

Our processes transform ilmenite into high grade synthetic rutile, a preferred feedstock for the production of titanium dioxide, a pigment used in the paint, plastics and paper industries.



# Annual Report 2004



Annual Report 2004



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# Chairman's Review 2004

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During this year Austpac has been transformed from a company concentrating solely on the synthetic rutile industry, to a company also capable of processing minerals for other industries. This new strategy to broaden the commercial applications for our technologies has already shown promise in the iron and nickel industries, and we are continuing to evaluate further opportunities.

The Company's Newcastle pilot plant was fully utilised during the year with testwork programs for New Zealand Steel, Inco of Canada, BeMaX Resources and several other international corporations. Through these continuous activities, the plant was self sufficient during the 2004 financial year, assisted also by a Research and Development tax concession rebate.

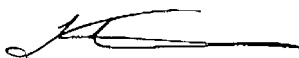
While the original time frame for the bankable feasibility study for a 30,000 tpa ERMS SR synthetic rutile plant has been extended, funds are now being secured to allow the upgrade of the Newcastle pilot plant. The objective is a pilot plant that is fully integrated and includes EARS acid regeneration and iron metallisation, with sufficient operating capacity to ensure that the scale up factor to the large plant is 25 times or less. The plant will have a capacity of around 1500 tonnes per year.

In 2005, we envisage the Company will be poised to embark on its first major commercial venture with the planned ERMS SR plant supplying high grade feedstock to the titanium pigment industry.

The construction of the Low Temperature Roaster for New Zealand Steel near Auckland clearly demonstrated the LTR technology at commercial scale. This multi-million dollar demonstration plant provided valuable experience to the Austpac team in the rapid construction and operation of industrial roaster facilities. The LTR process, which conditions iron minerals, including ilmenite, to allow their recovery, has now been proven and licensed to two groups.

On behalf of the board and management I would like to thank Mr Alf Paton and Mr Harold Hines, who both retired as directors during the year, for their dedicated efforts over the past years to commercialise Austpac's technologies.

Austpac has evolved over the last year from a group focussed on beneficiating titanium minerals, into a company whose technologies have broader industrial applications and are proven in the iron and nickel industries. Our innovative engineering team and our sophisticated pilot plant facilities continue to attract a diverse range of companies wishing to enhance their projects or operations, so creating new commercial opportunities for the benefit of our shareholders.



**T. Cuthbertson**  
*Chairman*



**AUSTPAC**  
RESOURCES N.L.

# Technology Overview and Significant Events

Austpac's innovative processes include technology to transform ilmenite into high grade synthetic rutile, a preferred feedstock for titanium dioxide pigment production. The technologies can also be used to beneficiate a range of heavy minerals, as well as process waste chloride streams from a number of industrial operations.

Austpac's patented **ERMS** (Enhanced Roasting and Magnetic Separation) process is a very efficient high temperature roasting process for upgrading ilmenite so the ore can be used in the production of either titania slag, synthetic rutile or pigment by the chloride process.

A second patented technology, **EARS** (Enhanced Acid Regeneration System), is an economical and environmentally friendly process to regenerate hydrochloric acid from iron chloride solutions. EARS has also been proven for nickel chlorides and is applicable to other metal chlorides.

The **ERMS SR** (ERMS Synthetic Rutile) process combines parts or all of Austpac's technologies and know-how to cost-competitively produce the world's highest grade synthetic rutile feedstock for the chloride  $TiO_2$  pigment process.

The **LTR** (Low Temperature Roasting) process is now proven for conditioning and separating ilmenite suitable for both the chloride and sulfate pigment production processes. The LTR process can also recover and condition iron minerals for use in the steel industry.



Austpac's latest patent application covers the development of a **CLR** (Continuous Leach Reactor) for leaching ilmenite. The CLR system produces synthetic rutile more efficiently than the commonly used batch processes.

The **BTS** (Beneficiated Titania Slag) method combines Austpac's roasting, leaching and acid regeneration technologies to enhance the value of titanium dioxide slag.

Austpac's prime objective is to use its technologies to become a synthetic rutile producer. The Company has therefore decided to establish a **30,000 tpa ERMS SR plant** by obtaining agreements for the long term supply of ilmenite and for the sale of the synthetic rutile product. In late 2003, Austpac concluded the appropriate agreements with **Consolidated Rutile Limited** and **Iluka Resources Limited** to assist the establishment of the first ERMS SR plant.

During 2004, **New Zealand Steel Limited** constructed a 2.5 tph LTR plant at its Glenbrook Steel Works in New Zealand using Austpac's LTR process to recover and condition some of the iron minerals that are being lost in the mining operations at Waikato North Head. This proved the commercial effectiveness of Austpac's LTR technology.

Under a licence agreement with **BeMaX Resources N.L.**, Austpac's LTR roasting technology will be used to upgrade ilmenite from the Ginkgo heavy mineral deposit in south-western NSW. Final test work for BeMaX was completed as part of the detailed design phase of the LTR unit. Commencement of construction is now subject only to final project finance.



# Directors' Report on Operations

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## Key Features of Austpac's Technologies

Austpac has developed six innovative processes for the treatment of heavy minerals, which have direct application to the mineral sand, the titanium dioxide and other industries. These are:

- 📌 **ERMS: Enhanced Roasting and Magnetic Separation**
- 📌 **EARS: Enhanced Acid Regeneration System**
- 📌 **ERMS SR Process**
- 📌 **LTR Process**
- 📌 **CLR Process**
- 📌 **BTS Process**



Schematic diagram of a 30,000 tpa ERMS plant (right) and its companion EARS plant

## Contaminant Removal – Upgrading Ilmenite

**ERMS** is a high temperature roasting process, which selectively magnetises ilmenite so that it can be easily separated from other minerals, such as deleterious chromite. Ilmenite is a common mineral that is composed of iron oxide and titanium dioxide. In an ERMS roast, the titanium component is converted into the rutile form, which is insoluble in acid, while the iron component remains soluble. ERMS-roasted ilmenite is suitable for the chloride process, for titania slag production, or for making high grade synthetic rutile.

## Reducing Costs by Recovering Acid

**EARS** is a process for regenerating hydrochloric acid from spent iron chloride liquors produced by leaching ilmenite. Iron chloride leach liquors that are processed in an EARS plant produce strong (super-azeotropic) acid, while the iron is converted into a metallised form suitable for use in the steel industry.

## Producing High Grade Synthetic Rutile

The **ERMS SR** process combines Austpac's technologies and know-how in a number of innovative but well-proven process steps to produce a very high grade synthetic rutile from any type of ilmenite. Ilmenite is initially conditioned with a modified ERMS roast, and then rapidly leached at atmospheric pressure in strong hydrochloric acid to remove the iron, leaving a network of rutile crystals in the former ilmenite grain. This "synthetic" rutile is then washed, filtered and heated (calcined) to make the final saleable product.

The ERMS SR process has the unique advantage of producing a very high grade product (typically 96% to 98% TiO<sub>2</sub>), significantly higher grade than most other commercially available synthetic rutiles. The ERMS SR process is the only continuous synthetic rutile process in the world, and it produces a saleable iron co-product rather than the waste iron oxide muds produced by other synthetic rutile processes. The ERMS SR process is the most environmentally friendly process for the production of synthetic rutile, and an ERMS SR plant is less capital intensive than synthetic rutile plants employing other processes.

## Applications Over Wide Range of Metal Products

The **LTR** process was developed to separate ilmenite from deleterious heavy minerals so that the ilmenite is still suitable for use in both the sulfate and the chloride pigment processes. By using a low temperature fluid bed roasting technique, the magnetic susceptibility of the ilmenite can be enhanced sufficiently to allow magnetic separation without affecting its solubility in sulfuric acid. The LTR process has also been used to upgrade iron minerals for the steel industry.

## Increasing the Efficiency of Leach Operations

The **CLR** process uses a proprietary vessel designed by Austpac to continuously leach ilmenite. It replaces the batch system still used by other synthetic rutile producers. The CLR process simplifies operations and reduces the size of the equipment, which is reflected in lower capital and operating costs for the leach section of an ERMS SR plant.

## Improving the Quality of Titania Slag

The **BTS** process was developed in conjunction with Iscor of South Africa. BTS combines the Company's roasting, leaching and acid regeneration technologies to increase the TiO<sub>2</sub> content of slag and thereby enhance its market value.

# Directors' Report on Operations



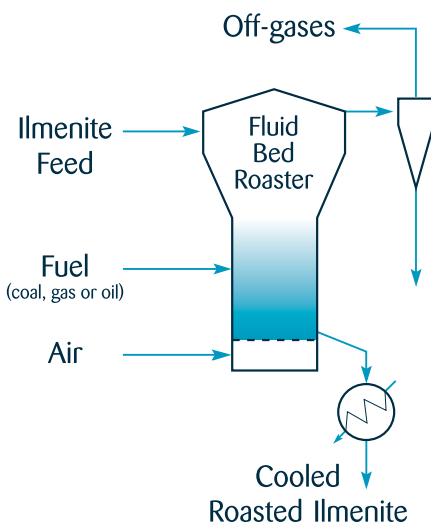
Matt Creely preparing the new reduction roaster

## Developments at the Kooragang Island Pilot Plant

The Company's facilities at its Kooragang Island pilot plant were upgraded further during the year. Many of these developments are novel and some are eligible for R&D tax rebate payments. Some innovations have arisen from the application of proprietary know-how and therefore for commercial reasons are not described in detail in this report.

