Financial Statements

1999

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 the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 1999 and the auditors' report thereon.

The Company was incorporated as Absolajur N.L. on 12 October 1981 and changed its name to Austpac Resources N.L. on 22 May 1985, to Austpac Gold N.L. on 17 March 1986 and finally back to Austpac Resources N.L. on 20 November 1997.

DIRECTORS

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

ALFRED L. PATON

B.Eng, FAIM, MIE, M.AusIMM, FAICD

Chairman

Age 76

Mr Paton is currently the Chairman of Centennial Coal Company Limited, Oldfield Holdings Limited, Meekatharra Minerals Limited, Charters Towers Gold Mines N.L. and is Deputy Chairman of Asia Pacific Specialty Chemicals Limited and is also a Director of CARE Australia. Mr Paton has an engineering background and has over 50 years' experience in business including the mining industry. From 1987 to 1990 he was the Managing Director of Placer Pacific Limited and Kidston Gold Mines Limited, and was Chairman of these companies from 1990 to 1994, when he also retired as a Director of Placer Dome Inc. Canada. Mr Paton has been Chairman of Austpac Resources N.L. since November 1997.

MICHAEL TURBOTT

BSc (Hons), FAIMM

Managing Director

Age 55

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 major Lihir and Simberi gold deposits in Papua New Guinea. He was also Chairman of the Denham Coal Associates joint venture, and a Director of Denham Coal Mangement Ltd, the management company charged with the development of the Gordonstone coal deposits in the Bowen Basin, Queensland. He was a member of the Executive Committee of the Australian Mining Industry Council and his 28 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 a Director of Austpac Resources N.L. since 1985.

HAROLD H. HINES

FAIMM

Age 70

Mr. Harold Hines is the Managing Director of the Mineral Sands Consultancy. Mr. Hines has 49 years' experience in operations, development, management and consulting in and for the mineral sands and alluvial mining industry. Since 1988, The Mineral Sands Consultancy has provided mine planning, construction and commissioning for significant major projects in India, New Zealand, Indonesia, USA and Australia. Mr. Hines has been a Director of Austpac Resources N.L. since April 1996.

JOHN J. ALLEN

BA, LLB(Hons) (Syd), LLM (Harv)

Age 49

Mr. Allen was appointed to the Board of Austpac Resources N.L. in 1990 and resigned on 18 December 1998.

GEOFFREY REYNOLDS

BSc (Hons)

Age 63

Mr Reynolds was appointed to the Board of Austpac Resources N.L. in February 1997 and resigned on 26 March 1999.

DIRECTORS' INTERESTS AND BENEFITS

The relevant interest of each director in the share capital of the Company at the date of the report and as shown in the register of Directors' Shareholdings of the Company was:

	Ordinary Shares Direct	Ordinary Shares Indirect
Alfred L. Paton	–	2,143,000
Michael J. Turbott	5,664,172	1,500,000
Harold Hines	961,438	–

In accordance with the Company's articles of association Mr. A. Paton and Mr. H. Hines retire from the Board of Directors and being eligible, offer themselves for re-election.

DIRECTORS' MEETINGS

Twelve directors' meetings were held during the 1999 financial year. The number of directors' meetings attended by each of the directors of the Company during the 1999 financial year were:

A.L. Paton	12
M.J. Turbott	12
H. Hines	10
J.J. Allen	3
G. Reynolds	8

Directors' Report

PRINCIPAL ACTIVITIES

The principal activity of the economic entity is the development of mineral processing technology and exploration and development of mineral sands 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 Technology and Mineral Sands* commencing on page 3 of this Annual Report.

DIVIDENDS

The directors recommend the payment of no dividends.

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 under review other than the acquisition of all the issued capital of Almeth Pty Ltd in accordance with the terms and conditions of the Research and Development syndication agreement dated 30 June 1993. The Research and Development syndication has now been replaced by the ERMS Technology Joint Venture in which Austpac holds 90% and Rothschilds 10% interests.

EVENTS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In September 1999 the company placed 6,250,000 fully paid ordinary shares of 4 cents each to raise $250,000 for working capital.

Other than the matters discussed above, 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, the results for those operations or the state of the affairs of the consolidated entity in subsequent financial years.

LIKELY DEVELOPMENTS

This item has been covered in the section described as *Directors' Report on Technology and Mineral Sands* commencing on page 3 of this Annual Report.

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.

YEAR 2000

Measures have been taken to evaluate the likely impact of the Year 2000 on the company's business processes. In the absence of unforeseen circumstances, the Directors' intention is to have all critical systems which are in the company's direct control tested for Year 2000 readiness within an appropriate time-frame which, given the nature of the company's business, will be by 30 November 1999.

