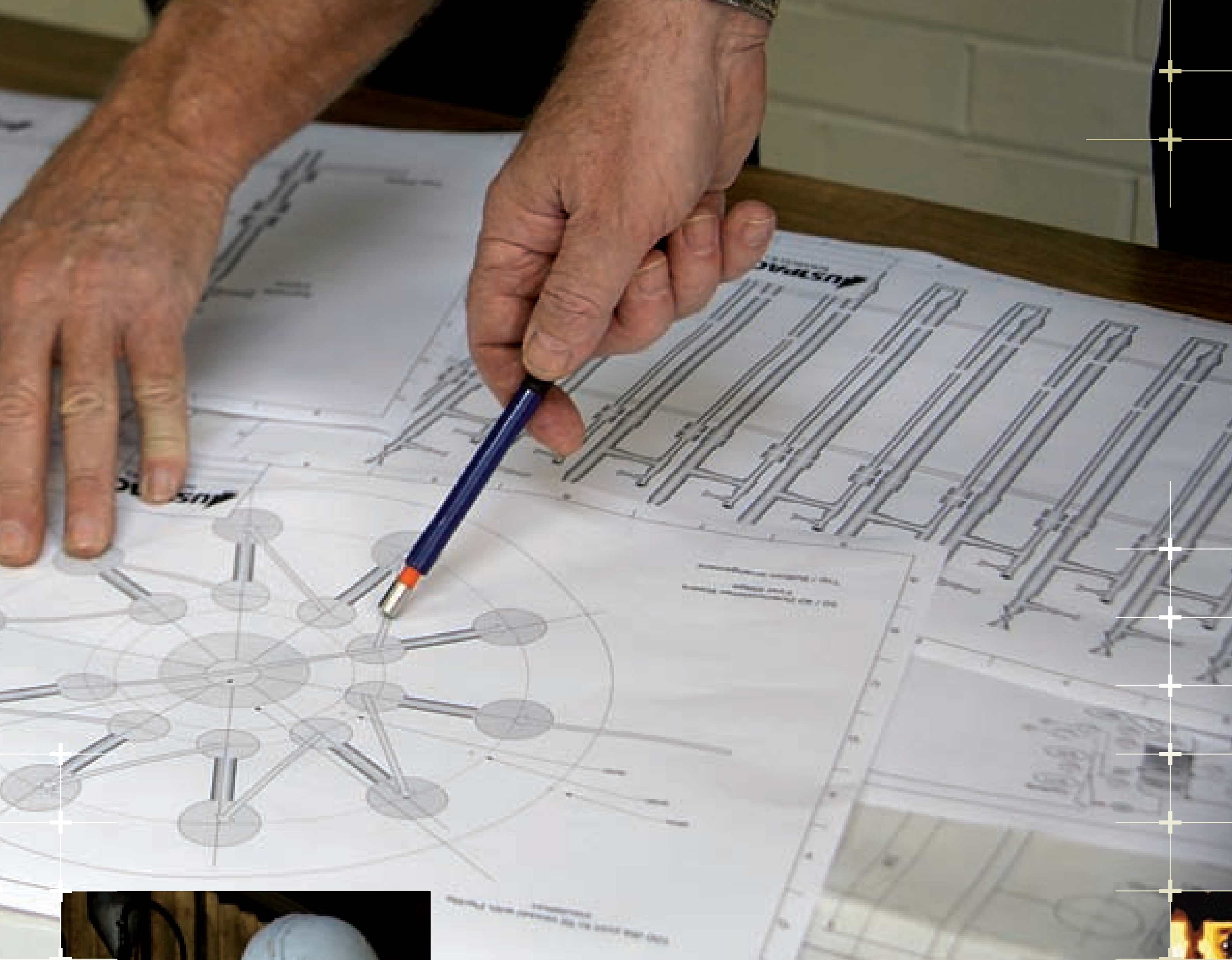
- In September 2006, Austpac signed a Research Agreement with BHP Billiton to investigate aspects of Austpac's ERMS synrutile process. This was successfully concluded early in 2007, and led to discussions regarding the next phase necessary to commercialise the technology.

- In June 2007, BHP Billiton became Austpac's major shareholder by acquiring 25 million shares at 20 cents via a placement. BHP Billiton now holds a 3.8% interest in Austpac.

- The funds provided by BHP Billiton are being used to construct a 3,000 tonnes per annum (tpa) ERMS SR Demonstration Plant to produce ultra high grade synthetic rutile and an iron metal co-product.

- Near term growth plans are in place for several other patented technologies, including environmentally friendly recycling of steel industry wastes and licensing Austpac's Direct Reduced Iron process for the production of iron metal from iron ore fines.





Commercialising Austpac's Value-Adding Technologies

Austpac's goal is to use its value-adding technologies, especially the ERMS and EARS processes, to:

- Become a significant producer of high grade synthetic rutile feedstock for TiO_2 pigment and titanium metal manufacturers
- Recover iron and hydrochloric acid from iron oxide and chloride wastes produced by the world steel industry and create revenue in build-own-operate plants
- Licence the Direct Reduced Iron ("DRI") process to enable iron ore miners to add value to iron ore fines by producing iron pellets.

Chairman's Review

Austpac shareholders have recognised BHP Billiton's investment as a strong endorsement of the Company's technical achievements and of the innovative capabilities of our management and engineering team.

I am pleased to report that following the successful evaluation by BHP Billiton of the ERMS SR synthetic rutile and related processes under the Research Agreement signed in September 2006, Austpac has now executed agreements with BHP Billiton which have accelerated the commercialisation of our synthetic rutile technology.

These agreements, which became effective in June 2007, provide for the following:

- BHP Billiton has taken a placement of 25,000,000 fully paid ordinary Austpac Resources NL shares at 20 cents each, which raised $5 million for the construction of Austpac's 3,000 tpa fully integrated ERMS SR Demonstration Plant at Newcastle. BHP Billiton is now the largest shareholder in Austpac with a 3.8% holding.
- BHP Billiton has been granted a licence to use the ERMS SR synthetic rutile technology in Africa. BHP Billiton will pay a fixed licence fee based on gross sales revenue.
- Upon the successful completion of the Demonstration Plant project, Austpac and BHP Billiton will jointly consider the next phase of commercialisation, which is a 60,000 tpa ERMS SR plant. Should BHP Billiton participate in that plant, BHP Billiton will be granted a further licence to use the ERMS SR technology worldwide, with the licence fee also based on sales revenue.
- It is the intention of both companies to jointly seek opportunities to use the ERMS SR process.

Construction of the Demonstration Plant is well advanced and commissioning will commence in January 2008. The plant will process 550 tonnes of ilmenite concentrate from a resource capable of supplying a 60,000 tpa synrutile plant, together with additional tonnage from BHP Billiton's Corridor Sands deposit in Mozambique. The plant will produce up to 300 tonnes of ultra high grade ERMS SR synrutile and 200 tonnes of iron pellets for market assessment. These operations will be completed by August 2008.

The plant will also incorporate Austpac's EARS acid regeneration and DRI iron reduction processes, which will facilitate the showcasing of these technologies for applications in the steel industry once the ERMS SR program with BHP Billiton has been completed.

In March 2007, Austpac signed an agreement with OneSteel Limited to investigate the potential for Austpac's processes to regenerate acid from spent pickle liquor and to recover iron from mill scale and electric arc furnace dust ("EAF dust"), which are wastes generated by steel making.

This test program yielded exceptional results. Hydrochloric acid was regenerated from the spent pickle liquor, and high value DRI iron pellets were made from both mill scale and EAF dust. Very significantly, zinc was recovered from the EAF dust. This new process will also treat the zinc-rich waste chloride solutions produced by steel galvanising operations. The potential world market for our technologies to treat steel industry wastes and recover metal and acid is substantial. We plan to commence commercialising this technology late next year.

During the financial year, it was not necessary to access the five year, $3 million equity finance facility with the USA investment fund, Cornell Capital Partners. This was due to the interest demonstrated by Australian investors in the first half of the year and by BHP Billiton in the second half. The Company was also assisted in research and development funding by the Government Research and Development tax concession refund for eligible technology expenditure.

In a very exciting year, the Company is now progressing quickly with commercialisation of all of the Austpac proprietary technologies.

I would like to thank my fellow directors and the management team for their efforts and the significant advances made this year. I am confident this will bring rewards to our shareholders in the very near future.

T. Cuthbertson
Chairman

Directors' Report on Operations

Austpac is an emerging producer of high grade synrutile, an important feedstock for the titanium industry. It has also developed technologies with significant potential to profit from recycling wastes created in steel making, and for upgrading low value iron ore fines.

The Company's patented technologies include:

- **ERMS SR** – a unique process to transform ilmenite, a common titanium mineral, to produce **two** saleable products; ultra high grade synrutile and metallic iron pellets
- **EARS** – a new process to transform waste iron chloride solutions from the titanium and steel industries, together with iron oxide wastes, into recycled hydrochloric acid and saleable iron metal pellets
- **DRI** – a new value-adding technology which enables the production of direct reduced iron ("DRI") from iron ore fines – a highly desirable feedstock for arc furnaces used for steel making.

Austpac's technologies have been fully tested at pilot plant scale, are environmentally friendly, and produce no solid or liquid wastes.

All of the technologies are now being incorporated into a Demonstration Plant and it is anticipated that they will generate income in the short term from the treatment of steel mill waste and from licensing the DRI process.

Current and Future Plans

The ERMS SR process is being scaled up in a 3,000 tpa Demonstration Plant under construction at Newcastle. This plant will be used to process at least 550 tonnes of ilmenite to produce up to 300 tonnes of ultra high grade ERMS synrutile, and 200 tonnes of iron pellets. The operation of the plant will provide all engineering data required for the scale up to the commercial production of synrutile.

The Demonstration Plant will commence operating early in 2008 with the aim of completing the synrutile production runs by August of that year. Market assessments on small bulk samples of ERMS synrutile will then be undertaken by several interested titanium groups. The Demonstration Plant will also produce iron pellets in a form that will allow this product to be tested by steelmakers.

The decision to construct a full scale 60,000 tpa commercial ERMS SR plant will be made later in 2008.

The Demonstration Plant will also showcase the associated commercial and environmental benefits of the EARS process. It is expected that this process will be implemented in the steel industry commencing in late 2008.