Important improvements include:

- The Low Temperature Roasting (LTR) process has been developed further and optimised. Auspac's engineering team was involved in the design, commissioning and operation of the 2.5 tph LTR plant in New Zealand, and as a consequence we have developed operational procedures that will be invaluable for all future roasting operations.
- The 250mm diameter fluid bed reduction roaster (FBR) is being upgraded to a larger 350mm diameter FBR so that a more conservative scale up ratio of 25:1 or less between the pilot plant and the proposed 30,000 tpa ERMS SR plant can be achieved. The lower the scale up factor, the greater the certainty in implementing commercial operations.
- A Rare Earth roll magnet has been acquired to complete the full range of magnetic separation equipment at the pilot plant. This new magnet is an important final step in the ERMS SR flowsheet because it ensures that high grade SR is consistently achieved.
- The novel anaerobic solids cooler was built and tested at the pilot plant, and a larger version of this cooler was installed in the LTR plant in New Zealand, where it successfully operated throughout the program at design capacity. The cooler reduces the temperature of roasted minerals from more than 850°C to less than 80°C, thus avoiding re-oxidation, and facilitating magnetic separation.
- The Continuous Leach Reactor (CLR) has been improved to simplify the leach process, while reducing the capital and operating cost within the leach section of an ERMS SR plant. A full scale unit will be tested at the pilot plant as part of the bankable feasibility study. This reactor will also have applications in other industries that currently use batch processes for leaching.
- Further test work was undertaken on the direct reduction of the iron oxide pellets produced by the EARS acid regeneration process. Metallisation of the oxide yields a pelletised iron product that is suitable as a substitute for scrap iron as a feed for arc furnaces in steel making. Market analysis indicates there will be a good demand for this co-product, further enhancing the revenue from an ERMS SR plant.



Craig Ferris takes delivery of a new load of ore for commercial test work

- Single stage oxidation roasting on Stradbroke ilmenite has confirmed that acceptable ilmenite conversion can be achieved, simplifying the ERMS SR process and lowering the capital cost. Newhope coal was used for this test, thus generating data for the bankable feasibility study.
- The LTR "standard reference test" roasting procedure continued to be refined using a variety of ilmenites to verify the reliability of the test. Synthetic reducing gas is now used to ensure consistency.

# Directors' Report on Operations

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Craig Ferris taking HCl acid sample from EARS leach vessel

## The Commercialisation of Austpac's Technologies

Austpac has developed new processes that have application in the heavy mineral sand industry and in other industries. These processes evolved from Austpac's assessment of an ilmenite project at Westport, New Zealand, which led directly to the invention of the ERMS roasting process. Our engineers also investigated the manufacture of ultra-pure synthetic rutile for direct use in the pigment industry. Since 1995, we have focused primarily on synthetic rutile because we believe there is a ready market for a high grade product as a feedstock for titanium dioxide production via the chloride process. More recently, technologies such as the LTR and CLR processes were developed by our technical team in response to challenges encountered during the optimisation of the ERMS SR process.

Austpac intends to enter the synthetic rutile business as a participant rather than a technology provider and therefore the ERMS SR process will only be used in projects in which Austpac has a participating interest. During 2003, Austpac's Board decided that the fastest way to commercialise our core technology was to develop the first ERMS SR plant on its own rather than through a joint venture. The company has gained access to a supply of ilmenite and negotiated contracts for the sale of the synthetic rutile product.

The Company's secondary objective is to license appropriate parts of our technologies to groups not involved in synthetic rutile production and so generate income for Austpac. Examples of this strategy are the LTR licence with BeMaX Resources to lower the chrome content in ilmenite concentrates produced from the Pooncarie project in the Murray Basin, the licence with New Zealand Steel for the use of the LTR technology in a 2.5 tph test plant for the recovery and treatment of iron minerals, and the BTS and EARS licences with Kumba Resources.



John Winter operating the Rare Earth magnetic separator



# Directors' Report on Operations

## ERMS SR Plant, East Coast Australia

Austpac's prime objective is to establish a commercial plant using the ERMS SR process and the Company plans to build a 30,000 tpa plant producing the world's highest grade synthetic rutile for export. A long term supply of ilmenite feedstock and a contract for the sale of the synthetic rutile product are essential to ensure this project is bankable.

In October 2003, Austpac entered into an agreement with Consolidated Rutile Limited (CRL) for the long term supply of ilmenite to a 30,000 tpa ERMS SR plant proposed by Austpac for the eastern seaboard of Australia. This plant will produce very high grade synthetic rutile ( $> 97\% \text{ TiO}_2$ ) which will be sold as feedstock for the manufacture of titanium dioxide pigment and/or titanium sponge, an intermediate process in the production of titanium metal. At the same time, Austpac also signed an agreement with Iluka Resources Limited (Iluka) for the sale of synthetic rutile to Iluka from the proposed ERMS SR plant. Both contracts are subject to the successful completion of a Bankable Feasibility Study (BFS) by Austpac.

The BFS will cost \$4M and these funds are presently being sought via a Shareholder Share Purchase Plan. Of this amount, \$2.5M will be used to upgrade the Kooragang Island facility to reduce the scale up factor from the pilot plant to the 30,000 tpa plant and to operate the plant for sufficient time to generate data for final engineering design. The remaining \$1.5M will be used to prepare the independent BFS report and cover financing costs.

The estimated cost of the 30,000 tpa plant is \$50M. The prefeasibility study indicates the project will be economically robust, with a before tax net operating cash flow of over \$18M p.a. and an IRR of 29%.

The BFS will take approximately six months to complete, including three months work at the Kooragang Island pilot plant on a bulk sample of ilmenite concentrate to obtain the final process parameters for the flowsheet. This will be followed by detailed engineering, design and costing of the ERMS SR plant by an independent engineering consulting group. Project financing will follow a positive outcome and a decision to commence project construction could be made as early as the second half of 2005. Construction and commissioning will take 15 months and, provided funds are in place, production will commence in 2006.



