



QUARTERLY REPORT TO 31 MARCH 2009

HIGHLIGHTS

- Austpac has advanced the Newcastle EARS Project to begin the refurbishment of the EARS section of the ERMS SR Demonstration Plant to commercially recycle waste from the steel industry and generate a profit for the Company.
- Negotiations are well advanced for the supply of spent pickle liquor (SPL), mill scale, and other wastes to enable the 13,000 tpa EARS plant to commence operations in 2009.
- Negotiations are also well advanced for the sale of the hydrochloric acid (HCl) and the direct reduced iron (DRI) produced by the EARS plant.
- Capital costs for the EARS plant refurbishment are being finalised and indicate a very affordable entry into commercial production for the first of Austpac's technologies.
- At the Intertech-Pira TiO₂ 2009 Conference held in Rome in March 2009, Mike Turbott and John Winter showcased the latest ERMS technology advances to international companies and investors.
- Three companies who tested the high grade synrutile produced at the Demonstration Plant last year have advised that our 97% TiO₂ product is suitable for pigment or metal production. Detailed planning for the 60,000 tpa ERMS SR synrutile plant will progress when the Newcastle steel waste project is operational.
- Capital raising is underway and is being well supported.

THE NEWCASTLE EARS PROJECT

Austpac's ERMS SR Demonstration Plant at Newcastle has the capacity to produce 3,000 tpa of high grade synrutile together with a DRI iron co-product. The EARS section of the Plant was built to recycle chloride liquors generated by ilmenite leaching, and it has a capacity to treat up to 13,000 tpa of iron or other chloride solutions.

As the EARS section of the Demonstration Plant was commissioned and operated using spent liquor from a steel pickling line and strong hydrochloric acid and iron metal pellets were produced, its successful operation demonstrated the process had important commercial applications in the steel industry. A testwork program conducted with OneSteel early in 2007 showed that up to two tonnes of mill scale (iron oxide waste produced during steelmaking) could be mixed with each tonne of SPL to recover one tonne of HCL and 1.6 tonnes of DRI, both saleable products.

Recognising the growing need for steel mill waste and related effluents to be recycled in an environmentally effective way and that the 13,000 tpa EARS plant could be used on a stand-alone, commercial basis to achieve this, Austpac initiated the Newcastle EARS Project.

The ERMS SR Demonstration Plant and the ancillary EARS plant were built to prove the Company's technology rather than for long term production. When operations at the Plant were suspended at the end of October 2008, a technical review of the equipment in the EARS section identified some areas that would not withstand continuous operations, and a refurbishment plan was developed for the EARS Project. This mainly involves replacing some of the high temperature stainless steel roasters and duct work with mild steel, refractory lined equipment able to withstand the operational stresses of the process. The refurbishment program will take three months, and allowing one month for commissioning and a further six weeks for ramp-up, the plant will be fully operational and generating a cash flow within six months of project start-up. The refurbishment budget is modest as the program takes advantage of all the existing equipment and facilities funded largely during 2007 and 2008 through BHP Billiton's investment in Austpac. Positive discussions have been held with a number of groups regarding providing funds for the refurbishment. The project's success hinges on obtaining contracts for the supply of steel waste and sales agreements for the recycled products. Austpac has therefore concentrated on this critical aspect and has made significant progress during the quarter.

Austpac has been discussing the supply of SPL and mill scale with steel mills and other industries which produce or handle chloride solutions or mill scale wastes, and has identified sufficient material to enable the project to operate successfully. The EARS plant can process environmentally difficult materials such as oil-contaminated mill scale fines and oil sludge wastes, which broadens the potential feedstock sources and fuels that the plant can recycle or use in the most environmentally acceptable process available. Negotiations are now well advanced with several groups for raw material supply and Austpac expects that initial agreements will be reached shortly, enabling the Company to raise the refurbishment funds and to commence the project in the next quarter.