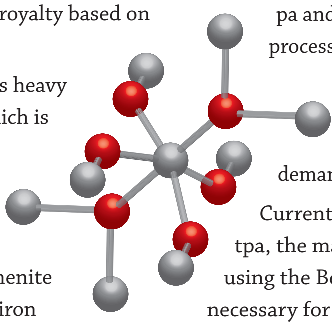
The Demonstration Plant will also be used to test bulk samples of iron ore fines, demonstrating the direct reduced iron process for this application, and enabling Austpac to move to licensing of the technology to global iron ore producers.

Titanium – The BHP Billiton Deal

In June 2007, Austpac made a placement of 25,000,000 fully paid ordinary shares at 20 cents each to BHP Billiton. This raised $5 million which is being used for the construction of the Demonstration Plant.

BHP Billiton is now Austpac's largest shareholder with a 3.8% holding and has been granted a licence to use the ERMS SR technology in Africa, subject to payment of a royalty based on gross annual sales.

BHP Billiton owns the massive Corridor Sands heavy mineral deposit in southern Mozambique, which is reported to contain one third of the world's ilmenite. When developed, Corridor Sands will also be among the lowest cost mineral sand producers. ERMS SR is the only process capable of treating Corridor Sands ilmenite to produce ultra high grade synrutile and the iron pellet co-product.



Once the Demonstration Plant has completed the ERMS synrutile production runs next year, which will include processing a bulk sample from Corridor Sands, BHP Billiton and Austpac will discuss the funding for the proposed 60,000 tpa commercial plant. South eastern Australia will be one of the sites considered for the plant, to take advantage of the low cost brown coal and abundant refractory ilmenite being produced by the mineral sand mines in the Murray Basin. These mines are focused mainly on the production of natural rutile and zircon. Currently the ilmenite is either dumped or stockpiled because it contains deleterious chromite. This type of ilmenite can only be processed by the ERMS SR process.

A 60,000 tpa plant is the logical next step in scaling up the process before committing to any large ERMS SR plant elsewhere in the world.

The Titanium Market and Synthetic Rutile

Titanium is mainly used in the form of titanium dioxide pigment (paints, plastics and printing inks), with only around 5% used as metal (aerospace, medical and sports applications). The pigment market is over US$8 billion pa and has grown annually at ~3% for the past 25 years; the metal market is over US$2 billion pa and growing rapidly. Both the chloride pigment process (which accounts for 60% of world production) and titanium metal production require a high grade feedstock such as synrutile, which comprises approximately 25% of feedstock demand by this market.

Current world production of synrutile is around 800,000 tpa, the majority of which is produced in Western Australia using the Becher process. Suitable high grade ilmenite necessary for this process is becoming scarce worldwide, and Becher plants produce an environmentally problematic black iron oxide waste that is stored in tailings dams. A second process, the Benilite process, produces a higher grade synrutile by acid-leaching ilmenite, but it is dependent upon costly fuel oil for acid regeneration and produces a red iron oxide mud as waste.

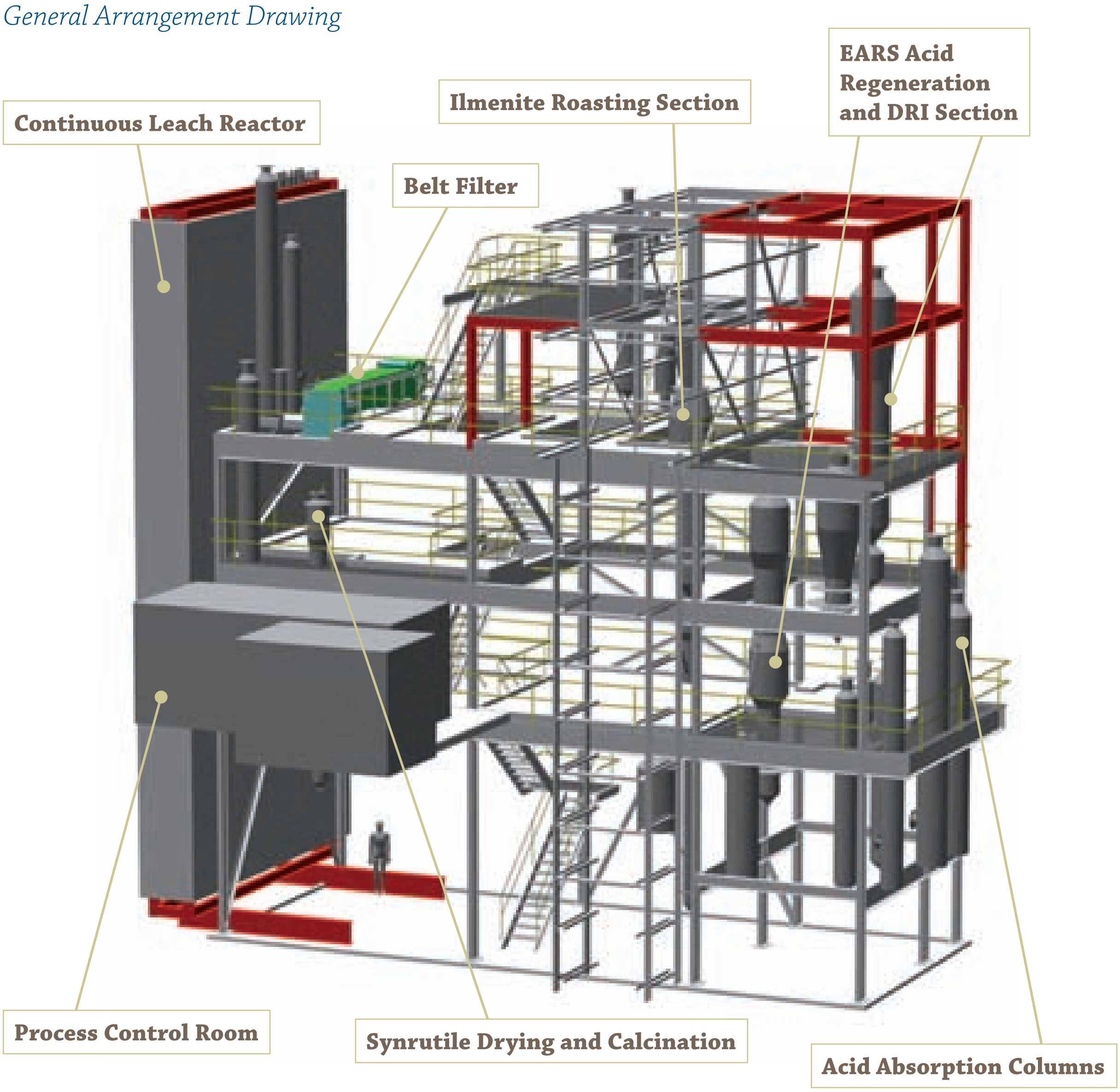
In contrast to the Becher and Benilite processes, Austpac's ERMS SR process, in addition to producing an ultra high grade synrutile that can be used as feedstock for both pigment and metal, also produces a saleable iron pellet co-product rather than iron oxide wastes. It is the only synrutile process that produces two saleable products, and is capable of economically treating the lower grade, often contaminated ilmenites that are common around the world.

ERMS SR is the highest grade, most environmentally friendly synrutile process available.

Since announcing the Demonstration Plant project, Austpac has received a number of enquiries from titanium metal groups regarding long term supply of ultra high grade synrutile feedstock. The iron pellets are also seen as a premium arc furnace feed and steel makers have expressed an interest in testing that product. The output from the Demonstration Plant will therefore be used for trial marketing, as Austpac intends to negotiate long-term product off-take agreements for the proposed 60,000 tpa commercial plant. This will underpin the financing requirements of the plant.

ERMS SR Demonstration Plant

General Arrangement Drawing



The Steel Industry and the Environment

Recycling Pickle Liquor and Recovering Waste Iron Oxides

Electric arc furnaces which are used to melt scrap iron commonly produce iron waste in the form of "dusts", termed "EAF dust". Also, in the steel mill rolling process, as much as 5% of the iron is lost as iron oxide, termed "mill scale". In the coating or painting of steel sheet or coil, the surface must be "pickled" by passing it through a bath of hydrochloric acid to remove iron scale and oxide. The depleted acid, or spent pickle liquor, is rich in iron chloride, and while it can be regenerated, it is often neutralised and dumped, thereby losing both the chloride and the iron. More significantly, this is an enormous environmental problem for many steel producers around the world.

Austpac's unique EARS regeneration process can economically recover the chloride and the iron from pickle liquors, as well as recover iron from the mill scale and EAF dust when recycled through an EARS plant.

There are three steel processing centres in Australia producing 30 to 50 tonnes of spent liquor per day. Each of these would benefit from environmental waste recycling, and several have indicated an interest in the EARS process. There are over 100 steel pickling lines in the USA alone, and hundreds more throughout Europe, Asia, and the rest of the world, so the potential for this application is immense.

OneSteel Agreement and Commercialising the EARS Process

In March 2007, Austpac signed an agreement with Australia's second largest steel producer, OneSteel Limited, to investigate recycling opportunities for the Austpac EARS acid regeneration and DRI processes. The pilot scale work program, which processed OneSteel's spent pickle liquor, waste mill scale and electric arc furnace dust and produced fresh hydrochloric acid and metallised iron pellets, was successfully concluded in August 2007. The next step will be large scale continuous test work using OneSteel's waste materials.

The EARS section of the ERMS SR Demonstration Plant at Newcastle will have a capacity of 40 tonnes per day (tpd). Thus, during the second half of 2008, when synrutile production has been completed, Austpac will be able to undertake large scale recycling trials using wastes from OneSteel's Newcastle plant. This will prove the applicability of the EARS process to handle steel industry wastes on a commercial scale, ready for world wide application.

The 40 tpd EARS plant is capable of handling all the steel industry wastes from the Newcastle region and it is likely the plant will be used commercially by the end of 2008, so generating an early cash flow.

This will lead to additional EARS plants being installed at other sites in Australia and at other steel production complexes around the world from 2009 onward. It is estimated that a stand-alone 50 tpd EARS plant would cost $6 million to build and would be highly profitable, generating a profit of more than $10 million per year before tax.

Such plants could either be owned and operated by Austpac, treating wastes on a "build-own-operate" basis, or plants built by steelmakers under licences for the EARS process, so generating a substantial annual income stream. Within the next five years the EARS process will become accepted as **the** environmental solution for the significant waste problem now facing the world's steel industry.