Matt Creely working on the new reduction roaster



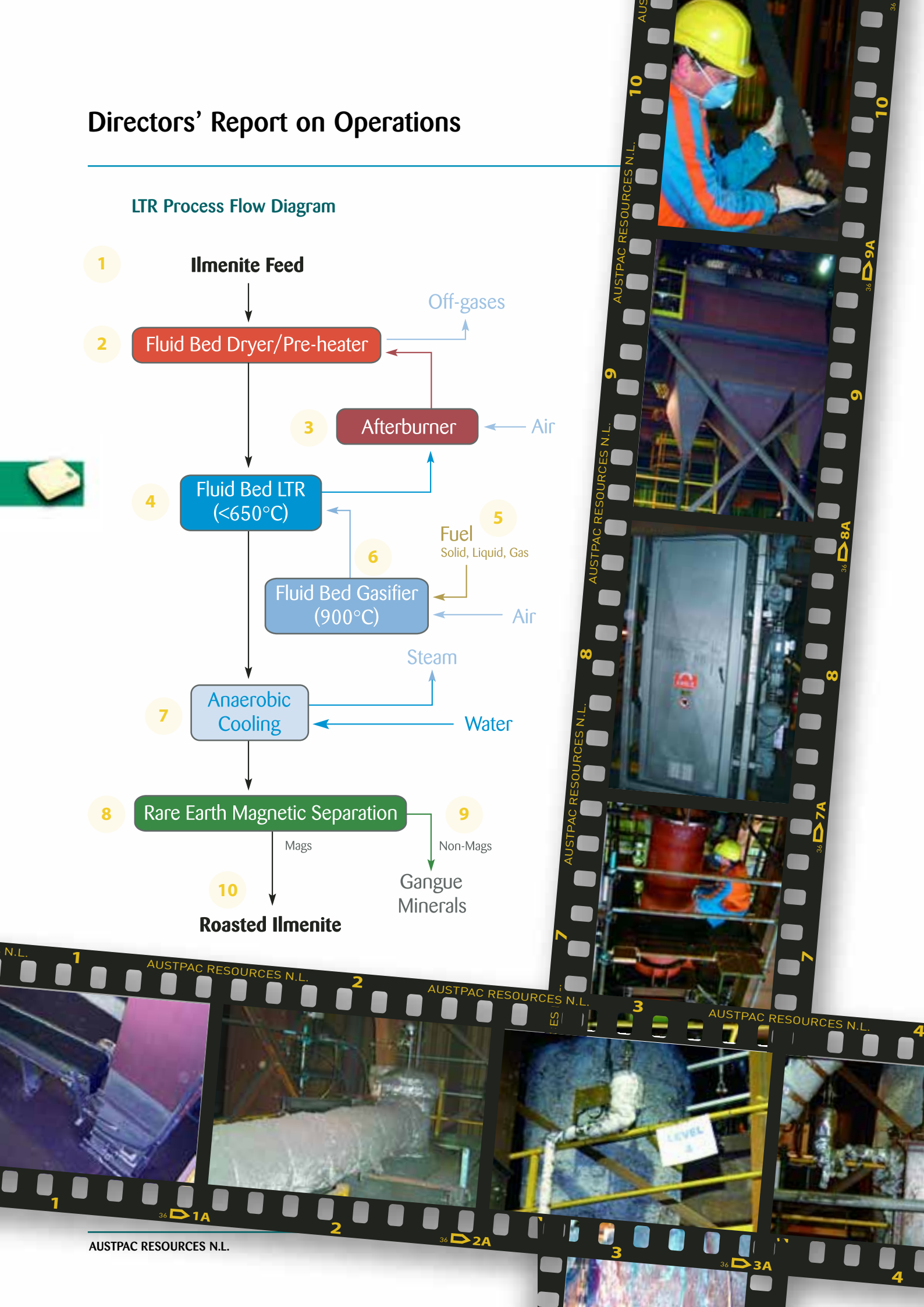
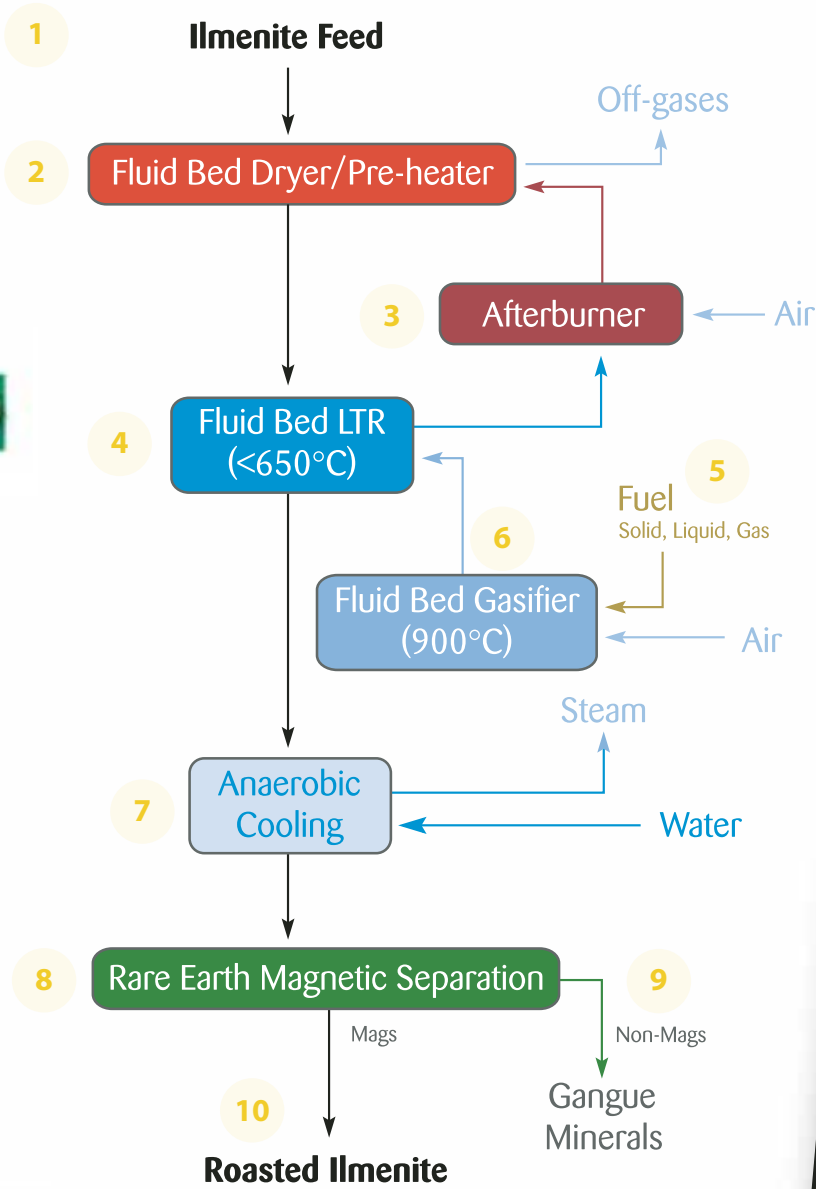
John Winter and Ernie Walpole discuss technology design issues



Craig Ferris operating our batch roaster

# Directors' Report on Operations

LTR Process Flow Diagram





# Directors' Report on Operations

## Low Temperature Roasting (LTR) Plant – New Zealand

In January 2004, New Zealand Steel completed construction of a 2.5 tonnes per hour LTR plant to test the suitability of Austpac's LTR process for the treatment of tailings from the Waikato North Head iron sand mine. This technology involves low temperature fluid bed roasting to selectively enhance the magnetic and other properties of specific minerals. LTR testwork for NZ Steel at Austpac's pilot plant had shown that rejected iron minerals could be recovered and conditioned for use in the steel making process.

The LTR plant, built at the Glenbrook Steel Works south of Auckland, comprises a series of three fluid bed roasters and a magnetic separator. Austpac engineers assisted with the final stages of construction and plant commissioning. The plant operated continuously during the second quarter of this year, in accordance with the design specifications and at or above design capacity. A trial production run was completed by the end of June, by which time the plant had processed approximately 1,500 tonnes of heavy mineral concentrate and generated large parcels of iron minerals for assessment. The extended run time has successfully eliminated any process risk associated with the technology. Additionally, the development of operating, training and safety procedures for the LTR plant, together with the ability to prepare a proven mass and energy balance for the LTR process, has further enhanced the value of the technology.

The successful operation of an LTR plant over a significant time period has proven that the technology is sound and, as we are now in a position to give process guarantees, it can be confidently used commercially by companies that require low temperature roasting for their projects. A representative of one group interested in using the LTR process visited the plant during the extended roasting run and was satisfied with the plant's performance. Discussions are underway with a second group also interested in using Austpac's now-proven LTR technology.

The first commercial agreement for LTR was concluded with BeMaX Resources in 2002, and fees for the use of the process are payable once the technology is used. BeMaX plans to install an 18 tph LTR roaster to beneficiate chrome-rich ilmenite as part of the second stage of the development of the Pooncarie Project, which includes the establishment of the full scale mineral separation plant at Broken Hill. The Company is confident that additional applications for the technology will be recognised within the coming year and that the LTR process is on track for further commercialisation.



LTR roaster construction in New Zealand



John Winter monitoring LTR process control computer



# Directors' Report on Operations

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## Testwork Proves that EARS is Applicable to Nickel Chlorides

In November 2003, Inco Limited (Inco, formerly International Nickel) commenced an evaluation of Austpac's EARS hydrochloric acid regeneration process for use in the Goro nickel project in New Caledonia.

Austpac patented the EARS process in 1992 and since that time has refined the technology, primarily for the processing of iron chloride solutions generated by leaching ilmenite in the Company's ERMS SR synthetic rutile process. Inco's aim was to use the EARS process to convert nickel chloride solutions into pure nickel oxides and hydrochloric acid, and to establish whether EARS had potential to significantly reduce the capital and operating costs of the acid regeneration section of the Goro project.

An EARS testwork program using a nickel chloride was successfully completed at the Kooragang Island pilot plant early in 2004. The work proved that the EARS process is able to treat nickel chlorides and so is applicable to the nickel industry.

## Opportunities for Austpac's Technologies in India

India has ilmenite resources totalling around 300 million tonnes, or almost 20% of the world's known ilmenite. It is estimated that approximately half of this is available for mining and that the deposits generally contain 20-30% heavy minerals which is high grade by world standards. Austpac's ERMS SR process is ideally suited for upgrading Indian ilmenites.

Austpac evaluated a number of projects several years ago and believes in the long term potential for the ERMS SR process in India's heavy mineral sand industry. The Company has a representative in Mumbai and continues to evaluate opportunities on a low-key basis. However, as described earlier in this report, the immediate focus for ERMS SR is the 30,000 tpa plant in Australia, which will demonstrate the technology to the Indian market.

## Further Opportunities for Austpac's Technologies

Austpac's technologies were developed for upgrading ilmenite. However new applications have been recognised and are being evaluated to broaden the scope for the Company. As demonstrated by the work with Inco, the EARS process has been shown to have applications in the nickel industry. It also has broad application in the steel industry where large volumes of waste iron chlorides are generated by steel pickling plants, and in the galvanising industry, which produces iron and zinc chloride waste. Both the steel pickling and the galvanising industries could use the EARS process not only to efficiently recycle acid, but also to recover metal units now being lost with the waste chloride solutions.

