

25 July 2007

## QUARTERLY REPORT TO 30 JUNE 2007

### HIGHLIGHTS

- BHP Billiton has taken a placement of 25,000,000 fully paid ordinary Austpac Resources NL shares at 20 cents each, raising \$5 million for the construction of Austpac 3,000 tpa fully integrated ERMS SR Demonstration Plant at Newcastle.
- BHP Billiton is now Austpac's largest shareholder with 3.8% of the issued capital of the company.
- BHP Billiton has obtained a licence from Austpac to use ERMS SR synthetic rutile technology in Africa. BHP Billiton will pay an annual licence fee based on a percentage of gross sales revenue.
- Construction of the 3,000 tpa fully integrated ERMS SR Demonstration Plant, which incorporates a 40 tonnes/day (tpd) EARS acid regeneration plant, commenced in early July 2007.
- Negotiations for prime gold exploration areas continued in Guangxi province. The location of these deposits is confidential pending the completion of agreements in the coming quarter.
- The program conducted under an agreement with OneSteel to investigate recycling opportunities in the steel industry for Austpac's EARS acid regeneration and DRI (Direct Reduced Iron) processes is now in the final stages. We are confident the program has achieved its objectives. Full scale test work using pickle liquor and waste iron oxides will be undertaken in the EARS section of the Demonstration Plant once the synrutile program is completed.

### THE ERMS SR PROCESS AND BHP BILLITON

Following the successful completion in January 2007 of the Research Program with BHP Billiton, Austpac and BHP Billiton commenced negotiations for the continuing commercialisation of Austpac's ERMS SR high grade synthetic rutile process. On 14<sup>th</sup> May 2007, Austpac announced the signing of a Heads of Agreement which secured funding to underpin the next phase of development; the 3,000 ERMS SR Demonstration Plant at Newcastle. On 29<sup>th</sup> June 2007, Austpac announced the execution of the detailed legal contracts required to complete the transaction, which resulted in:

- BHP Billiton taking a placement of 25,000,000 fully paid Austpac Resources N.L. shares at 20 cents each , which raised \$5 million for the construction of the Demonstration Plant
- BHP Billiton becoming Austpac's largest shareholder with a 3.8% holding
- BHP Billiton obtaining a licence to use the ERMS SR technology in Africa. Austpac will receive a licence fee based on a percentage of annual gross revenue arising from plants that use the process in Africa.

The Demonstration Plant project commenced in early July with detailed engineering, drawing and specification for off-site construction of equipment well advanced and long lead items ordered. Prior to commencing this work a Steering Committee comprising Austpac and BHP Billiton management approved the project strategy and set guidelines for implementation of the project. Project schedules are being finalised, and the present plan is to substantially complete construction and equipment installation by the end of the year. This will allow commissioning of the roasting section of the plant to commence in January 2008, followed by a two month campaign to roast at least 550 tonnes of ilmenite concentrate. Commissioning and operation of the leaching and EARS acid regeneration section will commence in the second quarter of 2008 and the program will be completed by mid year.

BHP Billiton planned to ship 550 tonnes of concentrate from their Corridor Sands deposit in Mozambique for the operation of the Demonstration Plant. However this is subject to project timing, and other ilmenite sources are also being considered in the event a full consignment from Africa is not available. The Plant will produce around 200 tonnes of high grade ERMS SR synrutile together with 150 tonnes of iron pellets. Both products will be used for market assessment, and a number of titanium feedstock users and steelmakers have already shown interest in trialling the products.

Following the completion of the Demonstration Plant project, Austpac and BHP Billiton will jointly consider the next phase of development, which will be a 60,000 tpa ERMS SR plant. Such a plant would represent a very acceptable 20 times scale-up from the Demonstration Plant, and Austpac's previous estimates indicate such a plant will have good commercial viability. Ongoing work will include a feasibility study to evaluate costs and potential sites for the plant. Consideration will be given to south eastern Australia and the Murray Basin.

If BHP Billiton participates in the 60,000 tpa commercial plant, they will be granted a further licence to use the ERMS SR technology elsewhere in the world, with the licence fee also based on sales revenue. It is the intention of both companies to jointly seek opportunities to in which to use the ERMS SR process.

### **AUSTPAC'S TECHNOLOGIES IN THE STEEL INDUSTRY**

In May 2007 Austpac signed an agreement with OneSteel to investigate recycling opportunities for Austpac's EARS acid regeneration and DRI (Direct Reduced Iron) processes. The pilot scale batch test program entailed processing OneSteel's spent pickle liquor, waste mill scale and electric arc furnace dust to produce fresh hydrochloric acid and recover the iron oxides as metallised iron pellets for steel making.

The program is essentially complete with final test runs scheduled for completion within a week followed by sample analysis. We are confident the program has achieved its objective by confirming at a larger scale the recovery of acid and iron obtained during the earlier bench scale tests. As the 3,000 tpd ERMS SR Demonstration Plant includes a 40 tpd EARS acid regeneration plant, full scale trials using steel industry wastes will be undertaken once the synrutile program is completed.

It should be noted that a 40 tpd EARS plant would be capable of treating all pickle liquor and oxide wastes generated by the steel industry in Newcastle. Thus by the second half of 2008 Austpac will have an industry-sized proven technology ready for commercialisation.

### **CHINA GOLD EXPLORATION**

Austpac and Archipelago Resources are currently finalising the commercial and logistical arrangements for the commencement of exploration drilling on an existing mining operation based on the oxidised upper portion of Carlin-style gold mineralisation. The project is currently owned by a private Chinese company which will contribute significant technical data, including drill results, local operational expertise and valuable contacts with government at various levels. The targets are located in Guangxi Province which is part of the so-called Golden Triangle containing the 4.6 million ounce gold deposit being mined by Sino Gold.

### **MURRAY BASIN : WIM 150**

Australian Zircon N.L. (AZC) is funding the current program and will earn an 80% interest upon completion of a bankable feasibility study. AZC has undertaken a preliminary review of the results from the 27 air core drillholes completed in December 2006. The results verify the tenor of mineralisation from the earlier CRA drilling. Work is underway to further evaluate the size fractions and to select samples for mineralogy for verification of the CRA data and as an input into the resource model.

AZC originally planned to take a bulk sample of the mineralisation at WIM 150 for further heavy mineral separation evaluation by mid 2007, but winter rainfall in the Horsham region has necessitated the postponement of the sampling program until the spring.

AZC has appointed Johann Jacobs, a Director of the company, to lead a team to undertake a pre-feasibility study on WIM150 over the balance of this year, which will be used as the foundation for a Bankable Feasibility Study which will take place during 2008. AZC is currently assembling a team of resource professionals to commence this study.

*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)**

Austpac listed on the Australian stock exchange in July 1986, and is a minerals technology company and emerging synthetic rutile producer. Austpac's technology is able to transform ilmenite into high-grade synthetic rutile, a preferred feedstock for titanium dioxide pigment production. This technology can be used to beneficiate a range of heavy minerals, as well as process waste chloride streams from a number of industrial operations and recover iron units from waste oxides produced by steel making.