Austpac's Direct Reduced Iron ("DRI") Process

Early in 2006, Austpac developed a novel DRI process to enhance the EARS acid regeneration process by reducing the iron oxide to iron metal pellets. This was undertaken in batch fluid bed roasters and it was decided to construct a pilot scale continuous "metalliser" to demonstrate the process.

This unit was operated between late October and December 2006 with test runs conducted on EARS oxide pellets, as well as a sample of fine iron ore from the Pilbara in Western Australia. Good metallisation was achieved, though the small size of the pilot unit caused some control problems. Nevertheless, the process was successfully proven, and it was decided to undertake further testwork after completion of the Demonstration Plant.

When both the synrutile program and the initial bulk test work for OneSteel have been completed, Austpac will be able to showcase the DRI process by treating large samples of iron ore fines in conjunction with iron ore producers. Austpac's ultimate objective is to licence the DRI process to interested parties once it has been proven on a large scale.

Exploration Licence 4521 – Horsham Joint Venture

In February 2004, Austpac and Australian Zircon N.L. ("AZC") signed a farm-in agreement to investigate the potential for the development of Austpac's WIM150 heavy mineral deposit.

Australian Zircon will earn an 80% participating interest by completing a bankable feasibility study on WIM150, after which Austpac may elect to maintain a 20% working interest or convert to a 10% net profit interest. During the year, the Victorian Department of Primary Industry merged EL 4532, following the termination of Native Title Applications with respect to Crown Land inside the area of EL 4521 into EL 4521, thus simplifying the tenement holding.

Drilling and sampling of selected sites during December 2006 by AZC has shown a very good correlation between current sampling and analysis and previous work. The results from this program will be incorporated into resource estimation work currently being conducted by AZC's external mining consultants.

WIM150 is a world class resource of zircon and not an insignificant resource of titanium minerals. Previous resource estimates at WIM150 by CRA Exploration identified approximately 5 million tonnes of contained zircon and approximately 12.5 million tonnes of ilmenite.

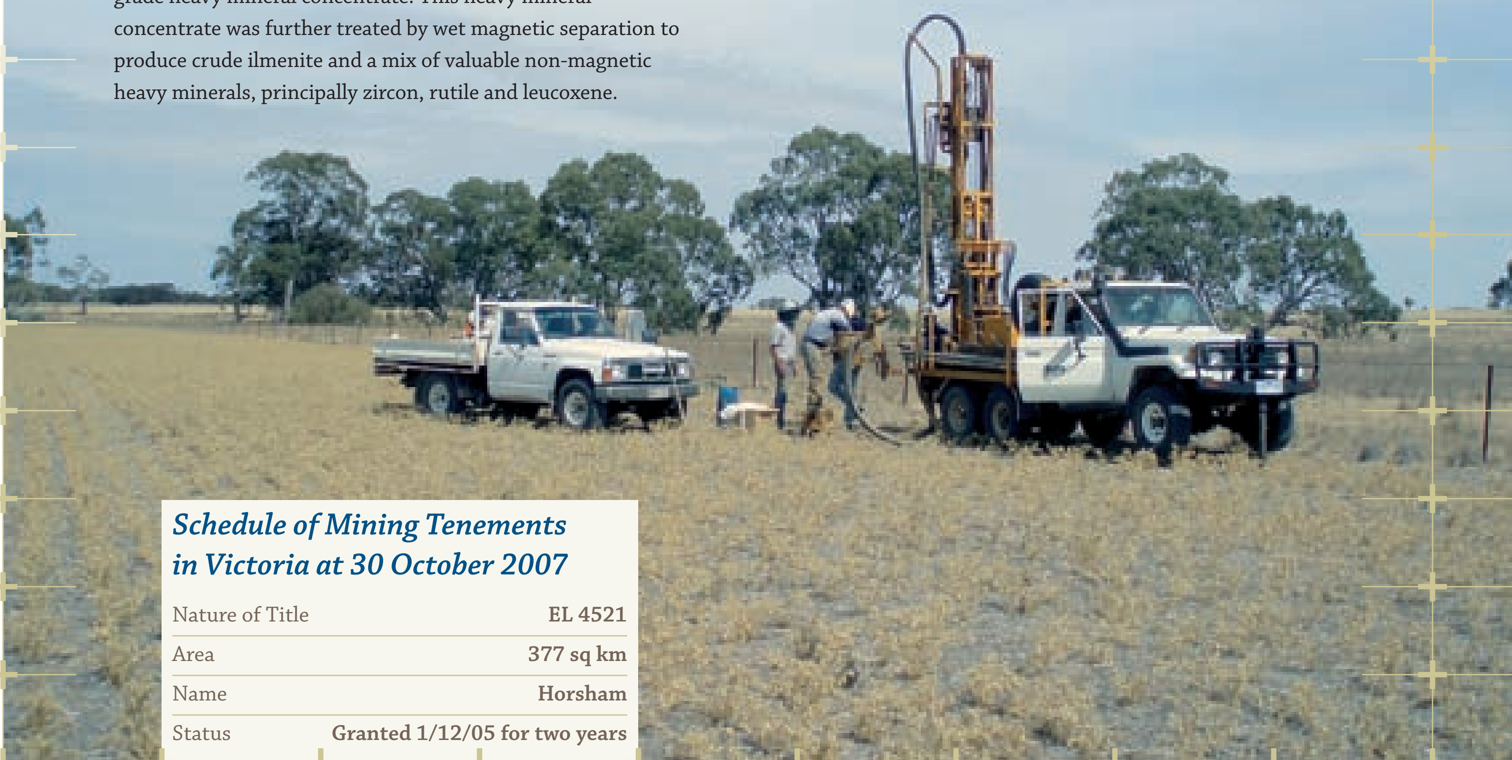
The grain size of the heavy mineral suite at WIM150 is unusually fine, but testwork undertaken by AZC's consultants has achieved acceptable recoveries of zircon and titanium minerals from concentrates.

AZC has developed a preliminary wet circuit flowsheet which successfully recovered 87% of raw feed zircon into an acceptable grade heavy mineral concentrate. This heavy mineral concentrate was further treated by wet magnetic separation to produce crude ilmenite and a mix of valuable non-magnetic heavy minerals, principally zircon, rutile and leucoxene.

During the 2006-2007 financial year, AZC completed the following activities:

- Undertook a review of previous drilling data to establish the zircon distribution within the WIM150 deposit.
- Conducted a program of aircore drilling within the zircon rich core of the project area. This drilling verified the tenor of mineralisation as defined from drill data generated by CRAE and also determined what additional information will be required to enable compilation of an updated Resource Statement compliant with present day Joint Ore Reporting Code (JORC) requirements.
- Reviewed the sample preparation and analysis procedures previously utilised by CRAE to design a methodology which will allow accurate correlation of data sets. These procedures were applied to the samples generated from the drilling program.
- Appointed Mr Johann Jacobs, a director of Australian Zircon as project leader of a pre-feasibility study team which is very experienced in the mineral sands industry and whose collective experience on WIM150 and related projects will add significant value to the project.

AZC has advised that the pre-feasibility study is due for completion in November 2007, and will enable the commencement of the bankable feasibility study in 2008.



Schedule of Mining Tenements in Victoria at 30 October 2007

Nature of Title	**EL 4521**
Area	**377 sq km**
Name	**Horsham**
Status	**Granted 1/12/05 for two years**

Gold Exploration in China

In China, the commercial arrangements are being finalised to allow exploration for significant Carlin-style sulphide gold mineralisation beneath operating oxide gold mines in Guangxi Province. However, some matters of due diligence including the ownership of the mineral rights remain to be resolved satisfactorily before binding agreements can be finalised with the Chinese vendors. The Company's joint venture partner, AIM-listed Archipelago Resources PLC, is collaborating with Austpac in these evaluations.

Sampling of exposed sulphide mineralisation at several old mines has been encouraging. The projects are owned by private Chinese companies which are able to contribute significant technical data, local operational expertise and valuable contacts with government. The targets are located in the highly prospective "Golden Triangle", which also contains the 4.6 million ounce gold Jinfeng deposit being mined by Sino Gold.

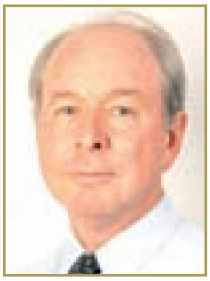
Financial Section

Directors' Report

The directors of Austpac Resources N.L., ('the Company') A.C.N. 002 264 057, present their report together with the financial report of the Company and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2007 and the auditors' report thereon.

Directors

The directors of the Company at any time during or since the end of the financial year are:

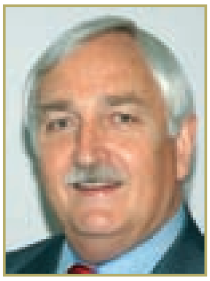


TERRY CUTHBERTSON *ACA* **Chairman**

Age 57

Mr Cuthbertson is currently Chairman of Montec International Limited and non Executive Director of Healthzone Limited and S2 Net Limited. He was previously Group Finance Director for Tech Pacific Holdings Pty Ltd which generated over $2 billion in revenues from operations throughout the Asia-Pacific Region. From 1986 to 1995 he was a Senior Partner of KPMG, specialising in strategic and corporate advice to major corporations. Mr Cuthbertson brings extensive international corporate experience to Austpac including a practical operating knowledge of business practices and structures in India, China and Southeast Asia.

Mr Cuthbertson was appointed a Director of Austpac Resources N.L. on 27 March 2001 and Chairman of Austpac Resources N.L. on 31 May 2004.



MICHAEL J. TURBOTT *BSc (Hons), FAusIMM, MAIG* **Managing Director**

Age 63

Mr Turbott was formerly a Director and Vice President of Kennecott Explorations (Australia) Ltd, and was in charge of the exploration programs that led to the discovery of the Lihir gold deposit in Papua New Guinea and to the acquisition and initial development of the Gordonstone coal mine in the Bowen Basin, Queensland. His 39 years' experience in the mining industry has encompassed a wide variety of exploration and development projects in Australia, New Zealand, Papua New Guinea, Indonesia, Philippines, Canada and the USA.