## Heavy Mineral Sand Investigations, Exploration Licence 4521, Victoria

Austpac and its joint venture partners have conducted a diverse program of work within Exploration Licence 4521 which contains the very large, fine grained WIM 150 heavy mineral deposit. E.L. 4521 is located immediately south of Horsham in western Victoria.

An air core drilling program of 483 holes was completed to test for coarse grained heavy mineral strandlines. No economic strand line was found. A bulk sample was excavated from the mineralised sand horizon in the southern portion of the WIM 150 deposit and the pit was rehabilitated for use by the landowner as a farm dam. Parcels of WIM 150 ore were shipped to the Kooragang Island pilot plant for preparation of an ilmenite concentrate. Other samples were shipped to Roche MT's facilities in Queensland for fine grained heavy mineral separation testwork using spirals, tables and WHIMS. A series of bench scale roasting and leaching tests have been undertaken, yielding progressively better products, culminating in a synthetic rutile product containing more than 95% TiO<sub>2</sub> and very low levels of chrome, radio-nuclides and other deleterious elements. We are confident that with optimisation the TiO<sub>2</sub> level could be increased, but thus far have mainly focused on the fine grained nature of the product.

Synthetic rutile made from WIM 150 ilmenite is too fine to be used in the chloride process to make TiO<sub>2</sub> pigment. Following initial encouraging work on agglomerating this fine grained material at bench scale to produce acceptably sized, hard synthetic rutile pellets, we are continuing with agglomeration testwork on a low-key basis. Our objective is to produce synthetic rutile pellets with optimum size, hardness and density characteristics for performance in the chlorinator of a pigment plant. This work is relevant to other fine grained mineral products.



# Directors' Report on Operations

## Farm-In Agreement with Southern Titanium

In February 2004, Auspac and Southern Titanium N.L. signed a farm-in agreement to investigate the potential for the development of Auspac's WIM 150 heavy mineral deposit.

Southern Titanium will earn an 80% participating interest by completing a bankable feasibility study on WIM 150, after which Auspac may elect to maintain a 20% working interest or convert to a 10% net profit interest.

This alliance draws on the significant expertise of both parties. From its work at Mindarie in South Australia, Southern Titanium has experience in the testing and design of processes for the recovery of relatively fine grained heavy mineral sands. Southern Titanium believes advances in gravity separation processes and subsequent mineral separation of heavy minerals at fine sizes will lead to the design of a viable project around the WIM 150 resource. Auspac has already tested the upgrading of WIM 150 ilmenite, using its own proprietary processes. The deposit contains approximately 12.5 million tonnes of ilmenite. The results on ilmenites from WIM 150 and from other Murray Basin deposits have been encouraging and, through Auspac, Southern Titanium plans to undertake larger scale pilot plant work.

Southern Titanium believes that the WIM deposits in Victoria represent the most concentrated and rich sources of zircon worldwide. Given the rapidly declining ratio of zircon to ilmenite in the known but as yet undeveloped deposits there is little doubt that these deposits should become increasingly valuable. The joint venture will be able to draw on the experience gained from the production and marketing of Southern Titanium's zircon-rich Mindarie Project. The WIM 150 deposit contains approximately five million tonnes of zircon and preliminary analysis suggests that production of 140,000 tonnes of zircon per annum could be possible, which would make Southern Titanium a major supplier of zircon in the world.

Southern Titanium has collected a 5 tonne heavy mineral sand sample which will be processed to yield a zircon concentrate for market appraisal.

## Base Metal Exploration within Exploration Licence 4521

An Australian company is currently undertaking studies on samples from the base of holes drilled in E.L. 4521 during 2002/2003. This may lead to a new joint venture to explore for base metals within E.L. 4521, which Auspac has been evaluating for heavy minerals. The exploration program would target volcanic complexes in the basement rocks located at shallow depth beneath the sedimentary cover which hosts the fine grained WIM-type heavy minerals.

## Schedule of Mining Tenements Victoria at 30 October 2004

Nature of Title	EXPLORATION LICENCE 4521	EXPLORATION LICENCE APPLICATION 4532
Area	614 km <sup>2</sup>	614 km <sup>2</sup>
Name	Horsham	Horsham
Status	Granted 1/12/00 for 5 years	Application pending processing under the Native Title Act
Registered Holder	Auspac Resources N.L.	Auspac Resources N.L.
Beneficial Interests of Auspac Resources N.L. Group	100%	100%

# Directors' Report

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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 2004 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 end of the financial year are:



**TERRY CUTHBERTSON** ACA

Age 54

**Chairman**

Mr Cuthbertson is currently Chairman of Montec International Limited and a non-executive Director of Open Telecommunications Limited. He was previously Group Finance Director for Tech Pacific Holdings Pty Ltd which generated over \$2 billion in revenues from operations throughout the Asia-Pacific Region. From 1986 to 1995 he was a Senior Partner of KPMG, specialising in strategic and corporate advice to major corporations. Mr Cuthbertson brings extensive international corporate experience to Austpac including a practical operating knowledge of business practices and structures in India, China and Southeast Asia.

Mr Cuthbertson was appointed a Director of Austpac Resources N.L. on 27 March 2001 and Chairman of Austpac Resources N.L. on 31 May 2004.



**MICHAEL J. TURBOTT** BSc (Hons), FAusIMM, MAIG

Age 60

**Managing Director**

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 Lihir gold deposit in Papua New Guinea and to the acquisition and initial development of the Gordonstone coal mine in the Bowen Basin, Queensland. His 36 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 the Managing Director of Austpac Resources N.L. since its formation as an epithermal gold explorer in 1985. In 1988 Austpac became involved in the Westport ilmenite sand deposits in New Zealand. This led to the development of Austpac's proprietary ERMS roasting process to separate refractory ilmenite and, subsequently, to the patented EARS acid regeneration process. Under Mr Turbott's direction, since the mid 1990s Austpac has solely focused on its mineral sand technologies and has developed a proprietary continuous leaching process and specialist know-how in low temperature roasting and in the treatment of iron minerals as well as the ERMS SR process for the production of high grade synthetic rutile. Austpac's technologies are applicable to a wide range of mineral sand deposits and are now being commercialised.



**ROBERT J. HARRISON** FAICD

Age 65

**Non-Executive Director**

Mr Harrison has over 20 years' experience in the marketing of titanium minerals and zircon. He was Managing Director of Consolidated Rutile Limited's marketing subsidiary Minerals Pty Limited for a number of years before forming the mineral sands marketing consultancy Mineralex Agencies Pty Limited, of which he is Managing Director. Since 1986 Mr Harrison has provided marketing support, market surveys, statistical analyses and product reviews for titanium dioxide feedstocks, titanium dioxide pigments and zircon to a range of significant producers and consumers of those products in Australia, India, Africa, Europe and the United States.

Mr Harrison was appointed a Director of Austpac Resources N.L. on 1 September 2004.

# Directors' Report

Mr Alfred Paton and Mr Harold Hines retired as directors of Austpac Resources N.L. on 31 May 2004.

Mr Charles A. MacDonald was appointed a director on 31 May 2004 and resigned as a director on 31 August 2004.

## 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 notified by the directors to the Australian Stock Exchange in accordance with Section 205G(1) of the Corporations Act 2001 was:

	ORDINARY SHARES	
	DIRECT	INDIRECT
Terry Cuthbertson	-	600,000
Michael J. Turbott	4,701,118	3,283,333
Robert J. Harrison	-	-

In accordance with the Company's articles of association, Mr Robert Harrison retires from the Board of Directors and, being eligible, offers himself for re-election.

## Directors' Meetings

The number of meetings held and attended by each of the directors of the Company during the financial year are:

	Board Meetings attended	Board Meetings held during the time the director held office	Audit Committee Meetings attended	Remuneration Committee Meetings attended
Terry Cuthbertson	14	14	2	1
Michael J. Turbott	14	14	2	1
Alfred L. Paton	12	12	2	1
Harold Hines	11	11	2	1
Charles A. MacDonald	1	1	-	-
Robert J. Harrison	-	-	-	-

## Principal Activities

The principal activity of the consolidated 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 Operations* commencing in the front section of this Annual Report.

## Dividends

The directors do not recommend the payment of a dividend.

## 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 which are not disclosed in the Annual Report.

## Events Subsequent to the end of the Financial Year

### International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At balance date, the effect of the convergence to IFRS has not been quantified. Refer to Note 19 for further details.

# Directors' Report

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## Placement

Since 30 June 2004, 3,254,285 ordinary shares being the balance of the placement of 21,428,571 ordinary Austpac Resources N.L. shares at 3.5 cents each was completed, banking \$113,900.

## Share Purchase Plan

On 1 September 2004 Austpac Resources N.L. announced a Shareholder Share Purchase Plan allowing each shareholder to participate in a capital raising of up to \$4,000,000. Each shareholder appearing on the Company Share Register as at 6 September 2004 being eligible to take up between \$500 and \$5,000 of ordinary Austpac Resources N.L. shares at 3 cents each. The terms and conditions of the plan were mailed to all shareholders.