Several groups have expressed an interest in purchasing the regenerated acid and DRI products, and Austpac is confident agreements will be reached for their sale in the next quarter. The refurbished EARS plant will include the ability to briquette the DRI pellets to make a premium feed for electric arc furnaces. This will expand the potential market for the iron. The plant will also be capable of feeding coarse mill scale directly into the DRI circuit and thus increase production to at least three tonnes of iron for each tonne of regenerated acid.

At full production, the plant will produce over 7,000 tpa of 25% HCl and over 18,000 tpa of DRI. Austpac estimates such an operation would generate a net profit of \$7 million per year.

The Newcastle EARS Project has clear environmental benefits by turning waste products into saleable products without the undesirable emissions created by other process, thus solving a significant waste problem for the steel and related industries and creating near-term value for Austpac shareholders.

THE ERMS SR PROCESS AND THE TITANIUM INDUSTRY

The 3,000 tpa ERMS SR Demonstration Plant and Synrutile Production

By November 2008, the campaign to demonstrate and prove Austpac's technologies, collectively termed the "ERMS SR" process, was successfully completed. Austpac has the world's only fully continuous synrutile process that produces ultra high grade synrutile and an iron co-product.

The bulk synrutile product produced at the Demonstration Plant last year contains over 97% TiO₂, very low levels of iron and other impurities, and negligible amounts of uranium and thorium. In December 2008, large samples were sent to various international groups to identify potential customers for the synrutile that will be produced by a commercial ERMS SR plant.

Three companies who tested the high grade synrutile produced at the Demonstration Plant last year have advised that our 97% TiO₂ product is suitable for pigment or metal production. Other companies are expected to report similar results.

The 60,000 tpa ERMS SR Commercial Synrutile Plant

Austpac intends to commercialise the ERMS SR technology by building a 60,000 tpa synrutile plant in Eastern Australia, subject to the completion of a Bankable Feasibility Study (BFS). The first stage of the BFS is an external engineering study to establish capital and operating costs. The EARS section of the Demonstration Plant operated during September and October last year, and more data is required before the engineering study can commence. This information will be generated by the Newcastle EARS Project once it is operating.

The 11th Biennial Intertech-Pira TiO₂ 2009 Conference, 17-19 March 2009, Rome, Italy

Mike Turbott and John Winter, Austpac's Managing Director and General Manager – Technology Development, attended the Intertech-Pira TiO₂ 2009 Conference in Rome to showcase the advances made by the Company's technologies over the past two years. Mike Turbott chaired the second day of the conference and John Winter presented a paper entitled "ERMS SR: Proving the process for the production of high grade synrutile and co-product iron", which was well received and is available on the Company's web site.

EXPLORATION LICENCE 4521 – HORSHAM, VICTORIA

Australian Zircon has been granted the required approvals for the commencement of a drilling programme at WIM150. This program is intended to investigate the hydrogeology of the area east of Taylors Lake and to determine the suitability of this water for possible use in processing ore from WIM150. A drilling contractor has been engaged and drilling started in late April. Investigations into the hydrogeology of the project area will continue during the next quarter. Austpac has employed this drill rig to commence a short initial assessment of the mineral potential of the Cambrian basement rocks within E.L. 4521, and discovered fresh water in a hole located in the southern portion of the licence, outside the area subject to the joint venture with Australian Zircon.

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NOTE: This report is based on and accurately reflects information compiled by M.J. Turbott who is a Fellow 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.

About Austpac Resources N.L. (ASX code: APG)

WINNER: 2008 National Mining Awards APPLIED TECHNOLOGY OF THE YEAR

Austpac [www.austpacresources.com] is a minerals technology company focused on the titanium, steel and iron ore industries. It has been listed on the Australian Stock Exchange since 1986. Austpac's key technology transforms ilmenite into high-grade synthetic rutile, a preferred feedstock for titanium dioxide pigment and titanium metal production. The technology can also be used to process waste chloride solutions and iron oxides produced by steel making to recover hydrochloric acid and iron metal pellets. A third process can be used to produce Direct Reduced Iron (DRI) from both hematite and magnetite iron ores.