Mr Turbott has been the Managing Director of Austpac Resources N.L. since its formation as an epithermal gold explorer in 1985. In 1988 Austpac became involved in the Westport ilmenite sand deposits in New Zealand. This led to the development of Austpac's proprietary ERMS roasting process to separate refractory ilmenite and, subsequently, to the patented EARS acid regeneration process. Under Mr Turbott's direction, since the mid 1990s Austpac has focused on its mineral sand technologies and has developed a proprietary continuous leaching process and specialist know-how in low temperature roasting and in the treatment of iron minerals. The ERMS SR process is used for the production of high grade synthetic rutile and iron metal pellets from ilmenite. Austpac's technologies are also applicable to the steel industry where they can recover hydrochloric acid, iron and zinc from waste pickle liquors, mill scale and electric arc furnace dust. Austpac also has a process to produce direct reduced iron from iron ore fines.

ROBERT J. HARRISON *FAICD* **Non-Executive Director**

Age 68

Mr Harrison has over 20 years' experience in the marketing of ilmenite, rutile and zircon. He was Managing Director of Consolidated Rutile Limited's marketing subsidiary Minerals Pty Limited for a number of years before forming the mineral sands marketing consultancy Mineralex Agencies Pty Limited, of which he is Managing Director. Since 1986 Mr Harrison has provided marketing support, market surveys, statistical analyses and product reviews for titanium dioxide feedstocks, titanium dioxide pigments and zircon to a range of significant producers and consumers of those products in Australia, India, Africa, Europe and the North America.

Mr Harrison was appointed a Director of Austpac Resources N.L. on 1 September 2004.

Company Secretary

Mr Gaston is a Chartered Secretary with 30 years listed public company experience including Lend Lease Corporation, Peko Wallsend Limited and American Metals Climax (AMAX).

Officers who were previously partners of the audit firm

Officers who were previously partners of the current audit firm KPMG, at the time when KPMG undertook an audit of the Company – T. Cuthbertson who retired from KPMG in 1995.

Directors' Interests and Benefits

The relevant interest of each director in the share capital of the Company at the date of this report and as notified by the directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act 2001 was:

	Ordinary Shares	
	Direct	**Indirect**
Terry Cuthbertson	–	2,766,667
Michael J. Turbott	7,867,785	3,283,333
Robert J. Harrison	1,500,000	–

In accordance with the Company's articles of association, Mr Terry Cuthbertson retires from the Board of Directors and, being eligible, offers himself for re-election.

Directors' Meetings

The number of meetings held and attended by each of the directors of the Company during the financial year are:

	Board Meetings **attended**	***Board Meetings*** **held during the time the director held office**	***Audit Committee*** **Meetings attended**	**Meetings held**	***Remuneration Committee*** **Meetings attended**	**Meetings held**
Terry Cuthbertson	9	9	2	2	1	1
Michael J. Turbott	9	9	2	2	1	1
Robert J. Harrison	9	9	2	2	1	1

Principal Activities

The principal activity of the consolidated entity is the development of mineral processing technology and exploration and development of mineral sands deposits and gold deposits.

Review and Results of Operations

A review of the operations of the consolidated entity for the year and the results of those operations are contained in the section entitled *Directors' Report on Operations* commencing in the front section of this Annual Report.

Dividends

No dividends were paid or declared by the Company during the year. The directors do not recommend the payment of a dividend.

State of Affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year which are not disclosed in the Annual Report.

Subsequent Events

There has not arisen in the interval between the end of the financial year and the date of this report, any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity in future financial years.

Likely Developments

Except as described elsewhere in this Annual Report, further information about likely developments in the operations of the consolidated entity and the expected results of those operations has not been included as disclosure of such information would likely result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

The consolidated entity's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its technology development.

The directors are not aware of any breach during the period covered by this report.

Remuneration Report

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The Board remuneration policy is to ensure the remuneration package properly reflects the duties and responsibilities of the director. The Remuneration Committee ascertains non-executive Director remuneration and also staff remuneration which are separate and distinct. Remuneration is set by the Board of Directors. The Company has a remuneration policy aimed at retention of key technical staff to ensure the progression and commercialisation of the Company's technologies.

This policy is somewhat restricted by limited funds, however, the employee share purchase plan, provides staff with an incentive and sense of ownership. The Company is managed by the Managing Director, supported by the Board of Directors. The Company does not have a senior executive staff. The Company has no employees that are specified executives.

Details of the nature and amount of each major element of the emoluments of each director of the Company for the year ending 30 June 2007 are:

		Short Term		***Post Employment***	
	Base	**Non Monetary Benefits**	**Consulting Fees**	**Super**	**Total**
	$	**$**	**$**	**$**	**$**
Mr M.J. Turbott	166,067	20,700	–	16,607	**203,374**
Mr T. Cuthbertson	30,000	–	20,000	–	**50,000**
Mr R. Harrison	17,500	–	20,000	–	**37,500**

Current non-executive Director's fees are within levels approved by shareholders in general meeting on 20 November 1997 ($55,000).

Non cash benefits relate to motor vehicles during the financial year for the Managing Director and consultancy fees relate to additional services provided by Messrs Cuthbertson and Harrison for professional time in excess of normal Director duties.

Notsag Pty Limited, a company which provides corporate, financial, underwriting and guarantee services, employs Mr N. Gaston and provides his services as company secretary. Notsag Pty Limited received fees of $137,500 during the financial year ended 30 June 2007.

FIXED REMUNERATION

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to super funds.

PERFORMANCE REMUNERATION

There is no performance linked remuneration other than the Employee Share Purchase Plan which is designed to retain and motivate key employees. Directors are entitled to participate in the Employee Share Purchase Plan when issues are proposed. All issues under the plan are approved in Annual General Meeting before being allocated. Eight million shares were issued under the plan during the financial year ended 30 June 2007 – and were approved at the Annual General Meeting held on 23 November 2006.

SERVICE AGREEMENTS

There are no current service agreements for Directors or staff of the Company. No bonuses are paid. No retirement benefits are paid to non-executive Directors. No termination benefits are paid to non-executive Directors.

Options

During or since the end of the financial year no options have been granted by the Company and there are no outstanding options on issue at the date of this report.

Indemnification and Insurance

The Company does not have a Directors' and Officers' insurance against liability which may arise from holding the position of Director or Officer.

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer of the Company or related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties. These fees are detailed in Note 3 of the financial statements.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional Independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the Lead auditors' independence declaration as required under Section 307C of the Corporations Act, as provided on page 16, is included in the Directors' Report.

Signed at Sydney this twenty eighth day of September 2007 in accordance with a resolution of the Board of Directors of Austpac Resources N.L.

T. Cuthbertson
Chairman

M.J. Turbott
Managing Director

Lead Auditor's Independence Declaration

Under section 307c of the Corporations Act 2001

To: the directors of Austpac Resources N.L.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

A. Jones
Partner

Sydney
28 September 2007

Corporate Governance Statement

This Statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations unless otherwise stated.

Board of Directors

The Board is responsible for the overall Corporate Governance of the consolidated entity including formulating its strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

A description of the Company's main corporate governance practices is set out below. All these practices were in place for the entire year.

Board Process

The Board usually holds 12 scheduled meetings every year plus any additional meetings as required. The agenda for Board meetings is prepared by the Company Secretary in conjunction with the Chairman and Managing Director. Standing agenda items include the Managing Directors report, financial report and project activity reports together with governance and compliance issues. Board papers are circulated in advance.

The monthly board papers include monthly and year to date financial reports for all projects and corporate. A monthly revised forecast for the financial year is presented at each Board Meeting and compared against approved budgets.

Twelve monthly budgets are submitted for the forthcoming financial year, three months in advance and reviewed three times for refinement and ultimate approval.

Three year and five year plans are maintained and revised in accordance with requirements and financial capability of the consolidated entity.

Composition of the Board

At the date of this report, the Board of Directors comprises a non-executive independent chairman, one independent Director and the Managing Director.

The members of the Board of Directors appear on page 12 of the Directors' Report with brief resumes and profiles. The Board elects Directors on the basis of Corporate requirements and project activity. High calibre independents with substantial experience at senior level are sought when required. Directors are considered independent if they meet the following independent Directors standard:

- Is not a substantial shareholder of Austpac Resources N.L.;
- Has not within the last 3 years been employed in a senior capacity by Austpac Resources N.L. or been a director after ceasing to hold any such employment;
- Is not a principal or employee of a professional advisor to Austpac Resources N.L.;
- Is not a material supplier or customer of Austpac Resources N.L. or an officer of or directly or indirectly associated with a significant supplier or customer;
- Has no material contractual relationship with Austpac Resources N.L. or any of its associates other than as a director of Austpac Resources N.L.;
- Has no other interest or relationship that could interfere with the director's ability to act in the best interests of Austpac Resources N.L. and independently of management; and
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Austpac Resources N.L.

In this context the Board considers material, any director-related business relationship that is or is likely in the future to be more than 10 per cent of the director-related business's revenue.

All directors are expected to act in the best interests of Austpac Resources N.L.

The members of each Board Committee are independent Directors. The Audit Committee and the Remuneration Committee are chaired by an independent Director and are composed of independent Directors.

Board Committees

Two permanent Board Committees have been established to assist in the execution of the Board's responsibilities as described below. These are:

- Audit Committee;
- Remuneration Committee.

These Committees have charters which are reviewed on a regular basis. All Board members are free to attend any meeting of any Board Committee. All Committees have access to professional advice from the employees within Austpac Resources N.L. and from appropriate external advisors. Committees may meet these external advisors without Management being present.

AUDIT COMMITTEE

The role of the Audit Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be non-executive directors with a majority being independent. The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The Committee also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit Committee during the year were:

- Mr T. Cuthbertson (Chairman)
- Mr R. Harrison

The profiles of these Directors are included on page 12 of the Directors' Report. The Directors of this Committee are independent Directors.

The external auditors, the Managing Director and Company Secretary, are invited to Audit Committee meetings. The Committee meets twice a year.