Other than as identified 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 in future financial years.

## Likely Developments

Except as described elsewhere in this Annual Report, further information about likely developments in the operations of the consolidated entity and the expected results of those operations has not been included as disclosure of such information would likely result in unreasonable prejudice to the consolidated entity.

## 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.

## Directors' and Senior Executives' Emoluments

The broad remuneration policy is to ensure the remuneration package properly reflects the duties and responsibilities of the director. 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	88,188	20,700	12,000	120,888
Mr A.L. Paton	25,000	-	-	25,000
Mr H. Hines	15,000	-	-	15,000
Mr T. Cuthbertson	15,000	-	-	15,000
Mr C.A. MacDonald	1,250	-	-	1,250
Mr R. Harrison	-	-	-	-

The Company is managed by the Managing Director, supported by the Board of Directors. The Company does not have a senior executive staff. The Company has no employees that are specified executives.

Notsag Pty Limited, a company which provides corporate, financial, underwriting and guarantee services, employs Mr N. Gaston and provides his services as company secretary. Notsag Pty Limited received fees of \$120,000 during the financial year ended 30 June 2004.

## Options

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



# Directors' Report

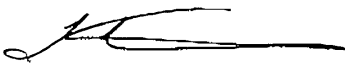
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## Indemnification and Insurance

The Company does not have a Directors' and Officers' insurance against liability which may arise from holding the position of Director or Officer.

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Signed at Sydney this thirtieth day of September 2004 in accordance with a resolution of the Board of Directors of Austpac Resources N.L.



**T. Cuthbertson**  
Chairman



**M.J. Turbott**  
Managing Director



# Corporate Governance Statement

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**This Statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations unless otherwise stated.**

## Board of Directors

The Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

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

## AUDIT COMMITTEE

The role of the Audit Committee is documented in a Charter which is approved by the Board of Directors. In accordance with this Charter, all members of the Committee must be non-executive directors with a majority being independent. The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

### **The members of the Audit Committee during the year were:**

- Mr T. Cuthbertson (Chairman)
- Mr A.L. Paton (resigned 31 May 2004)
- Mr H. Hines (resigned 31 May 2004)
- Mr R. Harrison (appointed 1 September 2004)

The external auditors, the Managing Director and Company Secretary, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met twice during the year.

### **The responsibilities of the Audit Committee include:**

- reviewing the financial report and other financial information distributed externally.
- monitoring corporate risk assessment processes.
- reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles.
- monitoring the activities of the internal control function.
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management.
- reviewing the nomination and performance of the auditor. The external auditors were appointed in 1985. The lead external audit engagement partner was last rotated in 1998.
- liaising with the external auditors and ensuring that annual and half-year statutory audits are conducted in an effective manner.
- monitoring the establishment of an appropriate internal control framework and considering enhancements.
- monitoring the establishment of appropriate ethical standards.
- monitoring the procedures in place to ensure compliance with the Corporations Act 2001 and Stock Exchange Listing Rules and all other regulatory requirements.
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions.
- reviewing reports on any major defalcations, frauds and thefts from the Company and ensuring that the Company's Fraud Control Plan is adhered to.
- improving the quality of the accounting function.

# Corporate Governance Statement

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The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

## **Audit Planning**

- to discuss the external audit plan.
- to discuss any significant issues that may be foreseen.
- to discuss the impact of any proposed changes in accounting policies on the financial statements.
- to review the nature and impact of any changes in accounting policies adopted by the consolidated entity during the year.
- to review the fees proposed for the audit work to be performed.

## **Prior to announcement of results**

- to review the half-yearly and annual report prior to lodgement of those documents with the ASX, and any significant adjustments required as a result of the audit.
- to make the necessary recommendation to the Board for the approval of these documents.

## **Half-yearly and annual reporting**

- to review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.
- to review the draft financial report and the audit report and to make the necessary recommendation to the Board for the approval of the financial report.

## **REMUNERATION COMMITTEE**

The Company has a Remuneration Committee which meets annually in January and the members of the Remuneration Committee are:

- Mr T. Cuthbertson (Chairman)
- Mr R. Harrison

In addition, the Company endeavours to ensure the following policies:

- 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.
- 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.
- Company policy allows the directors to buy or sell shares within three weeks after any announcement to the Australian Stock Exchange.
- The Board meets on a strict monthly basis with full financial disclosure.



# Statements of Financial Performance

for the year ended 30 June 2004

AUSTPAC RESOURCES N.L. AND ITS CONTROLLED ENTITIES

	NOTE	CONSOLIDATED		THE COMPANY	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenue	2	<b>13,521</b>	1,611,968	<b>13,521</b>	1,611,968
Expenses from ordinary activities					
Administration expenses		<b>(1,070,863)</b>	(1,415,550)	<b>(1,070,863)</b>	(1,415,550)
Exploration expenditure written off		–	(898,765)	–	(898,765)
Borrowing costs		<b>(20,802)</b>	(21,083)	<b>(20,802)</b>	(21,083)
<b>Loss from ordinary activities before related income tax benefit</b>	3	<b>(1,078,144)</b>	(723,430)	<b>( 1,078,144)</b>	(723,430)
Income tax benefit relating to ordinary activities	5	–	–	–	–
<b>Loss from ordinary activities after related income tax benefit</b>		<b>( 1,078,144)</b>	(723,430)	<b>( 1,078,144)</b>	(723,430)
Basic and diluted loss per ordinary share	23	<b>(\$0.003)</b>	(\$0.002)	<b>(\$0.003)</b>	(\$0.002)

*The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 21 to 35.*



# Statements of Financial Position

as at 30 June 2004

AUSTPAC RESOURCES N.L.  
AND ITS CONTROLLED ENTITIES

	NOTE	CONSOLIDATED		THE COMPANY	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Current Assets</b>					
Cash assets		<b>271,692</b>	193,975	<b>271,692</b>	193,975
Receivables	6	<b>16,012</b>	18,613	<b>16,012</b>	18,613
<b>Total Current Assets</b>		<b>287,704</b>	212,588	<b>287,704</b>	212,588
<b>Non-Current Assets</b>					
Receivables	6	–	–	<b>7,300</b>	7,300
Other financial assets	7	–	–	<b>6,616,480</b>	6,616,480
Plant and equipment	8	<b>275,764</b>	267,795	<b>275,764</b>	267,795
Exploration, evaluation and development expenditure	9	<b>12,339,199</b>	12,280,139	<b>5,715,419</b>	5,656,359
<b>Total Non-Current Assets</b>		<b>12,614,963</b>	12,547,934	<b>12,614,963</b>	12,547,934
<b>Total Assets</b>		<b>12,902,667</b>	12,760,522	<b>12,902,667</b>	12,760,522
<b>Current Liabilities</b>					
Payables	10	<b>374,393</b>	599,872	<b>374,393</b>	599,872
Interest bearing liabilities	11	<b>67,454</b>	108,218	<b>67,454</b>	108,218
Provisions	12	<b>280,000</b>	243,999	<b>280,000</b>	243,999
<b>Total Current Liabilities</b>		<b>721,847</b>	952,089	<b>721,847</b>	952,089
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	11	<b>208,310</b>	145,704	<b>208,310</b>	145,704
<b>Total Non-Current Liabilities</b>		<b>208,310</b>	145,704	<b>208,310</b>	145,704
<b>Total Liabilities</b>		<b>930,157</b>	1,097,793	<b>930,157</b>	1,097,793
<b>Net Assets</b>		<b>11,972,510</b>	11,662,729	<b>11,972,510</b>	11,662,729
<b>Equity</b>					
Contributed equity	13	<b>42,567,480</b>	41,179,555	<b>42,567,480</b>	41,179,555
Accumulated losses	14	<b>(30,594,970)</b>	(29,516,826)	<b>(30,594,970)</b>	(29,516,826)
<b>Total Equity</b>		<b>11,972,510</b>	11,662,729	<b>11,972,510</b>	11,662,729

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 21 to 35.



# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 1: Statement of Significant Accounting Policies

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

### 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 Act 2001. It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values nor current valuations of non-current assets. The accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

### B. EARNINGS PER SHARE

Basic earnings per share ('EPS') is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

### C. PRINCIPLES OF CONSOLIDATION

#### Controlled Entities:

The financial statements of controlled entities are included from the date control commences until the date control ceases. Outside interests in the equity and results of the entities that are controlled by the company are shown as a separate item in the consolidated financial statements.

#### Joint Ventures:

A joint venture is either an entity or operation that is jointly controlled by the consolidated entity.

#### Joint Venture Operation:

The consolidated entity's interest in an unincorporated joint venture is brought to account by including its proportionate share of the joint venture's assets, liabilities and expenses and the consolidated entity's revenue from the sale of its share of output on a line-by-line basis, from the date joint control commences to the date joint control ceases.

#### Transactions Eliminated on Consolidation:

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with joint ventures are eliminated to the extent of the consolidated entity's interest.