The Year 2000 issue, however, is unique. There can be no assurance that the measures taken by any company will successfully minimise vulnerabilities of its software and systems, or those of its suppliers, to the problems associated with the transition to the Year 2000. Significant third parties with which the company interfaces include, among others, customers and business partners, technology suppliers and service providers, and the utility infrastructure (power, transportation, telecommunications), on which all entities rely. Lack of readiness by these third parties would expose the company to the potential for loss, impairment of business processes and activities, and general disruption of its markets.

This statement is a Year 2000 disclosure statement for the purposes of the *Year 2000 Information Disclosure Act 1999.* A person may be protected by that Act from liability for this statement in certain circumstances.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

Details of the nature and amount of each major element of the emoluments of each director of the company are:

	Base	Non Cash Benefits	Super	Total
Mr M.J. Turbott	71,500	18,000	9,000	98,500
Mr A.L. Paton	15,000	–	–	15,000
Mr H.H. Hines	10,000	–	–	10,000
Mr J.J. Allen	5,000	–	–	5,000
Mr G. Reynolds	7,500	–	–	7,500

The Company is managed by the Managing Director, supported by the Board of Directors. It does not retain a senior executive layer.

OPTIONS

During or since the end of the financial year no options have been granted by the company.

INDEMNIFICATION AND INSURANCE

The Company has arranged a Directors' and Officers' insurance against liability which may arise from holding the position of Director or Officer.

Signed at Sydney this twenty fourth day of September 1999 in accordance with a resolution of the Board of Directors of Austpac Resources N.L

A.L. Paton
Chairman

M.J. Turbott
Managing Director

PROFIT AND LOSS STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

	NOTE	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Revenue	2	84,327	2,641	84,327	2,641
Operating (profit)/loss before abnormal items and income tax	3	858,204	2,415,943	809,884	2,415,943
Abnormal items	3	(2,618,559)	–	(2,570,239)	–
Operating (profit)/loss before income tax		(1,760,355)	2,415,943	(1,760,355)	
Income tax attributable to operating (profit)/loss	4	–	(159,739)	–	(159,739)
Operating (profit)/loss after income tax		(1,760,355)	2,256,204	(1,760,355)	2,256,204
Accumulated losses at the beginning of the financial year		26,443,020	24,186,816	26,443,020	24,186,816
Accumulated losses at the end of the financial year		24,682,665	26,443,020	24,682,665	26,443,020

The profit and loss statements are to be read in conjunction with the notes to the financial statements set out on pages 16 to 26.

BALANCE SHEETS
AS AT 30 JUNE 1999

	NOTE	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Current Assets					
Cash		64,369	6,647,006	54,358	6,598,648
Receivables	5	129,141	156,904	–	10,470
Total Current Assets		193,510	6,803,910	54,358	6,609,118
Non-Current Assets					
Investments	6	–	–	6,616,478	–
Plant and Equipment	7	310,380	254,876	306,483	233,952
Other	8	10,709,680	5,271,040	9,850,345	9,323,045
Total Non-Current Assets		11,020,060	5,525,916	16,773,306	9,556,997
Total Assets		11,213,570	12,329,826	16,827,664	16,166,115
Current Liabilities					
Accounts Payable	9	578,636	314,030	391,786	312,229
Provisions	10	921,553	5,478,612	6,722,497	9,316,702
Total Current Liabilities		1,500,189	5,792,642	7,114,283	9,628,931
Non-Current Liabilities					
Accounts Payable	9	210,751	95,816	210,751	95,816
Total Non-Current Liabilities		210,751	95,816	210,751	95,816
Total Liabilities		1,710,940	5,888,458	7,325,034	9,724,747
Net Assets		9,502,630	6,441,368	9,502,630	6,441,368
Shareholders' Equity					
Share Capital	11	34,185,295	61,827,741	34,185,295	61,827,741
Reserves and Unpaid Capital	12	–	(28,943,353)	–	(28,943,353)
Accumulated Losses		(24,682,665)	(26,443,020)	(24,682,665)	(26,443,020)
Total Shareholders' Equity		9,502,630	6,441,368	9,502,630	6,441,368

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 16 to 26.

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 1999

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Cash Flows from Operating Activities–				
Cash receipts in the course of operations				
Licence fees – technology	83,766	–	83,766	–
Interest Received	561	2,641	561	2,641
Cash payments in the course of operations	(535,102)	(857,303)	(825,023)	(1,021,095)
Interest Paid	(15,534)	(22,008)	(15,534)	(22,008)
Net cash used in operating activities (Note 20)	(466,309)	(876,670)	(756,230)	(1,040,462)
Cash Flows from Investing Activities				
Payment for property, plant and equipment	(825)	–	(825)	–
Payments/Receipts for:				
Mineral Technology Development Expenditure and Exploration Expenditure	(760,662)	(402,422)	(432,394)	(242,715)
Investment in controlled entities	(6,616,478)	–	(6,616,478)	–
Net cash provided by/(used in) investing activities	(7,377,965)	(402,422)	(7,049,697)	(242,715)
Cash Flows from Financing Activities				
Proceeds from issue of shares	1,300,907	1,056,999	1,300,907	1,056,999
Lease payments	(39,270)	(34,168)	(39,270)	(34,168)
Net cash provided by financing activities	1,261,637	1,022,831	1,261,637	1,022,831
Net increase/(decrease) in cash held	(6,582,637)	(256,261)	(6,544,290)	(260,346)
Cash at the beginning of the financial year	6,647,006	6,903,267	6,598,648)	6,858,994
Cash at the end of the financial year	64,369	6,647,006	54,358	6,598,648