The responsibilities of the Audit Committee include:

- reviewing the financial report and other financial information distributed externally;
- monitoring corporate risk assessment processes;
- reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- monitoring the activities of the internal control function;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- reviewing the nomination and performance of the auditor. The external auditors were appointed in 1985. The lead external audit engagement partner was last rotated in 2005;
- liasing with the external auditors and ensuring that annual and half-year statutory audits are conducted in an effective manner;
- monitoring the establishment of an appropriate internal control framework and considering enhancements;
- monitoring the establishment of appropriate ethical standards;
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001 and Stock Exchange Listing Rules and all other regulatory requirements;
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions;
- reviewing reports on any major defalcations, frauds and thefts from the Company and ensuring that the Company's Internal Control Plan is adhered to;
- improving the quality of the accounting function.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

Audit Planning

- To discuss the external audit plan;
- To discuss any significant issues that may be foreseen;
- To discuss the impact of any proposed changes in accounting policies on the financial statements;
- To review the nature and impact of any changes in accounting policies adopted by the consolidated entity during the year;
- To review the fees proposed for the audit work to be performed.

Prior to announcement of results

- To review the half-yearly and annual report prior to lodgment of those documents with the ASX, and any significant adjustments required as a result of the audit;
- To make the necessary recommendation to the Board for the approval of these documents.

Half-yearly and annual reporting

- To review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- To review the draft financial report and the audit report and to make the necessary recommendation to the Board for the approval of the financial report.

The Managing Director and Company Secretary/Chief Financial Officer have declared in writing to the Board that Austpac Resources N.L. Financial Report for the year ended 30 June 2007 presents fairly, in all material respects, Austpac Resources N.L. financial condition and operational results and is in accordance with applicable Accounting Standards. The Committee has the power to conduct or authorise investigations into, or consult independent experts on, any matters within the Committee's scope of responsibility. The Committee has a documented charter which incorporates the ASX Best Practice Guidelines.

The Committee assists the Board to fulfill its corporate governance and disclosure responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit. This includes:

- exercising oversight of the accuracy and completeness of the financial statements and their adequacy for security holders, compliance with the Corporations Act 2001, ASX Listing Rules and other regulatory requirements;
- making informed decisions regarding accounting policies, practices and disclosures;
- reviewing Austpac Resources N.L.'s policies and procedures for convergence with the Australian equivalents to International Financial Reporting Standards ("AIFRS") for reporting periods beginning on 1 July 2006;
- reviewing the scope and results of operational risk reviews and external audits;
- assessing the performance and adequacy of Austpac Resources N.L.'s internal control framework including accounting, compliance and operational risk management controls;
- annual review of the performance of the internal audit team, including a review of their independence, coordination with external auditors, resource levels and a review of their findings and management responses;
- annual review of the external auditor's performance taking into account the duration of the appointments, date of partner rotation, fees paid and considering matters requiring discussion in the absence of Management; and
- other related matters including monitoring insurance coverage, related party transactions and monitoring litigation other than in the normal course of business.

The Audit Committee also has responsibility for the oversight and monitoring of risk management. It is also responsible for the nomination and removal of external auditors. The following principles and practices are adopted:

- The external auditor must remain independent of Austpac Resources N.L. at all times;
- The external auditor is to be appointed to all controlled entities in the Group;
- The external auditor must not undertake staff recruitment or provide internal audit, management, or IT consulting services to Austpac Resources N.L.;
- The external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for Austpac Resources N.L. or audits its own professional expertise;
- The external audit engagement partner and review partner will be rotated every five years.

The external auditor provides an annual declaration of independence as required by the *Corporations Act 2001*,which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies.

Risk Management

Oversight of the risk management system

The Board oversees the establishment, implementation and annual review of Austpac Resources N.L. risk management system with assistance from the Audit Committee. Management has established and implemented a risk management system for assessing, monitoring and managing operational financial reporting and compliance risk for Austpac Resources N.L.

Functional systems of risk management and reporting between project level, senior management and the Board of Directors have been established.

The Managing Director and the Company Secretary/Chief Financial Officer have declared, in writing to the Board, that Austpac Resources N.L.'s financial reporting, risk management and associated compliance and controls have been assessed and are operating efficiently and effectively.

During each Audit Committee meeting the Audit Committee reports to the Board on the status of risks through integrated risk management programmes aimed at ensuring all risks are identified, assessed and appropriately managed.

In addition the Managing Director and Company Secretary/Chief Financial Officer have declared in writing to the Board that:

a) Austpac Resources N.L.'s financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

b) Austpac Resources N.L's risk management, internal compliance and control systems are operating efficiently and effectively in all material respects.

Risk Profile

In order to identify the material risks facing Austpac Resources N.L. and prioritise the actions necessary to mitigate these risks, an annual risk review is undertaken to identify, assess, monitor and manage the financial, operational and strategic risks.

Risk management and compliance and control

A robust risk management framework coupled with thorough internal reporting processes and highly qualified, competent and reliable staff provides Austpac Resources N.L. with a solid platform from which Austpac Resources N.L. manages the main areas of risk impacting the business.

Assessment of effectiveness

The effectiveness of risk management practices is assessed and reported to both Executive Management and the Audit Committee.

Commitment to shareholders and an informed market

The Board believes that security holders and the investment market generally, should be informed of all major business events that influence Austpac Resources N.L. in a timely and widely available manner. The full board of directors ensures that Austpac Resources N.L. meets its disclosure obligations under ASX Listing Rule 3.1.

Austpac Resources N.L. produces two sets of financial information annually; the half-yearly Financial Report for the six months to 31 December and the Annual Report and Financial Report for the year to 30 June. This is in addition to the Australian Stock Exchange quarterly working capital reports in July, October, January and April.

Shareholders have the right to attend the Annual General Meeting of Shareholders, usually held towards the end of November each year. Shareholders are provided with an explanatory memorandum on the resolutions proposed in the Notice of Meeting.

A copy of the Notice of Meeting is mailed to shareholders who are encouraged to vote on all resolutions. Unless specifically stated in the Notice of Meeting, all holders of securities are eligible to vote on all resolutions. In the event that shareholders cannot attend the Annual General Meeting of Shareholders they are able to lodge a proxy in accordance with the Corporations Act 2001. Proxy forms may be lodged by facsimile. Austpac Resources N.L.'s external auditor also attends the AGM and is available to answer any questions about the conduct of the audit and the audit report from security holders.

Staff and director trading in Austpac Resources N.L.'s securities

Austpac Resources N.L. Board members may only trade in Austpac Resources N.L.'s securities during a nominated trading window which is within three weeks after any announcement to the Australian Stock Exchange. At other times, they may trade with the concurrence of two Non-Executive Directors, one of which must be the Chairman. Trading in securities by Directors and senior staff at any time requires the consent of two Non-Executive Directors, one of which must be the Chairman. All other employees require the prior consent of the Managing Director to trade in securities.

REMUNERATION COMMITTEE

The Remuneration Committee meets in January each year or more frequently if Cost Containment programs are to be implemented. The members of the Remuneration Committee are:

- Mr T. Cuthbertson (Chairman)
- Mr R. Harrison

The profiles of these Directors are included on page 12 of the Directors' Report. The Directors of this Committee are independent Directors.

The Remuneration Committee assists the Board in ensuring that Austpac Resources N.L.'s remuneration levels are appropriate in the markets in which it operates and are applied fairly to attract and retain appropriately qualified and experienced directors and senior staff. The Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies.

The Committee also has the responsibility to review and approve, on behalf of the Board, recommendations for annual staff remuneration made by Management and review and recommend to the Board:

- proposals for changes to remuneration policies and human resources issues which are referred to the Board by the Managing Director;
- remuneration recommendations relating to the Chairman, Non-Executive Directors, the Managing Director and senior Management, including incentive policies for the Managing Director and the senior Management team;
- Austpac Resources N.L. recruitment, retention and termination policies and procedures for senior Management;
- incentive schemes;
- superannuation arrangements;
- creation or amendment of any employee or executive share schemes; and
- the remuneration framework for Non-Executive Directors including the amount of directors' fees, any increase in the overall amount of directors' fees and any increase requiring security holder approval.

Income Statements

for the year ended 30 June 2007

Austpac Resources N.L. and its Controlled Entities	NOTE	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	THE COMPANY 2007 $	THE COMPANY 2006 $
Administrative expenses		**(2,222,372)**	(1,089,297)	**(2,222,372)**	(1,089,297)
Loss before financing costs		**(2,222,372)**	(1,089,297)	**(2,222,372)**	(1,089,297)
Financial income	2	**16,048**	1,944	**16,048**	1,944
Financial expenses	2	**(1,219)**	(13,597)	**(1,219)**	(13,597)
Net Financing costs	2	**14,829**	(11,653)	**14,829**	(11,653)
Loss before tax		**(2,207,543)**	(1,100,950)	**(2,207,543)**	(1,100,950)
Income tax benefit	5	**–**	340,195	**–**	340,195
Loss after tax		**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)
Attributable to:					
Equity holders of the parent		**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)
		2007 cents	2006 cents		
Basic and diluted loss per share		**(0.36)**	(0.14)		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 26 to 41.

Statements of Recognised Income and Expense

for the year ended 30 June 2007

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
Austpac Resources N.L. and its Controlled Entities	$	$	$	$
Loss for the year	**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)
Total recognised income and expense for the year	**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)
Attributable to: Equity holders of the parent	**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements as set out on pages 26 to 41.

Balance Sheets

as at 30 June 2007

Austpac Resources N.L. and its Controlled Entities	NOTE	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	THE COMPANY 2007 $	THE COMPANY 2006 $
ASSETS					
Cash and cash equivalents	8	**115,382**	60,961	**115,382**	60,961
Trade and other receivables	9	**5,055,550**	570,349	**5,055,550**	570,349
Total Current Assets		**5,170,932**	631,310	**5,170,932**	631,310
Property, plant and equipment	11	**317,881**	261,607	**317,881**	261,607
Intangible assets	12	**5,485,284**	5,483,428	**5,485,284**	5,483,428
Total Non-Current Assets		**5,803,165**	5,745,035	**5,803,165**	5,745,035
Total Assets		**10,974,097**	6,376,345	**10,974,097**	6,376,345
LIABILITIES					
Trade and other payables	13	**445,912**	269,068	**445,912**	269,068
Interest bearing loans and borrowings	14	**49,282**	59,542	**49,282**	59,542
Employee benefits	15	**370,456**	306,213	**370,456**	306,213
Total Current liabilities		**865,650**	634,823	**865,650**	634,823
Interest bearing loans and borrowings	14	**249,515**	105,047	**249,515**	105,047
Total Non-Current Liabilities		**249,515**	105,047	**249,515**	105,047
Total Liabilities		**1,115,165**	739,870	**1,115,165**	739,870
Net Assets		**9,858,932**	5,636,475	**9,858,932**	5,636,475
EQUITY					
Issued capital	16	**53,369,454**	46,939,454	**53,369,454**	46,939,454
Accumulated Losses	17	**(43,510,522)**	(41,302,979)	**(43,510,522)**	(41,302,979)
Total equity		**9,858,932**	5,636,475	**9,858,932**	5,636,475

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 26 to 41.