### D. 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 and the consolidated entity will be able to fund future operations through share issues, the successful commercialisation of mineral technologies and the joint venturing of interests held in mineral projects.

Without the equity raisings and joint venturing or sale of interests held in mineral tenements and projects, there is uncertainty whether the consolidated entity will be able to continue as a going concern.

If the consolidated entity is unable to continue as a going concern, it may be required to make adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities in order to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in the financial report.



# Notes to the Financial Statements

for the year ended 30 June 2004

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## E. 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.

## F. RECOVERABLE AMOUNT OF NON-CURRENT ASSETS VALUED ON COST BASIS

The carrying amounts of all non-current assets valued on the cost basis, 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. The write-down is recognised as an expense in the net loss in the reporting period in which it occurs. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

## G. RECEIVABLES

Other 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.

## H. TAXATION

The income statement 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.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

### Tax Consolidation:

For the purposes of income tax, Austpac Resources N.L. and its wholly owned Australian subsidiaries propose not to form a tax consolidated group. The individual companies will continue to lodge tax returns independently of each other.

## I. 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.

## J. BORROWING COSTS

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

Exploration and evaluation expenditure carried forward relating to areas of interest which have not reached a stage permitting reliable assessment of economic benefits are not qualifying assets.

## K. ACQUISITION OF ASSETS

All assets acquired including property, plant and equipment are initially recorded at their cost of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

# Notes to the Financial Statements

for the year ended 30 June 2004

The costs of assets constructed or internally generated by the consolidated entity, include the cost of materials and direct labour. Directly attributable overheads and other incidental costs are also capitalised to the asset.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, it is probable that those future economic benefits will eventuate, and the costs can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

#### **Leased Assets:**

Leases 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:**

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.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

#### **Operating Leases:**

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

## **L. DEPRECIATION AND AMORTISATION**

#### **Complex Assets:**

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

#### **Useful Lives:**

All assets have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, with the exception of carried forward exploration, evaluation and development costs which is amortised on a units of production basis over the life of the economically recoverable reserves and finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until commercial production commences.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation/amortisation rates used for each class of asset are as follows:

	<b>2004</b>	<b>2003</b>
Property, plant and equipment	15%	15%
Leased plant, equipment and motor vehicles	10%	10%

## **M. 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.



# Notes to the Financial Statements

for the year ended 30 June 2004

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## N. 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.

## O. PROVISIONS

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

### Wages, Salaries, Annual Leave and Sick Leave:

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the balance date, calculated at undiscounted amounts based on expected wage and salary rates including related on-costs.

### Long Service Leave:

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

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

## P. 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 15.

## Q. 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.

## R. FINANCING ARRANGEMENTS

At the time of the financial report there existed no overdraft or other financing facilities in the Austpac Resources group.

## S. REVENUE RECOGNITION

### Licence Fees – Technology:

Licence fees are recognised at the time of receipt. The licences signed with Iscor are payable upon the commencement and commissioning of a new project development in South Africa using the Austpac technologies. The licence signed with BeMaX is payable upon practical completion of the Ginkgo project in the Murray Basin, Australia.

### Other:

Interest income is recognised as it accrues.

## T. 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.

## U. PAYABLES

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.

## V. GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.



# Notes to the Financial Statements

for the year ended 30 June 2004

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

## W. USE AND REVISION OF ACCOUNTING ESTIMATES

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$

## Note 2:

### Revenue from Ordinary Activities

Other revenue from activities:

- Interest received	<b>13,521</b>	-	<b>13,521</b>	-
- Licence fee income	-	356,697	-	356,697
- Extinguishment of other loans	-	1,255,271	-	1,255,271

Total revenue from ordinary activities

<b>13,521</b>	1,611,968	<b>13,521</b>	1,611,968
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## Note 3:

### Loss from Ordinary Activities before Income Tax Benefit

Loss from ordinary activities before income tax benefit has been arrived at after charging/(crediting) the following items:

#### Borrowing Costs

Finance charges on capitalised leases	<b>20,802</b>	21,083	<b>20,802</b>	21,083
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#### Administration Expenses

Amortisation of leased assets	<b>55,189</b>	57,152	<b>55,189</b>	57,152
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Depreciation of plant and equipment	<b>19,311</b>	28,375	<b>19,311</b>	28,375
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#### Lease rental expense:

Operating leases	<b>70,074</b>	68,932	<b>70,074</b>	68,932
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Employee benefits	<b>36,001</b>	-	<b>36,001</b>	-
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## Note 4:

### Auditors' Remuneration

**Audit Services** – KPMG Australia

- Audit and review of financial reports	<b>36,500</b>	30,500	<b>36,500</b>	30,500
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**Other Services**

Auditors of the Company – KPMG Australia

- Taxation services	<b>28,087</b>	30,000	<b>28,087</b>	30,000
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# Notes to the Financial Statements

for the year ended 30 June 2004

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$

## Note 5:

### Taxation

#### Income Tax Benefit

Prima facie income tax benefit calculated at 30% (2003: 30%) on the loss from ordinary activities	<b>(323,443)</b>	(217,029)	<b>(323,443)</b>	(217,029)
Decrease in income tax benefit due to:				
Timing differences not brought to account as a Future Income Tax Benefit	<b>10,800</b>	-	<b>10,800</b>	-
Losses not brought to account as a Future Income Tax Benefit	<b>312,643</b>	217,029	<b>312,643</b>	217,029
Income tax benefit attributable to operating loss	-	-	-	-

#### Future Income Tax Benefit Not Brought to Account

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt.

Tax losses carried forward	<b>930,594</b>	617,951	<b>930,594</b>	617,951
Timing differences	<b>84,000</b>	73,200	<b>84,000</b>	73,200
	<b>1,014,594</b>	691,151	<b>1,014,594</b>	691,151

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

- 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;
- the relevant company and/or the group continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company and/or group in realising the benefit.

#### Dividend Franking Account

The consolidated entity does not have any available dividend franking credits.

## Note 6:

### Receivables

#### Current

Other debtors	<b>16,012</b>	18,613	<b>16,012</b>	18,613
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#### Non-current

Loans to controlled entities	-	-	<b>7,300</b>	7,300
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Loans to controlled entities are interest free with no fixed term of repayment.

The effective weighted average interest rate for receivables is Nil (2003: Nil).

# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 7: Other financial assets

### Non-current

Shares in controlled entities (unquoted) at cost

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$
-	-	6,616,480	6,616,480

PARTICULARS IN RELATION TO THE COMPANY AND ITS CONTROLLED ENTITIES	CLASS OF SHARE	HOLDING	
		2004	2003
		\$	\$

**The Company:** Austpac Resources N.L.

**Controlled Entities:** Almeth Pty Ltd

Austpac Technology Pty Ltd

Ord

100%

100%

Ord

100%

100%

Almeth Pty Ltd 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.

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

No dividends were received or receivable by any company in the group in the 2004 or 2003 financial years.

## Note 8: Plant and Equipment

Leased plant, equipment and motor vehicles capitalised

Less: Accumulated amortisation

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$
442,751	442,751	442,751	442,751
(166,987)	(189,533)	(166,987)	(189,533)
<b>275,764</b>	253,218	<b>275,764</b>	253,218
Plant and equipment at cost	514,398	431,851	427,117
Less: Accumulated depreciation	(499,821)	(431,851)	(412,540)
-	14,577	-	14,577
<b>275,764</b>	267,795	<b>275,764</b>	267,795

Plant and equipment at cost

Less: Accumulated depreciation

Total plant, equipment - net book value

### Reconciliations

Reconciliation of the carrying amount for each class of property, plant and equipment are set out below:

#### Leased Plant and Equipment

Carrying amount of beginning of year

Additions

Amortisation

253,218	310,370	253,218	310,370
77,735	-	77,735	-
(55,189)	(57,152)	(55,189)	(57,152)
<b>275,764</b>	253,218	<b>275,764</b>	253,218

Carrying amount at end of year

#### Plant and Equipment

Carrying amount at beginning of year

Additions

Depreciation

14,577	39,102	14,577	39,102
4,734	3,850	4,734	3,850
(19,311)	(28,375)	(19,311)	(28,375)
-	14,577	-	14,577

Carrying amount at end of year

# Notes to the Financial Statements

for the year ended 30 June 2004

NOTE	CONSOLIDATED		THE COMPANY	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>Note 9:</b>				
<b>Exploration, Evaluation and Development Expenditure</b>				
Exploration and/or evaluation phase expenditure, at cost	<b>624,962</b>	560,226	<b>624,962</b>	560,226
Mineral Technology Development expenditure, at cost	<b>11,714,237</b>	11,719,913	<b>5,090,457</b>	5,096,133
	<b>12,339,199</b>	12,280,139	<b>5,715,419</b>	5,656,359

## Note 9: Exploration, Evaluation and Development Expenditure

Exploration and/or evaluation phase expenditure, at cost

Mineral Technology Development expenditure, at cost

ERMS mineral technology development expenditure was valued independently by Mineralex Agencies Pty Limited for the year ended 30 June 2002 at \$15.7 million based on commercial application of the technology in its current form. This valuation exceeds the capitalised value of \$11,714,237.

