

## **SHAREHOLDER UPDATE**

**7 JULY 2006**

Dear Shareholder,

I am pleased to provide you with an update of our activities.

As you are aware, we are progressing Austpac's significant value-adding technologies for the mineral sands industry and potentially for the steel industry. Visits to our Newcastle ERMS/EARS facility by major corporations from Europe for due diligence on both ERMS SR and other technologies during the last six weeks are most encouraging. We are endeavouring to conclude a transaction for ERMS/EARS involving one or more of these parties.

We are also in the development stage of two new processes, one which will unlock the Company's large ilmenite resource in the Murray Basin and the other to provide a new source of iron metal to the steel industry.

An opportunity for gold exploration has also been significantly progressed in the last three months and we look forward to formally announcing our progress in the coming weeks.

Meanwhile a detailed summary of current operations follows:

### **MINERAL PROCESSING ACTIVITIES**

Austpac has developed a number of processes for upgrading minerals, in particular titanium minerals. The most advanced of these is the ERMS SR process, which allows any ilmenite to be upgraded to a very high grade synthetic rutile, together with a valuable pelletised iron co-product. Over the past six months, the Company has continued promoting the commercialisation of ERMS SR with interested parties, and our Chief Process Engineer, John Winter, has also undertaken some very innovative testwork at our facilities on Kooragang Island, Newcastle. This has opened up a number of new applications for our mineral processes, so broadening the opportunities for their commercialisation. It is expected that these opportunities will be developed and secured.

#### **1. ERMS SR Demonstration Plant**

The ERMS SR process is ready for commercialisation and Austpac plans to undertake a feasibility study for a 60,000 tpa plant. The first stage of this is an integrated 3,000 tpa Demonstration Plant, the construction of which commenced last year. When complete this plant will comprise an ilmenite roasting section and a leaching/EARS acid regeneration/iron metallisation section, and will provide data to enable a  $\pm 10\%$  detailed study to be completed. The major equipment items for the roasting section have been fabricated and installed, and the remaining items, including the process control units and electrical systems, will be requisitioned as funds become available. The leaching/EARS/metallisation section has now been fully designed and construction work will commence once the roasting section has been completed.

Over the past three months, major groups have undertaken detailed technical reviews of the ERMS SR process, with the objective of assisting with the funding necessary for commercialisation. These reviews are subject to restrictive confidentiality agreements, but it is expected that a decision from one or more parties will be forthcoming shortly.

## **2. New Source of Iron Metal -EARS Acid Regeneration and Iron Metallisation**

Austpac patented the EARS process in the early 1990's as a way of regenerating strong hydrochloric acid, and the iron reported as benign iron oxide pellets. More recent testwork resulted in the invention of an exciting new process to reduce the oxides to iron metal pellets, and a preliminary patent application was lodged in June 2005. The iron pellets are an ideal high grade feedstock for the electric arc furnaces used in steel making and market enquiries indicate they will command a premium price to the lower grade scrap iron generally used. Subsequent work has refined this process, and the final PCT (worldwide) patent application was lodged last month.

It should be noted that other synrutile processes produce a fine black or red iron oxides, and the iron is consequently lost as a waste mud with an ongoing contingent disposal liability.

ERMS SR is unique in that it is the only synrutile process that produces a valuable iron co-product.

This highly noteworthy development opens up a variety of significant and new markets for Austpac. A continuous metallisation unit is being constructed at Newcastle to validate our novel reduction process; namely the reduction of iron oxides to iron metal.

The new equipment will also be used to demonstrate the process to interested parties in the iron and steel industries, where there are two immediate applications:

- The use of the EARS process to regenerate hydrochloric acid from pickle liquor and to recover iron units now lost as mill scale or baghouse dust. This has potential for integrated steel and rolling mills with pickling lines and discussions are underway with a number of local and offshore groups in regard to this application. Testwork has now demonstrated that it will be feasible to economically recover one tonne of acid and 1.6 tonnes of iron pellets from each tonne of spent pickle liquor and 2 tonnes of waste mill scale and/or baghouse dust. Our process has major positive environmental implications as baghouse dusts are generally regarded as a hazardous waste with high disposal costs.
- The potential for the direct reduction of iron ores, which is a powerful new application for our process. Preliminary work has indicated Austpac's reduction process is applicable to iron ore fines, and this will be confirmed during the next month once the continuous test rig has been completed. It is believed that this process will be competitive with other direct reduced iron processes, and this will be confirmed in larger scale trials. The metallisation section of the EARS plant that will form part of the Newcastle ERMS SR Demonstration Plant will be used for these trials. The commercial implications for a new process that adds value to iron ore are very significant, and this aspect is being actively pursued.

## **3. Murray Basin - WIM 150; a New Source of Ilmenite - Fluid Bed Agglomeration**

Austpac's WIM 150 deposit is recognized as a very large resource of fine heavy minerals that have been regarded as difficult to beneficiate. Earlier work by Austpac demonstrated that the ERMS SR process could be used to upgrade the titanium minerals from WIM 150 to an acceptable grade synrutile, but it was too fine to be accepted by the market. Thus for some time we have been evaluating methods of pelletizing this material without adding a deleterious binding agent.

Last month, drawing on our experience with fluid bed roasting, we constructed a fluid bed agglomerator to agglomerate fine high titanium minerals. The initial trials, which produced ideally sized "Hi-Ti" pellets, were highly encouraging. The design of the agglomerator is unique and further patent applications will be made as necessary. Additional tests will be undertaken over the coming months, but when developed this new agglomeration process will unlock WIM 150 and give Austpac its own source of ilmenite in the Murray Basin.

Agglomeration of fine titanium minerals using this new process would also open up commercial possibilities for co-operation with other mineral sand and titanium feedstock producers.

## **GOLD EXPLORATION ACTIVITIES**

While continuing to focus primarily on commercializing our titanium minerals processing, we decided to investigate a major gold exploration opportunity in a gold district that the Company had been monitoring. Mike Smith, Austpac's General Manager of Exploration, has spearheaded this effort which has now developed into a significant gold programme.

During February this year Austpac undertook an initial evaluation of two gold projects within a gold district in which there have recently been a number of significant gold discoveries. The projects are in southern China, within a geological setting that is documented by the US Geological Survey as being similar to the famous Carlin gold district in Nevada. The 4 million ounce Jinfeng gold deposit being developed by ASX-listed Sino Gold occurs within a Carlin-type geological setting, and was discovered by testing for sulfide gold mineralisation below an operating oxide gold mine.

The two projects visited are both operating mines that are exploiting shallow oxide gold ore along major gold-bearing structures. Samples taken during that visit from the top of the underlying sulfide zones were highly encouraging, and confirmed the grades of 4-6g/t Au reported from the sulfide zones at both mines.

A fully-funded follow-up visit was undertaken last month, and Austpac was accompanied by a third party interested in providing ongoing funding for the evaluation of these properties. The original two mines were revisited, and a further two oxide gold mining operations were reviewed. All mines have good potential for significant gold-bearing sulfide mineralisation at depth.

The July-September 2006 quarter will therefore be an exciting start to the new financial year, and I look forward to providing further updates as developments occur.



M.J. Turbott  
Managing Director