The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 16 to 26.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1999

NOTE 1:
The significant policies which have been adopted in the preparation of this financial report are:

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation
The financial report is a general purpose financial report which has been drawn up in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Law. It has been prepared on the basis of historical costs and does not take into account changing money values nor, except where stated, current valuations of non-current assets. The accounting policies have been consistently applied by each entity of the consolidated entity and are consistent with those of the previous year.

(b) Principles of Consolidation
The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity and its controlled entities ('the consolidated entity'). Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The balances and effects of transactions between controlled entities in the consolidated financial statements have been eliminated.

(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 will be able to fund future operations through share issues and the joint venturing of interests held in mineral tenements and projects.

(d) Foreign Currency
Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies are translated at the rates of exchange ruling at balance date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account in the profit and loss statement in the financial year in which the exchange rates change as exchange gains or losses. Those controlled entities whose financial reports are presented in foreign currencies and whose operations are considered to be integrated with the Company are translated at the rate of exchange ruling at the date of the transaction.

(e) Non-Current Assets
The carrying amounts of all non-current assets, excluding exploration and evaluation expenditure, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

(f) Receivables
Trade debtors to be settled within 60 days are carried at amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. The carrying amount of trade debtors approximates net fair value.

(g) Income Tax
The liability method of tax effect accounting is applied throughout the consolidated entity. Under this method the income tax expense for the year is related to operating loss before tax after allowing for permanently non-allowable and non-assessable items.

(h) Investments
Controlled Entities:
Investments in controlled entities are valued in the Company's financial statements at the lower of cost and recoverable amount. Provision is made for any temporary diminution in the value of the investment in related corporations having regard to the underlying net assets of the controlled entity at balance date.

(i) Property, Plant and Equipment
Plant and Equipment:
Plant and Equipment is capitalised at historical cost and depreciated at rates based on their estimated useful lives using the straight line method of depreciation, commencing in the year of acquisition. The depreciation and amortisation rates used for each class of asset are as follows: Plant and equipment 15%; Leased plant and equipment and motor vehicles 10%.

Leased Assets:
Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight line basis over the term of the relevant lease, or where it is likely the economic entity will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the profit and loss account.

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

(j) Exploration and Evaluation Expenditure
Exploration and evaluation costs are accumulated in respect of each separate area of interest. Such costs are carried forward where they are expected to be recouped through successful development and exploitation of the area of interest; or where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

The ultimate recoupment of costs related to areas of interest in the exploration and/or evaluation phase is dependent on the successful development and commercial exploitation or sale of the relevant areas. Each area of interest is reviewed annually to determine whether costs should continue to be carried forward in respect of that area of interest. Where it is decided to abandon an area of interest, costs carried forward in respect of that area are written off in full in the year in which the decision is taken.

The anticipated cost of restoration is provided for as part of exploration and evaluation programmes undertaken by the Company.

(k) Technology Expenditure

Mineral technology development expenditures are capitalised. On the basis that these technologies are in the commercialisation phase and are intended to be applied to mineral sands projects in the future, such costs are expected to be recoverable beyond reasonable doubt. Licences for the use of ERMS and EARS technologies by other companies have been negotiated by Austpac.

(l) Provisions

Wages, Salaries, Annual Leave and Sick Leave:

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represents the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the balance date. The provisions have been calculated at undiscounted amounts based on current wage and salary rates and includes related on-costs.

Long Service Leave:

The liability for employees' entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements which are not expected to be settled within twelve months are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the economic entity's experience with staff departures. Related on-costs have also been included in the liability.

(m) Superannuation Fund

The Company and its controlled entities contribute to an employee superannuation fund to match contributions to the fund made by employees. Such group contributions are charged against income as they are made. Further information is set out in Note 13.

(n) Joint Ventures

The consolidated entity's interest in unincorporated joint ventures is brought to account by including in the respective balance sheet and profit and loss classes the amount of:

- the consolidated entity's interest in each of the individual assets employed in the joint ventures;
- the consolidated entity's interest in the expenses incurred in relation to the joint ventures; and
- liabilities incurred by the economic entity in relation to the joint ventures.

(o) Hedging Risks/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.

(p) Financing Arrangements

At the time of this report there existed no overdrafts in the Austpac Resources group.