## Note 10: Payables

### Current

Trade Creditors	<b>374,393</b>	599,872	<b>374,393</b>	599,872
-----------------	----------------	---------	----------------	---------

The effective weighted average interest rate is:

– trade creditors N/A (2003: N/A)

## Note 11: Interest Bearing Liabilities

### Current

Lease liabilities	16	<b>67,454</b>	108,218	<b>67,454</b>	108,218
-------------------	----	---------------	---------	---------------	---------

### Non-Current

Lease liabilities	16	<b>208,310</b>	145,704	<b>208,310</b>	145,704
-------------------	----	----------------	---------	----------------	---------

The effective weighted average interest rate is:

– Lease liabilities 7% (2003: 7%) (Fixed)

## Note 12: Provisions

### Current

Employee benefits		<b>280,000</b>	243,999	<b>280,000</b>	243,999
-------------------	--	----------------	---------	----------------	---------

Number of employees at year end		<b>6</b>	10	<b>6</b>	10
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Discount rate		<b>6%</b>	6%	<b>6%</b>	6%
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# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 13: Contributed Equity

### Issued and paid up Capital

	CONSOLIDATED		THE COMPANY	
	2004 \$	2003 \$	2004 \$	2003 \$
401,428,726 (2003: 371,226,363) ordinary shares fully paid	<b>42,328,980</b>	40,941,055	<b>42,328,980</b>	40,941,055
23,850,000 (2003: 23,850,000) ordinary shares paid to \$0.01	<b>238,500</b>	238,500	<b>238,500</b>	238,500
<b>425,278,726</b>	<b>42,567,480</b>	41,179,555	<b>42,567,480</b>	41,179,555

### Movements in Ordinary Share Capital

Balance at the beginning of the financial year	<b>41,179,555</b>	40,113,055	<b>41,179,555</b>	40,113,055
--	-------------------	------------	-------------------	------------

### Shares issued:

Placement – Phase 2: UK and local investors – 10,036,585 ordinary shares issued for cash in September 2002 at 4.1 cents each	–	411,500	–	411,500
Placement – Phase 3: UK and local investors – 2,712,945 ordinary shares issued for nil consideration to participants in Phase 1 of the placement as a result of market price fluctuations	–	–	–	–
Placement – Local, UK and international investors – 10,000,000 ordinary shares issued for cash at 3.3 cents each in March 2003	–	330,000	–	330,000
Placement – Local and international investors – 6,200,000 ordinary shares issued for cash in June 2003 at 5 cents each	–	310,000	–	310,000
Placement – Farrington for marketing services – 300,000 ordinary shares issued in June 2003 at 5 cents each	–	15,000	–	15,000
Placement – Local investors – 6,028,077 ordinary shares issued for cash in September 2003 at 6.5 cents each	<b>391,825</b>	–	<b>391,825</b>	–
Placement – Local investors – 6,000,000 ordinary shares issued for cash in December 2003 at 6 cents each	<b>360,000</b>	–	<b>360,000</b>	–
Placement – Australian institutions and local investors – 18,174,286 ordinary shares issued for cash in May 2004 at 3.5 cents each	<b>636,100</b>	–	<b>636,100</b>	–
	<b>42,567,480</b>	41,179,555	<b>42,567,480</b>	41,179,555

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

### Terms and Conditions

Holders of ordinary shares are entitled to receive dividends if declared and are entitled to one vote per share at shareholders meetings.

Holders of Austpac Resources N.L. Employee Share Purchase Plan shares are entitled to the same rights as ordinary shareholders once the shares are paid in full. The amount of unpaid capital is \$3,994,364. In the event of winding up, ordinary shareholders rank after creditors.



# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 14:

### Accumulated Losses

Accumulated losses at beginning of year

Net loss attributable to members of the parent entity

Accumulated losses at the end of year

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$
<b>29,516,826</b>	28,793,396	<b>29,516,826</b>	28,793,396
<b>1,078,144</b>	723,430	<b>1,078,144</b>	723,430
<b>30,594,970</b>	29,516,826	<b>30,594,970</b>	29,516,826

## Note 15:

### Commitments

#### 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.

#### Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company and consolidated entity are required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable:

Within one year

<b>300,000</b>	100,000	<b>300,000</b>	100,000
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# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 16: Lease Liabilities

Included as lease liabilities are the present value of future rentals for leased assets capitalised:

	CONSOLIDATED		THE COMPANY	
	2004 \$	2003 \$	2004 \$	2003 \$
Current	<b>67,454</b>	108,218	<b>67,454</b>	108,218
Non-Current	<b>208,310</b>	145,704	<b>208,310</b>	145,704
	<b>275,764</b>	253,922	<b>275,764</b>	253,922
Lease commitments in respect of capitalised finance leases are payable as follows:				
not later than one year	<b>91,778</b>	129,020	<b>91,778</b>	129,020
later than one year but not later than five years	<b>237,181</b>	165,931	<b>237,181</b>	165,931
	<b>328,959</b>	294,951	<b>328,959</b>	294,951
Deduct: Future finance charges	<b>53,195</b>	41,029	<b>53,195</b>	41,029
Total lease liability	<b>275,764</b>	253,922	<b>275,764</b>	253,922

The consolidated entity leases equipment under finance leases expiring from one to four years. At the end of the lease term the consolidated entity has the option to purchase the equipment at 40% of cost.



# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 17: Related Party Transactions

The consolidated entity was provided with mineral sands consulting services by H & N Investments Pty Ltd (\$Nil) (2003: \$7,500), a company of which H. Hines is a director, A. Paton and Associates Pty Ltd (\$Nil) (2003: \$7,500), a company of which A. Paton is a director, and T. Cuthbertson (\$Nil) (2003: \$7,500). K. Turbott (spouse of M.J. Turbott) provided secretarial services (\$30,000) (2003: \$30,000). The terms and conditions of the transactions with directors and their director related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

### Directors

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

Details of Directors' shareholdings as at 30 June 2004 are as follows:

	2004		2003	
	DIRECT	INDIRECT	DIRECT	INDIRECT
Terry Cuthbertson				
Fully paid ordinary	-	-	-	-
Ordinary share purchase plan paid to 1 cent	-	600,000	-	600,000
Michael John Turbott				
Fully paid ordinary	3,350,000	3,283,333	3,350,000	3,283,333
Ordinary share purchase plan paid to 1 cent	1,351,118	-	1,351,118	-
Charles Alexander MacDonald				
Fully paid ordinary	-	-	-	-
Ordinary share purchase plan paid to 1 cent	-	-	-	-
Alfred Lampard Paton				
Fully paid ordinary	-	912,500	-	912,500
Ordinary share purchase plan paid to 1 cent	-	2,050,000	-	2,050,000
Harold Hines				
Fully paid ordinary	106,834	-	106,834	-
Ordinary share purchase plan paid to 1 cent	1,040,000	-	1,040,000	-

### Austpac Resources N.L. Share Purchase Plan

The Austpac Resources N.L. Employee Share Purchase Plan was approved at the Company's Annual General Meeting in November 1986. Under the Plan employees and directors may participate in the issue of Austpac Resources N.L. shares issued at 95% of market price. No shares were issued under the plan during the current financial year.

## Note 18: Directors' and Senior Executives' Emoluments

The broad remuneration policy is to ensure the remuneration package properly reflects the duties and responsibilities of the director. 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	88,188	20,700	12,000	120,888
Mr A.L. Paton	25,000	-	-	25,000
Mr H. Hines	15,000	-	-	15,000
Mr T. Cuthbertson	15,000	-	-	15,000
Mr C.A. MacDonald	1,250	-	-	1,250
Mr R. Harrison	-	-	-	-

The Company is managed by the Managing Director, supported by the Board of Directors. The Company does not have a senior executive staff. The Company has no employees that are specified executives.

Notsag Pty Limited, a company which provides corporate, financial, underwriting and guarantee services, employs Mr N. Gaston and provides his services as company secretary. Notsag Pty Limited received fees of \$120,000 during the financial year ended 30 June 2004.

# Notes to the Financial Statements

for the year ended 30 June 2004

## Note 19: Events Subsequent to the end of the Financial Year

### International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred have not been quantified as at the transition date of 1 January 2004 due to the short timeframe between finalisation of IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The board is in the process of establishing a formal project to achieve transition to IFRS reporting, beginning with the half-year ending 30 June 2005. The Company expects this project to be substantially completed by 31 December 2004.

The potential implications of the conversion to IFRS on the consolidated entity include:

- Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- Impairment of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired.

The impact of ED6 *Exploration for and Evaluation of Mineral Resources* on the consolidated entity's accounting policy for the treatment of exploration and evaluation expenditure cannot be determined until the final standard is issued by the International Accounting Standards Board in September 2004, and the equivalent Australian accounting standard is subsequently issued by the Australian Accounting Standards Board.