Statements of Cash Flows

for the year ended 30 June 2007

		CONSOLIDATED		THE COMPANY	
		2007	2006	2007	2006
	NOTE	$	$	$	$
Cash Flows from Operating Activities					
Cash paid to suppliers and employees		**(1,757,840)**	(1,142,915)	**(1,757,840)**	(1,142,915)
Interest received		**16,048**	1,944	**16,048**	1,944
Interest paid		**(1,219)**	(13,597)	**(1,219)**	(13,597)
Income tax refund		**340,195**		**340,195**	
Net cash used in operating activities	23	**(1,402,816)**	(1,154,568)	**(1,402,816)**	(1,154,568)
Cash Flows from Investing Activities					
Payments for property, plant and equipment		**(5,969)**	(39,013)	**(5,969)**	(39,013)
Payments for intangible assets:					
Mineral Technology Development		**–**	(244,586)	**–**	(244,586)
Exploration and Evaluation		**(1,856)**	(11,294)	**(1,856)**	(11,294)
Net cash used in investing activities		**(7,825)**	(294,893)	**(7,825)**	(294,893)
Cash Flows from Financing Activities					
Proceeds from issue of share capital		**1,524,604**	1,217,845	**1,524,604**	1,217,845
Payment of finance lease liabilities		**(59,542)**	(51,489)	**(59,542)**	(51,489)
Net cash from financing activities		**1,465,062**	1,166,356	**1,465,062**	1,166,356
Net increase/(decrease) in cash held		**54,421**	(283,105)	**54,421**	(283,105)
Cash and cash equivalents at 1 July		**60,961**	344,066	**60,961**	344,066
Cash and cash equivalents at 30 June		**115,382**	60,961	**115,382**	60,961

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 26 to 41.

Notes to the Financial Statements

for the year ended 30 June 2007

Note 1: Significant Accounting Policies

(A) SIGNIFICANT ACCOUNTING POLICIES

Austpac Resources N.L. (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2007 comprises the Company and its subsidiaries (the "consolidated entity").

The financial report was authorised for issue by the directors on 28 September 2007.

Statement of Compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The Company and the consolidated entity's financial report also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

(B) BASIS OF PREPARATION

The financial report is presented in Australian dollars. The entity has not elected to early adopt any accounting standards and amendments:

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings Per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* arising from the release of AASB 7. AASB 2005-10 expected to only impact disclosures contained within the consolidated financial report.
- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Group as the standard is only concerned with disclosures.
- AASB2007-3 *Amendments to Australian Accounting Standards* arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognized in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statement, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e., 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation 10 will result in a decrease in retained earnings and goodwill of $320,000, related to an impairment loss on goodwill that was recognized initially in the fourth quarter of 2004 and reversed in the first quarter of 2005.
- AASB 2007-1 *Amendments to Australian Accounting Standards* arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of IFRS 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.

- AASB 2007-2 *Amendments to Australian Accounting Standards* arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements.
- AASB 2007-2 Amendments to Australian Accounting Standards also amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

The financial report is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(C) GOING CONCERN

The financial report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The Directors believe that the Company and the consolidated entity will be able to fund future operations through share issues, the successful commercialisation of mineral technologies or the joint venturing or sale of interests held in mineral projects.

Without the commercialisation of mineral technologies, equity raisings or joint venturing or sale of interests held in mineral tenements and projects, there is uncertainty whether the consolidated entity will be able to continue as a going concern.

If the consolidated entity is unable to continue as a going concern, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.

(D) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

(ii) Jointly controlled operations and assets

The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

All intragroup balances and transactions, including any unrealised gains or losses are eliminated on consolidation.

(E) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(F) PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 1 (k)). The carrying amount of property, plant and equipment is reviewed annually by directors to ensure that it is not in excess of the recoverable amount from those assets. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

- property, plant and equipment 7 years
- leased plant and equipment and motor vehicles 10 years

The residual value and actual lives are assessed annually.

(G) INTANGIBLE ASSETS – MINERAL TECHNOLOGY DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see Accounting Policy 1(K)).

Amortisation

Mineral technology development assets are not currently being amortised as the policy applied by the consolidated entity is to amortise these assets on a systematic basis over projected revenue streams once commercial licence agreements have been agreed.

(H) INTANGIBLE ASSETS – EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations, in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, accounting policy (k)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

(I) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy 1 (K)).

(J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash balances and call deposits.

(K) IMPAIRMENT

The carrying amounts of the consolidated entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

Recoverable amounts are estimated annually for intangible assets not yet available for use. An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use.

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(L) EMPLOYEE BENEFITS

Liabilities for employee entitlements for wages, salaries and annual leave represent present obligations resulting from employees' services up to reporting date, calculated on undiscounted amounts based on current wage and salary rates, including related on-costs. Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement as incurred.

(M) PROVISIONS

Provisions are recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(N) TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost.

(O) EXPENSES

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Net financing costs

Interest income and expense is recognised in the income statement as it accrues, using the effective interest method.

(P) INCOME TAX

Income tax on the loss for the years presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance sheet date and any adjustment to tax payable in respect of previous years. The balance sheet liability method is used under which deferred assets and liabilities are recognised for temporary differences between the tax values of assets and their carrying amounts in the financial statements.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(Q) DERIVATIVES

The consolidated entity is exposed to changes in interest rates and commodity prices from its activities. The consolidated entity does not hedge these risks.

(R) SEGMENT REPORTING

The Company operates in one segment only, being Mineral Sands and Mineral Sands Technology Development in Australia.

(S) ACCOUNTING ESTIMATES AND JUDGEMENTS

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Recoverability of intangible assets

The carrying amount of intangible assets relating to mineral technology development and exploration and development total $5,485,284. The consolidated entity assesses intangibles which are not being amortised annually in accordance with the accounting policy in note 1(K). The recoverable amount of the intangibles is considered by reference to independent valuations of the technology.

(T) GOODS AND SERVICES TAX

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financial activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Note 2: Net Financing Costs				
– Interest Income	**16,048**	1,944	**16,048**	1,944
– Interest Expense	**(1,219)**	(13,597)	**(1,219)**	(13,597)
Net financing income/(expense)	**14,829**	(11,653)	**14,829**	(11,653)
Note 3: Auditor's Remuneration				
Audit Services – KPMG Australia				
– Audit and review of financial reports	**55,500**	54,500	**55,500**	54,500
Other Services				
Auditors of the Company – KPMG Australia				
– Taxation services	**22,000**	30,000	**22,000**	30,000
Note 4: Personnel Expenses				
Wages and salaries	**479,888**	400,953	**479,888**	400,953
Contributions to defined contribution superannuation funds	**66,624**	57,562	**66,624**	57,562
Increase in liability for employee benefits	**64,243**	24,466	**64,243**	24,466
	610,755	482,981	**610,755**	482,981

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$

Note 5: Income Tax Expense

Recognised in the income statement				
Current tax benefit				
Current year	**(662,263)**	(568,422)	**(662,263)**	(568,422)
Deferred tax expense				
Current year deferred tax assets not recognised	**662,263**	228,227	**662,263**	228,227
Income tax benefit in income statement	**–**	(340,195)	**–**	(340,195)
Numerical reconciliation between tax benefit and pre-tax net loss				
Loss before tax	**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)
Prima facie income tax benefit using the domestic corporation tax rate of 30%	**(662,263)**	(228,227)	**(662,263)**	(228,227)
Increase in income tax benefit due to:				
Research and development refund	**–**	(340,195)	**–**	(340,195)
Decrease in income tax benefit due to:				
Current year deferred tax assets not recognised	**662,263**	228,227	**662,263**	228,227
Income tax benefit on pre-tax net loss	–	(340,195)	**–**	(340,195)

Note 6: Deferred Tax Assets and Liabilities

Deferred tax assets and (liabilities) are attributable to the following:				
Mineral technology development	**(1,456,316)**	(1,456,316)	**(1,456,316)**	(1,456,316)
Exploration and evaluation	**(189,209)**	(188,653)	**(189,209)**	(188,653)
Employee benefits	**111,137**	91,864	**111,137**	91,864
Unused tax losses	**1,534,388**	1,553,105	**1,534,388**	1,553,105
Net tax (asset)/liability	**–**	–	**–**	–
Deferred tax assets not recognised				
Deferred tax assets not recognised because it is probable that the benefits will be utilised against future taxable profits comprise:				
Unused tax losses	**3,418,689**	2,756,426	**3,418,689**	2,756,426

The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits there from.

Note 7: Earnings per share

The calculation of basic and diluted earnings per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of $2,207,543 (2006:$760,755) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2007 of 612,057,493 (2006: 544,509,941), calculated as follows:

	CONSOLIDATED	
	2007	**2006**
	$	**$**
Weighted average number of shares		
Issued ordinary shares at 1 July	**585,104,461**	522,304,461
Effect of shares issued	**26,953,032**	22,205,480
Weighted average number of ordinary shares at 30 June	**612,057,493**	544,509,941
Earnings per share	**2007 cents**	2006 cents
Basic and diluted loss per share	**(0.36)**	(0.14)

	CONSOLIDATED		THE COMPANY	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Note 8: Cash and Cash Equivalents				
Bank balances	**115,382**	60,961	**115,382**	60,961
Note 9: Trade and Other Receivables				
Current				
Other trade receivables and prepayments	**5,055,550**	570,349	**5,055,550**	570,349

Receivables include an amount of $5,000,000 representing the amount receivable from BHP Billiton Innovation Pty Limited as payment for the placement of 25,000,000 fully paid ordinary Austpac Resources NL shares at 20 cents each. This $5,000,000 payment was banked by Austpac Resources NL on 4 July 2007.

Note 10: Consolidated Entities

PARTICULARS IN RELATION TO THE COMPANY AND ITS CONTROLLED ENTITIES

		HOLDING	
		2007	**2006**
Parent Entity:	Austpac Resources N.L.		
Significant Subsidiaries:	Almeth Pty Ltd	**100%**	100%
	Austpac Technology Pty Ltd	**100%**	100%

All controlled entities are incorporated in Australia and carry on business in Australia.