(q) Revenue Recognition

Licence Fees – Technology

Licence fees are recognised at the time of payment. The licences signed with Iscor are payable upon the commencement and commissioning of a new project development in South Africa. The current financial year reflects $83,766 which was paid by Iscor upon the signing of the technology licences in August 1998.

Other

Interest income is recognised as it accrues.

(r) Cash, short term deposits and bank overdrafts

Cash, short term deposits and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash, short-term deposits and bank overdrafts approximate net fair value. Interest revenue is accrued at the market or contracted rates and is receivable quarterly.

(s) Accounts payable

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 days.

NOTE 2: REVENUE

	CONSOLIDATED		THE COMPANY	
	1999 $	1998 $	1999 $	1998 $
REVENUE FROM OPERATING ACTIVITIES:				
– Interest received or due and receivable from:				
Other corporations	561	2,641	561	2,641
– Licence Fees – Technology	83,766	–	83,766	–
	84,327	2,641	84,327	2,641

NOTE 3: OPERATING (PROFIT)/LOSS

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Operating (profit)/loss before abnormal items and income tax has been arrived at after charging/(crediting) the following items:				
Finance charges on capitalised leases	15,534	22,008	15,534	22,008
Amortisation of:				
Leased assets capitalised	39,270	34,168	39,270	34,168
Depreciation of plant and equipment	41,051	46,376	24,024	29,638
Lease rental expense:				
Operating leases	37,987	37,987	37,987	37,987
Remuneration of auditors:				
Amounts received or due and receivable for audit services by:				
Auditors of the parent entity	25,000	25,000	25,000	25,000
Auditors of other group entities	15,000	15,000	–	–
Exploration expenditure written off	–	1,370,552	–	–
Provision for guarantee of debts of controlled entities	–	–	–	1,398,699
ABNORMAL ITEMS (No tax effect on abnormal items)				
Provision for guarantee of debts of controlled entities	–	–	2,603,807	–
Reversal of provision for exercise of ERMS syndicate put option	(5,198,012)	–	(5,198,012)	–
Exploration expenditure written off	2,579,453	–	23,966	–
	(2,618,559)	–	(2,570,239)	–

The consolidated entity held a put option agreement with B.T. Financial Management Pty Limited and Arrow Resources Management Pty Limited (a controlled entity of Rothschild Australia Limited). The option has been exercised during the year and the consolidated entity subsequently purchased all of the shares in Almeth Pty Limited. Accordingly the provision for exercise of the ERMS syndication option was no longer required and was reversed as an abnormal item.

NOTE 4: TAXATION

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Income Tax Expense				
Prima facie income tax (benefit)/expense calculated at 36% on the operating (loss)/profit	633,727	(869,739)	633,727	(869,739)
Over provision for prior years	–	(159,739)	–	(159,739)
Increase/(decrease) in income tax expense/benefit due to non tax deductible items:				
Non-allowable/(assessable) items	(1,562,330)	493,398	(642,354)	493,398
Losses not brought to account as a Future Income Tax Benefit	928,603	376,341	8,627	376,341
Income tax expense/(benefit) on operating loss	–	(159,739)	–	(159,739)
Provision for Income Tax				
Movements during the year were as follows:				
Balance at beginning of year	–	159,739	–	159,739
Income tax paid	–	–	–	–
Current year's current income tax expense on operating loss	–	–	–	–
Over provision from previous years	–	(159,739)	–	(159,739)
	–	–	–	–

Future Income Tax Benefit Not Brought to Account

Future income tax benefits arising from tax losses and timing differences have not been recognised as an asset because recovery is not virtually certain. The value of any benefit that may arise is indeterminable as these amounts relate to exploration expenditure in foreign tax jurisdictions.

The future income tax benefit which has not been recognised as as asset will only be obtained if:

(i) the relevant company and/or the group derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) the relevant company and/or the group continues to comply with the conditions for deductibility imposed by the law; and

(iii) no changes in tax legislation adversely affect the relevant company and/or group in realising the benefit.

NOTE 5: RECEIVABLES

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Current				
Other debtors (net of provision for doubtful debts – nil)	129,141	156,904	–	10,470

The effective weighted average interest rate for receivables is Nil (1998: Nil)

NOTE 6: INVESTMENTS

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Shares in related corporations (unquoted) at cost	–	–	6,631,528	15,050
Less provision for diminution in value of investment in related corporation	–	–	15,050	15,050
	–	–	6,616,478	–

PARTICULARS IN RELATION TO THE COMPANY AND ITS CONTROLLED ENTITIES

Name	Class of Share	Holding 1999 %	Holding 1998 %
The Company			
Austpac Resources N.L.		–	–
Controlled Entities			
Auspac Bolivia S.R.L.	Ord	100%	100%
Austpac Technology Pty Ltd	Ord	100%	100%
Austpac Gold New Zealand Ltd	Ord	100%	100%
Austpac Gold Exploration (N.Z.) Ltd	Ord	100%	100%
Almeth Pty Ltd	Ord	100%	–
Controlled Entities of Austpac Gold New Zealand Ltd			
Austpac Titanium (N.Z.) Ltd	Ord	100%	100%

Auspac Bolivia S.R.L. was incorporated in Bolivia and carries on business in Bolivia.