Recent announcements from the AASB indicate that the IASB will amend ED6 and will grandfather Australia's existing areas of interest method for accounting for exploration and evaluation expenditure. Until these proposed changes are enacted it is not possible to determine the potential impact in respect to extractive industries.

### Placement

Since 30 June 2004, 3,254,285 ordinary shares being the balance of the placement of 21,428,571 ordinary Austpac Resources N.L. shares at 3.5 cents each was completed, banking \$113,900.

### Share Purchase Plan

On 1 September 2004 Austpac Resources N.L. announced a Shareholder Share Purchase Plan allowing each shareholder to participate in a total capital raising of up to \$4,000,000. Each shareholder appearing on the Company Share Register as at 6 September 2004 being eligible to take up between \$500 and \$5,000 of ordinary Austpac Resources N.L. shares at 3 cents each. The terms and conditions of the plan were mailed to all shareholders.

Other than as identified 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 in future financial years.



# Notes to the Financial Statements

for the year ended 30 June 2004

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$

## Note 20:

### Interest in Joint Venture Operations

Joint Venture percentage interests are indicated in the tenement schedule appearing in the front section of the annual report. All activities relate to mineral sands and mineral technology development. No 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.

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.

#### Non-Current Assets

Exploration and/or evaluation expenditure	<b>624,962</b>	560,226	<b>624,962</b>	560,226
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## Note 21:

### Segment Reporting

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

#### Business Segments

The consolidated entity comprises one main business segment, based on the consolidated entity's management reporting system – Mineral sands and mineral sands technology development.

#### Geographical segments

The consolidated entity operates predominantly in Australia.

In the prior year the Company disclosed a result of \$494,711, attributable to India, a discontinued segment, which was in relation to the Auspac/Ticor Joint Venture in Orissa.



# Notes to the Financial Statements

for the year ended 30 June 2004

CONSOLIDATED		THE COMPANY	
2004	2003	2004	2003
\$	\$	\$	\$

## Note 22:

### Notes to the Statements of Cash Flows

#### A. Reconciliation of Operating Loss after Tax to Net Cash used in Operating Activities

Operating loss after income tax	(1,078,144)	(723,430)	(1,078,144)	(723,430)
Add/(less) non-cash items:				
Amortisation	55,189	57,152	55,189	57,152
Amounts set aside to/(reversals from) provisions	36,001	-	36,001	-
Depreciation	19,311	28,375	19,311	28,375
Services rendered in exchange for equity	-	15,000	-	15,000
Exploration expenditure written off	-	898,765	-	898,765
Extinguishment of other loans	-	(1,255,271)	-	(1,255,271)
Net cash used in operating activities before change in assets and liabilities	(967,643)	(979,409)	(967,643)	(979,409)
Change in assets and liabilities during the financial year:				
Decrease/(increase) in receivables	2,601	(10,951)	2,601	(10,951)
Decrease in payables	(225,479)	(147,146)	(225,479)	(147,146)
Net cash used in operating activities	(1,190,521)	(1,137,506)	(1,190,521)	(1,137,506)

#### B. 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:

Cash	271,692	193,975	271,692	193,975
------	---------	---------	---------	---------

#### C. Non cash financing activities

The Company acquired leased plant and equipment amounting to \$77,735 (2003: \$Nil) by way of finance leases during the financial year.

THE COMPANY	
2004	2003
\$	\$

## Note 23:

### Earnings per Share

Basic and diluted loss	1,078,144	723,430
Weighted average number of shares used to calculate basic and diluted earnings per share	404,054,154	377,855,934
Basic and diluted loss per ordinary share	(\$0.003¢)	(\$0.002¢)

## Note 24:

### Fair Value of Financial Assets and Liabilities

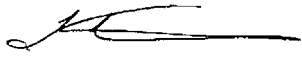
Financial assets and liabilities are stated at net fair value.

# Director's Declaration

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1. In the opinion of the Directors of Austpac Resources N.L.
  - a) the financial statements and notes set out on pages 18 to 35 are in accordance with the Corporations Act 2001, including:
    - i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
    - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; 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.



**T. Cuthbertson**  
Director



**M.J. Turbott**  
Director

Sydney, thirtieth day of September 2004

# Auditors' Report

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF AUSTPAC RESOURCES N.L.

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## Scope

### The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying notes to the financial statements, and the directors' declaration for Austpac Resources N.L. (the 'Company'), and its controlled entities (the 'Consolidated Entity'), for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

## Audit Opinion

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

- a) *the Corporations Act 2001*, including:
  - i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and
  - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional requirements in Australia.

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

In note 1(D), the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. Without the equity raisings and joint venturing or sale of interests held in mineral tenements and projects referred to by the directors, there are uncertainties as to whether the consolidated entity will be able to continue as a going concern.



**KPMG**



**T. van Veen**  
Partner

Sydney, 30 September 2004

# Additional Stock Exchange Information

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## 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 2004.

## Shareholdings

### SUBSTANTIAL SHAREHOLDERS

The number of shares held by the substantial shareholders listed in the holding Company's register as at 10 September 2004 was: Nil.

### CLASS OF SHARES AND VOTING RIGHTS

At 10 September 2004 there were 3,954 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."

## Offices and Officers

<b>Company Secretary:</b>	Nicholas John Gaston
<b>Principal Registered Office:</b>	Level 12, 23 Hunter Street, Sydney NSW 2000 Telephone: (02) 9221 3211
<b>Location of Registers of Securities:</b>	ASX Perpetual Registrars Limited Securities Registration Services, HSBC Building, 580 George Street, Sydney, NSW 2000

Austpac Resources N.L. is an Australian incorporated listed public no liability Company domiciled in Australia.

# Additional Stock Exchange Information

## Distribution of Shareholders as at 10 September 2004

	NUMBER OF ORDINARY SHAREHOLDERS
1-1,000	147
1,001-5,000	639
5,001-10,000	547
10,001-100,000	1,941
100,001 and over	680
	3,954
Holder of less than a marketable parcel	1,591

The 20 largest shareholders hold 23.73% of the ordinary shares of the holding company.

## 20 Largest Shareholders as at 10 September 2004

NAME	NO. OF ORDINARY SHARES HELD	PERCENTAGE (%) HELD TO ISSUED CAPITAL
Christopher Leech	13,104,114	3.04
J.P. Morgan Nominees Australia Limited	12,142,857	2.82
Richard Loudon Delaney	11,548,188	2.68
Prestcorp Pty Limited	6,817,233	1.58
Kerry Cameron King and Christine Margaret King	5,080,958	1.18
Anthony Prestia	4,950,592	1.15
Michael J. Turbott	4,701,118	1.09
Jankit Pty Limited	4,571,435	1.06
Rik Deaton	4,526,501	1.05
Minford Pty Limited	4,500,000	1.04
Gary Koh	4,495,349	1.04
Nicholas John Gaston	3,330,000	0.77
Gold Coast Endoscopy Pty Limited	3,231,002	0.75
Stratagem Pty Limited	3,087,535	0.72
Alfred Paton and Associates Pty Limited	2,962,500	0.69
Elena Anna Claxton	2,934,108	0.68
G & J Paul Pty Limited	2,650,000	0.61
John Rudd	2,600,000	0.60
Notsag Pty Limited	2,586,662	0.60
Bahan Pty Limited	2,512,910	0.58
<b>Top 20 subtotal:</b>	<b>102,333,062</b>	<b>23.73</b>





# Corporate Directory

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## MEMBERS OF THE BOARD

Mr Terry Cuthbertson *ACA*  
*Chairman*

Mr Michael J. Turbott *BSc (Hons), FAusIMM, MAIG*  
*Managing Director*

Mr Robert J. Harrison *FAICD*  
*Director*

## SECRETARIES

*Company Secretary*  
Mr Nicholas J. Gaston *ACIS*

## GENERAL MANAGERS

Mr John C. Downie *MIE, MAusIMM*  
*General Manager, Project and Technology Development*

Mr Michael J. Smith *BSc, MSc, RPGeo, FAIG, MGSA, MASEG*  
*General Manager Exploration*

## PRINCIPAL OFFICE

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Sydney, NSW 2000  
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Fax: (02) 9223 1975  
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Website: [www.austpacresources.com](http://www.austpacresources.com)

## AUDITORS

KPMG, The KPMG Centre  
10 Shelley Street, King Street Wharf, Sydney, NSW 2000

## SOLICITORS

Allen Allen & Hemsley  
Level 23, The Chifley Tower  
2 Chifley Square, Sydney, NSW 2000

## SHARE REGISTRY

ASX Perpetual Registrars Limited  
Securities Registration Services  
580 George Street, Sydney, NSW 2000

## BANKERS

ANZ Bank  
68 Pitt Street, Sydney, NSW 2000

## STOCK EXCHANGE LISTING

Australian Stock Exchange Limited (Melbourne)



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