Note 11: Property, Plant and Equipment

	CONSOLIDATED			THE COMPANY		
	Plant and equipment	Fixtures and fittings	Total	Plant and equipment	Fixtures and fittings	Total
	$	$	$	$	$	$
Cost						
Balance at 1 July 2005	981,981	–	**981,981**	981,981	–	**981,981**
Acquisitions	–	39,013	**39,013**	–	39,013	**39,013**
Balance at 30 June 2006	981,981	39,013	**1,020,994**	981,981	39,013	**1,020,994**
Balance at 1 July 2006	981,981	39,013	**1,020,994**	981,981	39,013	**1,020,994**
Acquisitions	222,386	5,969	**228,355**	222,386	5,969	**228,355**
Disposals	(13,772)	–	**(13,772)**	(13,772)	–	**(13,772)**
Balance at 30 June 2007	1,190,595	44,982	**1,235,577**	1,190,595	44,982	**1,235,577**
Depreciations and impairment losses						
Balance at 1 July 2005	748,822	–	**748,822**	748,822	–	**748,822**
Depreciation and amortisation charge for the year	6,028	4,537	**10,565**	6,028	4,537	**10,565**
Balance at 30 June 2006	754,850	4,537	**759,387**	754,850	4,537	**759,387**
Balance at 1 July 2006	754,850	4,537	**759,387**	754,850	4,537	**759,387**
Depreciation and amortisation charge for the year	149,341	8,968	**158,309**	149,341	8,968	**158,309**
Balance at 30 June 2007	904,191	13,505	**917,696**	904,191	13,505	**917,696**
Carrying amounts						
At 1 July 2005	233,159	–	**233,159**	233,159	–	**233,159**
At 30 June 2006	227,131	34,476	**261,607**	227,131	34,476	**261,607**
At 1 July 2006	227,131	34,476	**261,607**	227,131	34,476	**261,607**
At 30 June 2007	286,404	31,477	**317,881**	286,404	31,477	**317,881**

The consolidated entity leases motor vehicle under finance lease agreements. At 30 June 2007 the net carrying amount of the leased motor vehicles, classified under plant and equipment was $286,402 (2006: $164,589). The leased equipment secures lease obligations (see note 19).

	CONSOLIDATED			THE COMPANY		
	Mineral Technology Development	Exploration and Evaluation	Total	Mineral Technology Development	Exploration and Evaluation	Total
	$	$	$	$	$	$
Note 12: Intangible Assets						
Balance at 1 July 2005	4,610,000	617,548	**5,227,548**	4,610,000	617,548	**5,227,548**
Expenditure	244,586	11,294	**255,880**	244,586	11,294	**255,880**
Balance at 30 June 2006	4,854,586	628,842	**5,483,428**	4,854,586	628,842	**5,483,428**
Balance at 1 July 2006	4,854,586	628,842	**5,483,428**	4,854,586	628,842	**5,483,428**
Expenditure	–	1,856	**1,856**	–	1,856	**1,856**
Balance at 30 June 2007	4,854,586	630,698	**5,485,284**	4,854,586	630,698	**5,485,284**

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Note 13: Trade and Other Payables				
Other trade payables and accrued expenses	**445,912**	269,068	**445,912**	269,068

Note 14: Interest Bearing Loans & Borrowings

This note provides information about the contractual terms of the consolidated entity's interest bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rates, see note 24.

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	THE COMPANY 2007 $	THE COMPANY 2006 $
Current Liabilities				
Finance lease liabilities	**49,282**	59,542	**49,282**	59,542
Non-Current Liabilities				
Finance lease liabilities	**249,515**	105,047	**249,515**	105,047

The consolidated entity's lease liabilities are secured by the leased assets of $286,402 (2006: $164,589), as in the event of a default, the assets revert to the lessor.

Note 15: Employee Benefits

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	THE COMPANY 2007 $	THE COMPANY 2006 $
Current				
Liability for long service leave	**115,468**	84,645	**115,468**	84,645
Liability for annual leave	**254,988**	221,568	**254,988**	221,568
	370,456	306,213	**370,456**	306,213

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$

Note 16: Contributed Equity

	CONSOLIDATED 2007 $	CONSOLIDATED 2006 $	THE COMPANY 2007 $	THE COMPANY 2006 $
Issued and paid up Capital				
619,254,461 (2006: 556,254,461) ordinary shares fully paid	**53,000,954**	46,650,954	**53,000,954**	46,650,954
36,850,000 (2006: 28,850,000) ordinary shares paid to $0.01	**368,500**	288,500	**368,500**	288,500
	53,369,454	46,939,454	**53,369,454**	46,939,454
Movements in Ordinary Share Capital				
Balance at the beginning of the financial year	**46,939,454**	45,491,455	**46,939,454**	45,491,455
Shares Issued:				
Placement – Australian investors – 15,000,000 ordinary shares issued for cash in August 2006	**300,000**		**300,000**	
Placement – Australian investors 15,000,000 ordinary shares issued for cash in November 2006	**1,050,000**		**1,050,000**	
Staff Share Purchase (paid to 1 cent) 8,000,000 at 7.8 cents each – November 2006	**80,000**		**80,000**	
Placement of 25,000,000 ordinary shares for cash to BHP Billiton – June 2007	**5,000,000**		**5,000,000**	
Placement – Australian investors and Australian institutions – 17,000,000 ordinary shares issued for cash in September 2005	–	526,999	–	526,999
Placement – Australian investors 17,800,000 ordinary shares issued for cash in January 2006	–	445,000	–	445,000
Placement – Australian investors 28,000,000 ordinary shares issued for cash in June 2006	–	476,000	–	476,000
	53,369,454	46,939,454	**53,369,454**	46,939,454

Share issues made during the year were to increase the working capital of the Company.

Terms and Conditions

Ordinary Shares

Holders of fully paid ordinary shares are entitled to receive dividends if declared and are entitled to one vote per share at shareholders meetings. There are no partly paid listed shares.

Party Paid Shares

Holders of Austpac Resources N.L. Employee Share Purchase plan shares are entitled to the same rights as ordinary shareholders, including entitlements to dividends if declared, once the shares are paid in full. The amount of unpaid capital is $4,783,768 (2006: $4,190,364). In the event of winding up, ordinary shareholders rank after creditors.

Dividends

No dividends were declared or paid during the financial year ended 30 June 2007.

Note 17: Capital and Reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	Share Capital	Accumulated Losses	Total Equity
	$	$	$
Consolidated and company			
Balance at 1 July 2005	45,491,455	(40,542,224)	**4,949,231**
Total recognised income and expense	–	(760,755)	**(760,755)**
Shares issued	1,447,999	–	1,447,999
Balance at 30 June 2006	46,939,454	(41,302,979)	**5,636,475**
Balance at 1 July 2006	46,939,454	(41,302,979)	**5,636,475**
Total recognised income and expense	–	(2,207,543)	**(2,207,543)**
Shares Issued	6,430,000	–	**6,430,000**
Balance at 30 June 2007	53,369,454	(43,510,522)	**9,858,932**

Note 18: Commitments

Exploration and evaluation expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company and consolidated entity are required to perform minimum exploration work to meet the minimumexpenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Within one year	**2,150,000**	150,000	**2,150,000**	150,000

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$

Note 19: Lease Liabilities

Lease (Capital – Finance)

Lease commitments in respect of capitalised finance leases are payable as follows:				
Not later than one year	**49,282**	72,166	**49,282**	72,166
Later than one year but not later than five years	**181,351**	115,196	**181,351**	115,196
	230,633	187,362	**230,633**	187,362

Lease liabilities include $21,387 (2006: $12,624) for interest payable not later than one year. Lease liabilities include $46,777 (2006: $10,149) for interest payable later than one year but not later than five years.

The consolidated entity leases equipment under finance leases expiring from one to four years.

At the end of the lease term the consolidated entity has the option to purchase the equipment at 40% of cost.

Operating Leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:				
Less than one year	**96,000**	96,000	**96,000**	96,000
Between one and five years	**254,000**	350,000	**254,000**	350,000

During the year ended 30 June 2007, $90,328 was recognised as an expense in the income statement in respect of operating leases (2006: $70,438).

Note 20: Key Management Personnel Disclosures

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors

Mr T. Cuthbertson (Chairman)

Mr R. Harrison

Executive directors

Mr M. Turbott

Principles of Compensation

The Board remuneration policy is to ensure the remuneration package properly reflects the duties and responsibilities of the director. The Remuneration Committee ascertains non-executive Director remuneration and also staff remuneration which are separate and distinct. Remuneration is set by the Board of Directors. The Company has a remuneration policy aimed at retention of key technical staff to ensure the progression and commercialisation of the Company's technologies.

Executive Directors are solely remunerated by fixed remuneration packages, including base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to super funds

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors, whilst incurring a cost which is acceptable to shareholders.

Note 20: Key Management Personnel Disclosures *continued*

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 20 November 1997 when shareholders approved an aggregate remuneration of $55,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

Each non-executive director either receives a fee for being a director of the company and, if other services are provided, under a consultancy agreement. An additional fee may be payable for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees. At this time there are no such committees, operating or required.

Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on market or issued in lieu of fees at a market price). It is considered good governance for directors to have a stake in the company whose board he or she sits. The non-executive directors of the company can participate in the Employee Share Purchase Plan.

Executive director remuneration

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- align the interests of executives with those of shareholders

Remuneration consists of fixed remuneration only.

Fixed Remuneration

Objective

Remuneration is set by the Board of Directors and reflects a cost containment programme implemented in 2003 reducing overheads.

Structure

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to super funds.

Variable Remuneration

There is no variable remuneration.

Employment contracts

Currently no employee is employed under contract.