Austpac Technology Pty Limited was incorporated in Australia and carries on business in Australia.

Austpac Gold New Zealand Limited and Austpac Gold Exploration (N.Z.) Limited and Austpac Titanium (N.Z.) Limited were incorporated in New Zealand and carry on business in New Zealand.

Almeth Pty Limited was incorporated in the ACT and carried on business in Australia. Almeth was acquired by Austpac Resources N.L. from Rothschilds in March 1999 in accordance with the terms and conditions of the Research and Development Agreement dated 30 June 1993.

No dividends were received or receivable by any company in the group in the 1999 or 1998 financial years.

NOTE 7: PLANT AND EQUIPMENT

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Leased plant, equipment and motor vehicles capitalised	484,451	349,451	484,451	349,451
Less: Accumulated amortisation	230,808	191,538	230,808	191,538
	253,643	157,913	253,643	157,913
Plant and equipment at cost	459,877	459,052	358,768	357,943
Less: Accumulated depreciation	403,140	362,089	305,928	281,904
	56,737	96,963	52,840	76,039
Total plant, equipment and motor vehicles – net book value	310,380	254,876	306,483	233,952

NOTE 8: OTHER NON-CURRENT ASSETS

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Exploration and/or evaluation expenditure, at cost	263,191	2,487,544	166,876	106,429
Deduct: Joint Venture forward funding	(240,488)	(262,800)	–	–
	22,703	2,224,744	166,876	106,429
Mineral Technology Development expenditure, at cost, representing expenditure after 30 June 1993	10,686,977	3,046,296	3,394,277	3,046,296
Loans – related corporations	–	–	6,289,192	6,170,320
	10,709,680	5,271,040	9,850,345	9,323,045

ERMS mineral technology development expenditure has been valued independently by Mineralex Agencies Pty Limited for the year ended 30 June 1999 at $12 million based on commercial application of the technology in its current form. This valuation exceeds the capitalised value of $10,686,977 appearing in the financial statements.

NOTE 9: ACCOUNTS PAYABLE

	Note	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Current					
Trade Creditors		520,744	236,933	333,894	235,132
Lease liabilities – (Secured)	14	42,892	62,097	42,892	62,097
Directors' fees		15,000	15,000	15,000	15,000
		578,636	314,030	391,786	312,229
Non-Current					
Lease liabilities – (Secured)	14	210,751	95,816	210,751	95,816

The effective weighted average interest rate is:
– trade creditors N/A (1998: N/A)
– lease liabilities 7% (1998: 12%)

NOTE 10: PROVISIONS

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Current				
Employee entitlements	280,600	280,600	280,600	280,600
Provision for guarantee of debts of controlled entities	–	–	6,441,897	3,838,090
ERMS Funding secured	–	5,198,012	–	5,198,012
Other	640,953	–	–	–
	921,553	5,478,612	6,722,497	9,316,702

NOTE 11: SHARE CAPITAL

	CONSOLIDATED AND THE COMPANY 1999 $	CONSOLIDATED AND THE COMPANY 1998 $
Issued and paid up Capital		
275,117,216 (1998: 231,880,965 of $0.25 par value each) ordinary shares fully paid	34,091,495	57,970,241
18,380,000 (1998: 15,430,000 of $0.25 par value each) ordinary shares paid to $0.01	183,800	3,857,500
	34,275,295	61,827,741
Movements in Ordinary Share Capital		
Balance at the beginning of the financial year	61,827,741	54,653,098
Balance of share premium reserve	681,070	–
Balance of discount on share reserve	(26,393,691)	–
Balance of unpaid capital reserve	(3,336,873)	7,174,643
Shares issued:		
Placement – British Institutions 6,857,000 shares issued for cash in August 1998	239,995	
Share Purchase Plan Issue – 500,000 ordinary shares issued for cash in October 1998	20,000	
Placement – Shaw Stockbroking – 7,000,000 ordinary shares issued for cash in November 1998	280,000	
Share Purchase Plan Issue – 3,300,000 ordinary shares issued for cash in December 1998	99,000	
Placement – Shaw Stockbroking – 217,500 ordinary shares issued for cash in January 1999	8,700	
Placement – Rothschilds – 4,000,000 ordinary shares issued for cash in March 1999	120,000	
* Rights Issue – 1 for 8 – 14,178,418 ordinary shares issued for cash in May 1999	335,353	
Placement – Rothschilds and others – 1,133,333 ordinary shares issued for cash in May 1999	34,000	
Placement – GIO Personal Investment Services Ltd – 9,000,000 ordinary shares issued for cash in May 1999	270,000	
	34,185,295	61,827,741

* Transaction costs of $90,000 were recognised as a reduction of proceeds of issue.

