

31 January 2005

QUARTERLY REPORT TO 31 DECEMBER 2004

HIGHLIGHTS

- **The upgrade and expansion of the pilot plant continued during the quarter and the ilmenite roasting section is well advanced. The objective is to establish an integrated ERMS SR and EARS plant capable of continuous operation at the rate of 1,500 tonnes per annum. Process information generated during the operation of this plant will be used for the detailed design, costing and ultimately a feasibility study for a 30,000 tpa ERMS SR plant.**
- **Discussions referred to in the previous Quarterly Report have continued regarding funding for the first commercial ERMS SR plant producing high grade synthetic rutile.**
- **A placement to Australian investors was made in November 2004 raising \$900,000 for working capital and for improvements to the Newcastle pilot plant.**
- **Final negotiations are underway with a United States investment house for an equity drawdown facility of \$A3 million for working capital.**

ERMS PILOT PLANT - NEWCASTLE

The decision taken last year to upgrade the Newcastle pilot plant was based on the need to operate the plant at a rate sufficient so that the scale up to a 30,000 tpa plant was less than 25:1, which would be acceptable from a financing standpoint. The expanded plant will be fully integrated, with ilmenite roasting, the installation of Austpac's proprietary continuous leach vessel, together with a complete EARS acid regeneration plant to produce super-strength (25%w/w) hydrochloric acid and iron metal pellets for market assessment. The production from the expanded pilot plant will be at a nominal annualised rate of 1,500 tonnes of high grade synthetic rutile and over 1,000 tonnes of iron pellets.

During the quarter, the Newcastle team focussed on the ilmenite roasting section, which comprises a pre-heater, oxidation roaster, reduction roaster, after-burner and an innovative anaerobic ilmenite cooler. The construction of the pre-heater and the oxidation and reduction roasters is complete, and the afterburner and cooler are in construction. The pre-heater and the oxidation roaster have been installed in the process tower, and our objective is to complete the installation and commissioning of the entire roasting train by March 2005 so that roasting of a bulk ilmenite sample can commence in April 2005.

Ausenco Limited has worked with Austpac's engineers to produce layout plans and general arrangements of the expanded pilot plant, as well as the detailed design drawings of our proprietary continuous leach. Design modelling for several sections of the plant has also been completed, as have the specifications and costing for electrical equipment and controls. Equipment lists have been finalised preparatory for quotes for supply or construction of the remaining plant items. The pilot plant upgrade will be well advanced by the end of the quarter.

Austpac's web site www.austpacresources.com contains a review of progress on the implementation of the pilot plant upgrades.

MURRAY BASIN - E.L. 4521, HORSHAM, VICTORIA

Australian Zircon N.L. (formerly Southern Titanium N.L.) has completed evaluation of a small parcel of WIM 150 ore, which will assist engineers at Roche MT to optimise the current processing of 3.5 dry tonnes of fine grained WIM 150 mineralisation. The primary aim of processing this ore is to produce a heavy mineral concentrate and to conduct dry mill tests yielding mineral products for external market assessments.

CORPORATE DEVELOPMENTS

A placement to Australian investors was made in November 2004 raising \$900,000 to provide working capital and to fund the current improvements to the Newcastle pilot plant.

Negotiations referred to in the Quarterly Report to 30 September 2004 are progressing well regarding the provision of funding for the construction of a 30,000 tpa ERMS SR plant.

Final negotiations are underway with a United States investment house for an equity drawdown facility of \$A3 million. These funds will be accessed for future working capital requirements.

NOTE: This report is based on and accurately reflects information compiled by M.J. Turbott who is a member of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists and is a competent person as defined in the Australian Code for Reporting of Identified Mineral Resources and Ore Reserves.

Austpac Resources N.L. is an Australian listed minerals technology company and emerging synthetic rutile producer. Austpac's processes include technology to transform ilmenite into high grade synthetic rutile, a preferred feedstock for titanium dioxide pigment production. They can also be used to beneficiate a range of heavy minerals, as well as process waste chloride streams from a number of industrial operations.