Key management personnel compensation (consolidated) is as follows:

		YEAR	Salary & Fees $	Super Benefits $	Other $	Total $
Non-Executive Directors	Mr R. Harrison	**2007**	**17,500**	**–**	**–**	**17,500**
		2006	15,000	–	–	15,000
Executive Directors	Mr M. Turbott	**2007**	**166,067**	**16,607**	**20,700**	**203,374**
		2006	121,521	12,000	20,700	154,221
	Mr T. Cuthbertson	**2007**	**30,000**	**–**	**–**	**30,000**
		2006	25,000			25,000
Total compensation: key management personnel		**2007**	**213,567**	**16,607**	**20,700**	**250,874**
		2006	161,521	12,000	20,700	194,221

In addition to the above compensation, Austpac Resources N.L. engaged Mr T. Cuthbertson and Mr R. Harrison for the provision of consultancy services. The terms and conditions of the services are no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

The details of the transactions are as follows:

		TRANSACTION	2007 $	2006 $
Specified Directors	Mr T. Cuthbertson	Consultancy Fees	**20,000**	15,000
	Mr R. Harrison	Consultancy Fees	**20,000**	15,000
K. Turbott (spouse of M. Turbott) provided secretarial services to the company. The details of the transactions with K. Turbott are as follows:				
Specified Directors	Mr M. Turbott	Consultancy Fees	**56,333**	46,666

Equity Instruments

Movement in shares

The movement during the reporting period in the number of ordinary shares of Austpac Resources N.L. held, directly, indirectly or beneficially, be each key management personnel, including their personally-related entities is as follows:

	2007			2006	
	Held at 1 July	Purchases	Held at 30 June	Held at 1 July	Held at 30 June
Mr T. Cuthbertson					
– Fully Paid Ordinary Shares	166,667	–	166,667	166,667	166,667
– Partly Paid Ordinary Shares	1,600,000	1,000,000	2,600,000	1,600,000	1,600,000
Mr M. Turbott					
– Fully Paid Ordinary Shares	6,800,000	–	6,800,000	6,800,000	6,800,000
– Partly Paid Ordinary Shares	2,351,118	2,000,000	4,351,118	2,351,118	2,351,118
Mr R. Harrison					
– Fully Paid Ordinary Shares	–	–	–	–	–
– Partly Paid Ordinary Shares	500,000	1,000,000	1,500,000	500,000	500,000

The above equity holdings include directors' entitlements arising under the Company Employee Share Purchase Plan.

Options and rights over equity instruments granted as compensation

No options were granted to key management personnel since the beginning of the financial year.

Apart from the details disclosed in this note, no other Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 10.

Non Key management personnel disclosures

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 10), and with its directors (see note 20).

Notsag Pty Limited, a company which provides corporate, financial, underwriting and guarantee services, employs Mr N. Gaston and provides his services as Company Secretary. Notsag Pty Limited received fees of $137,500 (2006: $120,000) during the year ended 30 June 2007.

Note 21: Events Subsequent to the end of the Financial Year

There are no events subsequent to the end of the financial year ending 30 June 2007 which materially affect the financial report.

Note 22: Interest in Joint Venture Operations

Joint Venture percentage interests are indicated in the tenement schedule appearing in the front section of the annual report. All activities relate to mineral sands and mineral technology development. No mineral sands production has occurred during the current financial year.

Expenditure and activity commitments relating to these joint ventures are determined by regular review of joint venture management committees in accordance with the requirements of issuing tenement.

The directors are aware of no substantial contingencies. No capital expenditure commitments are currently a part of joint venture activity.

Included in the assets and liabilities of the Company and the consolidated entity are the following items which represent the Company's and the consolidated entity's interest in the assets and liabilities employed in the joint ventures.

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Non-Current Assets – intangibles				
Exploration and/or evaluation expenditure	**630,698**	628,842	**630,698**	628,842

Note 23: Reconciliation of Cash Flows from Operating Activities

	CONSOLIDATED		THE COMPANY	
	2007	2006	2007	2006
	$	$	$	$
Loss for the year	**(2,207,543)**	(760,755)	**(2,207,543)**	(760,755)
Adjustments for:				
Depreciation	**158,309**	10,565	**158,309**	10,565
Operating loss before changes in working capital and provisions	**(2,049,234)**	(750,190)	**(2,049,234)**	(750,190)
(Increase)/decrease in receivables	**420,195**	(245,775)	**420,195**	(245,775)
(Decrease)/increase in payables	**226,223**	(158,603)	**226,223**	(158,603)
Net cash used in operating activities	**(1,402,816)**	(1,154,568)	**(1,402,816)**	(1,154,568)

Note 24: Interest rate risk

The consolidated entity's investments in fixed-rate term deposits are exposed to a risk of change in their fair value due to changes in interest rates. The consolidated entity's investments in variable-rate bank accounts are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated at net fair value.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
	$	$	$	$
CONSOLIDATED				
Trade and other receivables	5,055,550	5,055,550	570,349	570,349
Cash and cash equivalents	115,382	115,382	60,961	60,961
Finance lease liabilities	298,797	298,797	164,589	164,589
Trade and other payables	445,912	445,912	269,068	269,068
THE COMPANY				
Trade and other receivables	5,055,550	5,055,550	570,349	570,349
Cash and cash equivalents	115,382	115,382	60,961	60,961
Finance lease liabilities	298,797	298,797	164,589	164,589
Trade and other payables	445,912	445,912	269,068	269,068

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Directors' Declaration

1. In the opinion of the Directors of Austpac Resources N.L.
   a) the financial statements and notes set out on pages 22 to 41 are in accordance with the Corporations Act 2001, including:
      i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2007 and of their performance for the year ended on that date; and
      ii) a) complying with Australia Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
          b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A); and
          c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the individuals acting in the role of chief executive officer and chief financial officer functions for the financial year ended 30 June 2007.

Signed in accordance with a resolution of the Directors.

T. Cuthbertson
Director

M.J. Turbott
Director

Sydney, twenty eighth day of September 2007

Auditor's Report

Independent Audit Report to the Members of Austpac Resources N.L.

REPORT ON THE FINANCIAL REPORT

We have audited the accompanying financial report of Austpac Resources N.L. (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 24 and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the consolidated entity and the Company, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's opinion

In our opinion:

(a) the financial report of Austpac Resources N.L. is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the consolidated entity and the Company also complies with International Financial Reporting Standards as disclosed in note 1.

Going concern concept

Without qualification to the opinion expressed above, attention is drawn to the following significant matter:

The financial report has been prepared on a going concern basis as discussed in note 1(c) which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business. In note 1(c), the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. Without the equity raisings and joint venturing or sale of interests held in mineral tenements and projects referred to by the directors, there are uncertainties as to whether the consolidated entity will be able to continue as a going concern.

KPMG

A. Jones

Partner

Sydney 28 September 2007

Additional Stock Exchange Information

Directors' Interests

The maximum contingent liability of the group for termination benefits under service agreements with directors and persons who take part in the management of the parent entity amount to $nil at 30 June 2007.

Shareholdings

SUBSTANTIAL SHAREHOLDERS

The number of shares held by the substantial shareholders listed in the holding Company's register as at 10 September 2007 was: Nil.

CLASS OF SHARES AND VOTING RIGHTS

At 10 September 2007 there were 4512 holders of the ordinary shares of the holding Company. The voting rights attaching to the ordinary shares, set out in Article 32 of the holding Company's Articles of Association, are:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares –

a) at meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney; and

b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share he holds."

Offices and Officers

Company Secretary:	Nicholas John Gaston
Principal Registered Office:	Level 3, 62 Pitt Street, Sydney NSW 2000 Telephone: (02) 9252 2599
Location of Registers of Securities:	Link Market Services Limited Securities Registration Services, HSBC Building 680 George Street, Sydney NSW 2000

Austpac Resources N.L. is an Australian incorporated listed public no liability Company domiciled in Australia.

Additional Stock Exchange Information

continued

Distribution of Shareholders as at 10 September 2007

	Number of Ordinary Shareholders
1–1,000	153
1,001–5,000	662
5,001–10,000	613
10,001–100,000	2,241
100,001 and over	843
	4,512
Holders of less than a marketable parcel	656

The 20 largest shareholders hold 26.99% of the ordinary shares of the holding company.

20 Largest Shareholders as at 10 September 2007

	No. of Ordinary Shares Held	Percentage (%) Held to Issued Capital
BHP Billiton Innovation Pty Limited	25,000,000	3.85
Barrios Pty Ltd	24,000,000	3.70
Christopher Leech	18,500,000	2.85
Richard Louden Delaney & Ian Arthur Cains	12,878,188	1.99
Prestcorp Pty Limited	10,932,159	1.69
Michael Turbott	9,651,118	1.49
Stephen Joseph Harris	8,100,000	1.25
Anthony Prestia	6,950,592	1.07
ANZ Nominees Limited	5,905,739	0.91
John William Trude & Peter Graham Eckett	5,902,863	0.91
Bradley John Chapman	5,568,580	0.86
Comsec Nominees Pty Limited	5,009,476	0.77
Maurice Bertram Pears & Judith Lorraine Pears	5,004,202	0.77
Minford Pty Ltd	4,916,667	0.76
William J Gaymans & Zelda E Gaymans	4,606,667	0.71
Rik Deaton	4,526,501	0.70
Graham William Haslam	4,475,696	0.69
Kerry & Christine King	4,423,382	0.68
Secondco Ltd	4,364,570	0.67
Benjamin Brian Spurgin	4,317,766	0.67
	175,034,166	26.99

Corporate Directory

Members of the Board

Mr Terry Cuthbertson *ACA*
CHAIRMAN

Mr Michael J. Turbott *BSc (Hons), FAusIMM, MAIG*
MANAGING DIRECTOR

Mr Robert J. Harrison *FAICD*
DIRECTOR

Secretaries

COMPANY SECRETARY
Mr Nicholas J. Gaston *ACIS*

General Managers

Mr John Winter
BEng (Hons) – Chemical Engineering, MIEAust, MIChemE
GENERAL MANAGER, TECHNOLOGY DEVELOPMENT

Mr Michael J. Smith
BSc, MSc, RPGeo, FAIG, MGSA, MASEG
GENERAL MANAGER EXPLORATION

Auditors

KPMG
The KPMG Centre
10 Shelley Street, King Street Wharf
Sydney NSW 2000

Solicitors

Gadens Lawyers
77 Castlereagh Street
Sydney NSW 2000

Share Registry

Link Market Services Limited
Securities Registration Services
680 George Street
Sydney NSW 2000

Bankers

ANZ Bank
68 Pitt Street, Sydney NSW 2000

Stock Exchange Listing

Australian Securities Exchange Limited

AUSTPAC RESOURCES N.L.

ABN: 87 002 264 057

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