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

The Company Law Review Act 1998 ('the Act') came into effect on 1 July 1998. The Act abolished par value shares and any amount standing to the credit of the share premium reserve became part of the Company's share capital on 1 July 1998. From 1 July 1998 share capital does not have a nominal (par) value.

NOTE 12:
RESERVES AND UNPAID CAPITAL

	CONSOLIDATED AND THE COMPANY	
	1999 $	1998 $
Share premium reserve	–	681,070
Discount on shares	–	(26,393,691)
Unpaid capital	–	(3,230,732)
	–	(28,943,353)
Movements during the year		
Balance at beginning of year	681,070	–
Share premium	–	681,070
Included within share capital	(681,070)	–
Balance at end of year	–	681,070
Discount on shares		
Balance at beginning of year	(26,393,691)	(20,359,247)
Discount on ordinary shares issued during year	–	(6,034,444)
Included within Share Capital	26,393,691	–
	–	(26,393,691)
Unpaid Capital		
Balance at beginning of year	(3,230,732)	(3,147,532)
Share Purchase Plan issues and payments	(106,141)	(83,200)
Included with Share Capital	3,336,873	–
	–	(3,230,732)

NOTE 13: COMMITMENTS

The estimated maximum amount of commitments not provided for in the accounts for the groups as at 30 June 1999 are set out below:

Superannuation Commitments

The Company acts as trustee for and contributes to a group employee superannuation fund, matching contributions to the fund made by employees. Employee contributions are based on various percentages of their gross salaries. After serving a qualifying period, all employees are entitled to benefits on retirements, disability or death. The fund is an accumulation type fund. The Company and other group corporations are under no legal obligation to make up any shortfall in the fund's assets to meet payments due to employees.

Contributions to the fund during 1999 were $17,619 (1998: $23,412). Fund assets as at 30 June 1999 were $316,012 (1998: $298,393).

NOTE 14: LEASE LIABILITIES

	CONSOLIDATED		THE COMPANY	
	1999 $	1998 $	1999 $	1998 $
Included as lease liabilities are the present value of future rentals for leased assets capitalised:				
Current	42,892	62,097	42,892	62,097
Non-Current	210,751	95,816	210,751	95,816
	253,643	157,913	253,643	157,913
Lease commitments in respect of capitalised finance leases are payable as follows:				
not later than one year	60,038	70,706	60,038	70,706
later than one year but not later than two years	116,551	28,589	116,551	28,589
later than two years but not later than five years	132,847	85,104	132,847	85,104
later than five years	–	–	–	–
	309,436	184,399	309,436	184,399
Deduct: Future finance charges	55,793	26,486	55,793	26,486
Total lease liability	253,643	157,913	253,643	157,913

NOTE 15:
RELATED PARTY TRANSACTIONS

The consolidated entity was provided with legal services by Allen Allen & Hemsley ($Nil) (1998: $12,733), a firm of which J.J. Allen is a partner and K. Turbott for secretarial services ($27,500) (1998: $30,000).

Directors
The names of each person holding the position of Director of Austpac Resources N.L. during the financial year were Alfred Lampard Paton, Michael John Turbott and Harold Hines.

John Jacques Allen and Geoffrey Reynolds retired as Directors during the year.

Details of Directors' shareholdings as at 30 June 1999 are as follows:

	1999		1998	
	Direct	Indirect	Direct	Indirect
Alfred Lampard Paton	–	2,143,000	–	510,000
Michael John Turbott	5,664,172	1,500,000	3,664,172	1,500,000
Harold Hines	961,438	–	676,834	–

Increase in shareholding was due to shares purchased by Directors during the year.

NOTE 16:
DIRECTORS' AND EXECUTIVES' REMUNERATION

	CONSOLIDATED		THE COMPANY	
	1999	1998	1999	1998
Remuneration of Directors				
The number of directors of the Company who received income from the Company or any related party within the following band is:				
$5,000 – $10,000			3	3
$10,000 – $20,000			1	1
$90,000 – $100,000			1	–
$100,000 – $110,000			–	1
Total income paid or payable, or otherwise made available, to all directors of the Company and controlled entities from the Company, or any related party:	$136,000	$135,000	$136,000	$135,000
Remuneration of Executives				
The number of executive officers of the Company and of controlled entities, whose remuneration from the Company or related partners, and from entities in the consolidated entity, falls within the following bands:				
$90,000 – $100,000	1	–	1	–
$100,000 – $110,000	–	1	–	1
Total income paid or payable from the Company, entities in the consolidated entity or related parties to executive officers of the Company and of controlled entities whose income is $100,000 or more:	–	$105,000	–	$105,000

NOTE 17: SUBSEQUENT EVENTS

Since the end of the financial year the Company has placed 6,250,000 ordinary shares to raise $250,000 for working capital in September 1999.

NOTE 18: INTEREST IN JOINT VENTURES

Joint Venture percentage interests are indicated in the tenement schedule appearing on page 10 of this report. All activities relate to gold exploration and mineral technology development. No gold or 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 other than the joint venture with Indian Rare Earths which requires $US5.7 million funding following site specific feasibility study.

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 recorded in accordance with the methods described below.

	CONSOLIDATED		THE COMPANY	
	1999 $	1998 $	1999 $	1998 $
Current Assets				
Cash	–	–	–	–
Receivables	–	–	–	–
Total Current Assets	–	–	–	–
Non-Current Assets				
Mineral Technology Development Expenditure	10,686,977	3,046,296	3,394,277	3,046,296
Exploration and/or evaluation expenditure	546,008	532,179	–	–
Total Non-Current Assets	11,232,985	3,578,475	3,394,277	3,046,296
Total Assets	11,232,985	3,578,475	3,394,277	3,046,296

NOTE 19: STATEMENT OF OPERATIONS OF SEGMENTS

	BOLIVIA		NEW ZEALAND		AUSTRALIA		ELIMINATIONS		CONSOLIDATED	
	1999 $	1998 $	1999 $	1998 $	1999 $	1998 $	1999 $	1998 $	1999 $	1998 $
Total revenue	–	–	–	–	84,327	2,641	–	–	84,327	2,641
Segment operating (loss)/profit	(21,015)	(1,390,308)	(2,562,368)	(8,391)	4,343,738	(1,017,244)	–	–	1,760,355	(2,415,943)
Unallocated expenses and income tax expenses	–	–	–	–	–	159,739	–	–	–	159,739
Operating loss after tax	(21,015)	(1,390,308)	(2,562,368)	(8,391)	4,343,738	(857,505)	–	–	1,760,355	(2,256,204)
Segment assets	181,204	198,050	582,811	3,015,280	16,827,664	16,166,115	(6,378,109)	(7,049,619)	11,213,570	12,329,826
Total assets	181,204	198,050	582,811	3,015,280	16,827,664	16,166,115	(6,378,109)	(7,049,619)	11,213,570	12,329,826

Industry Segments

The group operates in New Zealand and Bolivia in the exploration for gold, internationally for mineral sands and in Australia for the development of mineral sands technology.

NOTE 20:
A. NOTES TO THE STATEMENT OF CASH FLOWS

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Reconciliation of Operating Loss after Tax to Net Cash used in Operating Activities				
Operating (loss)/profit after income tax	1,760,355	(2,256,204)	1,760,355	(2,256,204)
Add/(less) non-cash items:				
Amortisation	39,270	34,168	39,270	34,168
Amounts set aside to provisions	(5,198,012)	28,524	(2,594,205)	1,427,224
Depreciation	41,051	46,376	24,024	29,638
Exploration expenditure written off	2,579,453	1,370,552	23,966	–
(Decrease)/increase in income taxes payable	–	(159,739)	–	(159,739)
Net cash used in operating activities before change in assets and liabilities	(777,883)	(936,323)	(746,590)	(924,913)
Change in assets and liabilities during the financial year:				
(Increase)/decrease in accounts receivable	27,763	9,756	10,470	9,756
(Increase)/decrease in loans to controlled entities	–	–	(118,872)	(174,231)
(Decrease)/increase in accounts payable	283,811	49,897	98,762	48,976
Net cash used in operating activities	(466,309)	(876,670)	(756,230)	(1,040,412)

Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows:

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Cash	64,369	6,717,561	54,358	6,685,917
Bank overdraft	–	(70,555)	–	(87,269)
	64,369	6,647,006	54,358	6,598,648

B. ACQUISITION OF CONTROLLED ENTITIES

During the financial year the consolidated entity purchased 100% of the ordinary shares of Almeth Pty Limited (1998: N/A). Details of the acquisition are as follows:

	CONSOLIDATED 1999 $	CONSOLIDATED 1998 $	THE COMPANY 1999 $	THE COMPANY 1998 $
Consideration	6,616,478	–	6,616,478	–
Cash acquired	–	–	–	–
Outflow of cash	6,616,478	–	6,616,478	–
Fair value of net assets of entity acquired				
Interest in Technology	6,616,478	–	6,616,478	–
Outside equity interests at acquisition	–	–	–	–
Goodwill on acquisition	–	–	–	–
	6,616,478	–	6,616,478	–

NOTE 21:
EARNINGS PER SHARE

	THE COMPANY 1999	THE COMPANY 1998
Basic earnings per share	0.006¢	(0.006¢)
Weighted average number of shares used to calculate earnings per share	265,835,867	204,843,650

Diluted earnings per share is not materially different from basic earnings per share.

DIRECTORS' DECLARATION

1. In the opinion of the Directors of Austpac Resources N.L. (A.C.N. 002 264 057)
   a) the financial statements and notes set out on pages 14 to 26 are in accordance with the Corporations Law, including:
      i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 1999 and of their performance, as repr-esented by the results of their operations and their cash flows, for the year ended on that date; and
      ii) complying with Accounting Standards and the Corporations Regulations; and
   b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

A. Paton
Director

M.J. Turbott
Director

Sydney, 24 September 1999

AUDITORS' REPORT

Independent Auditors' Report to the Members of Austpac Resources N.L.

Scope

We have audited the financial report of Austpac Resources N.L. for the year ended 30 June 1999 consisting of the balance sheets, profit and loss statements, statements of cash flows, accompanying notes and the directors' declaration set out on pages 14–27. The financial report includes the consolidated financial statements of the consolidated entity, comprising the company and the entities it controlled at year's end or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional requirements and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Austpac Resources N.L. is in accordance with:

a) the Corporations Law, including:
   i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 1999 and of their performance for the year ended on that date; and
   ii) complying with Accounting Standards and the Corporations Regulations; and
b) other mandatory professional requirements.

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(b) which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business.

The consolidated entity's ability to continue to pay its debts as and when they fall due is dependent upon the achievement of future profits, additional share issues, the successful commer-cialisation of mineral technologies and the joint venturing of interests held in mineral tenements to provide sufficient funds to meet liabilities.

KPMG.

KPMG

T. van Veen
Partner

Sydney, 24 September 1999

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 1999. Provision has not been made in the accounts for this contingent liability.

SHAREHOLDINGS

Substantial Shareholders
The number of shares held by the substantial shareholders listed in the holding Company's register as at 11 September 1999 was: Nil.

CLASS OF SHARES AND VOTING RIGHTS

At 11 September 1999 there were 3,010 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".

CORPORATE GOVERNANCE PRACTICES

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

- A properly constituted Board of Directors with a high independent representation drawn from the professions and industry with an independent Chairman.
- The Board elects Directors on the basis of corporate requirements and project activity. High calibre independents with substantial experience at senior levels are sought when required.
- Directors are required to retire at the age of 72. Directors achieving this age may be reappointed by a special resolution at Annual General Meetings.
- All normal committee functions are addressed by a full Board of Directors including annual review of executive remuneration.
- Any independent professional advice required is approved by the full Board.
- External audit is undertaken by a leading international firm of high repute. A policy of full disclosure is adopted for statutory audit purposes and all corporate matters are available for audit scrutiny.
- Basic risk is reviewed annually or more regularly in changed circumstances or if new areas of business are embraced.

AUDIT COMMITTEE

The Company does not have an Audit Committee. However, the board meets on a strict monthly basis with full financial disclosure. All matters to be addressed by an Audit Committee are considered at that time.

OFFICES AND OFFICERS

Company Secretary: Nicholas John Gaston

Principal Registered Office:
Level 12, 23 Hunter Street, Sydney NSW 2000
Telephone: (02) 9221 3211

Location of Registers of Securities:
Perpetual Registrars Limited (formerly Coopers & Lybrand)
Securities Registration Services,
Coopers and Lybrand Tower,
580 George Street, Sydney, NSW 2000

DISTRIBUTION OF SHAREHOLDERS
AS AT 11 SEPTEMBER 1999

Category	No. of Ordinary Shareholders
1–1,000	134
1,001–5,000	629
5,001–10,000	428
10,001, and over	1819
	3010
Holders of less than a marketable parcel	1419

The 20 largest shareholders hold 30.28% of the ordinary shares of the holding company.

20 LARGEST SHAREHOLDERS *as at 11 September 1999*

Name	No. of Ordinary Shares held	% Held To Issued Capital
GIO Personal Investment Services Limited	13,706,508	4.62
Christopher Leech	9,982,000	3.36
HKBA Nominees Limited	7,653,071	2.58
Arrow Resources Investment Ltd	6,135,000	2.07
Michael Turbott	5,664,172	1.91
Midnap Pty Limited	5,003,223	1.69
Anthony Prestia	4,950,592	1.67
Mrs Elena Anna Claxton	4,236,769	1.43
Ronald William Croghan	3,600,000	1.21
Nicholas John Gaston	3,420,000	1.16
Notsag Pty Limited	3,381,834	1.14
Chandos Nursing Home Pty Ltd	3,113,334	1.05
Mark S. Thompson	2,969,168	1.00
G & J Paul Pty Limited	2,500,000	0.84
Grupo Minero Austral SRL	2,500,000	0.84
Memento Pty Limited	2,341,852	0.79
Bahan Pty Ltd	2,236,910	0.75
Gary Koh	2,202,667	0.74
National Australia Trustees Ltd	2,149,518	0.72
Mr Kerry Cameron King & Mrs Christine Margaret King	2,101,000	0.71
Top 20 subtotal:	89,857,618	30.28