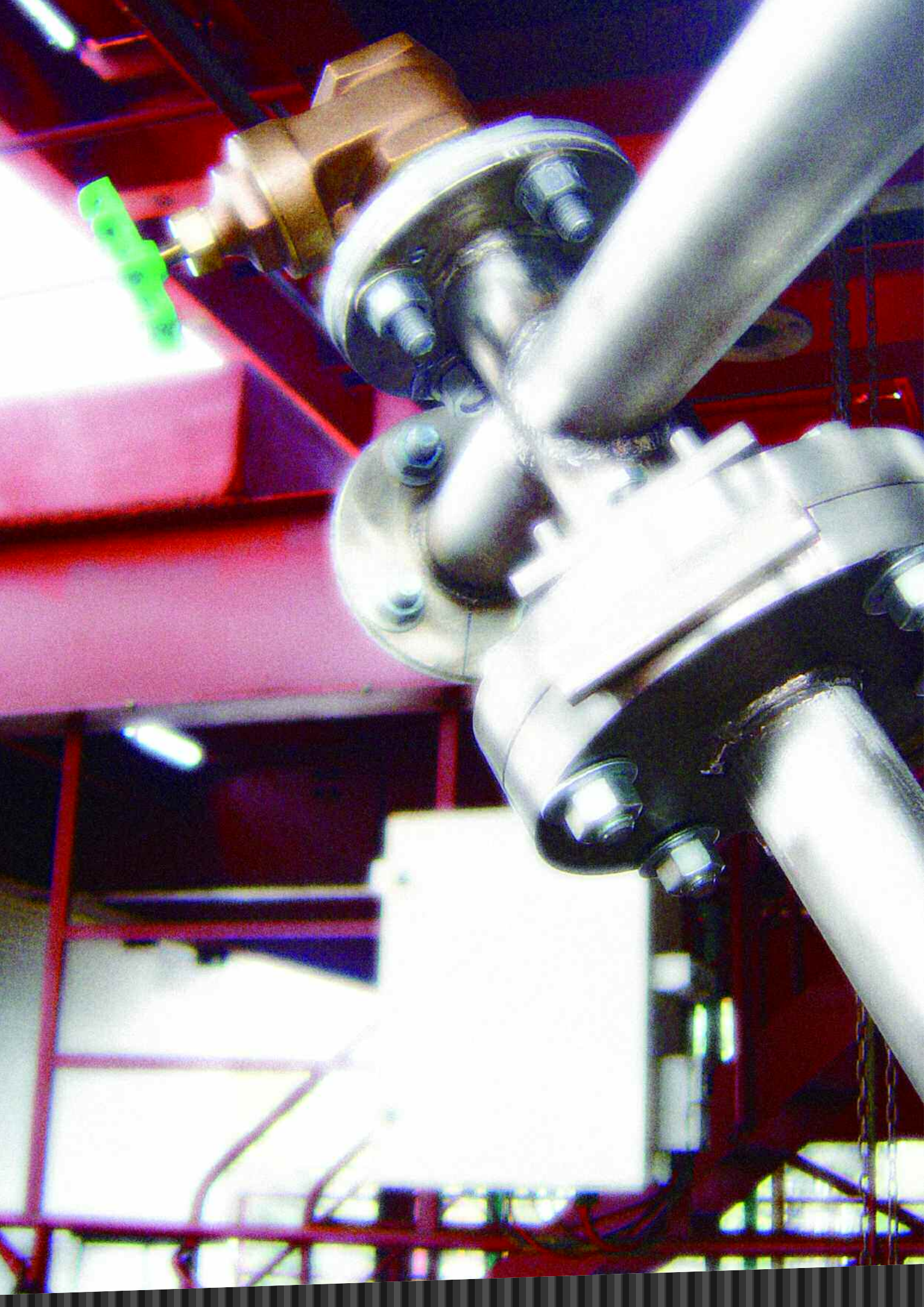
AUSTPAC
RESOURCES N.L.

Annual Report 2005



Contents

Chairman's Review	2
Directors' Report on Operations	4
Directors' Report	12
Corporate Governance Statement	16
Statements of Financial Performance	21
Statements of Financial Position	22
Statements of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	41
Auditors' Report	42
Additional Stock Exchange Information	43
Corporate Directory	45

Chairman's Review

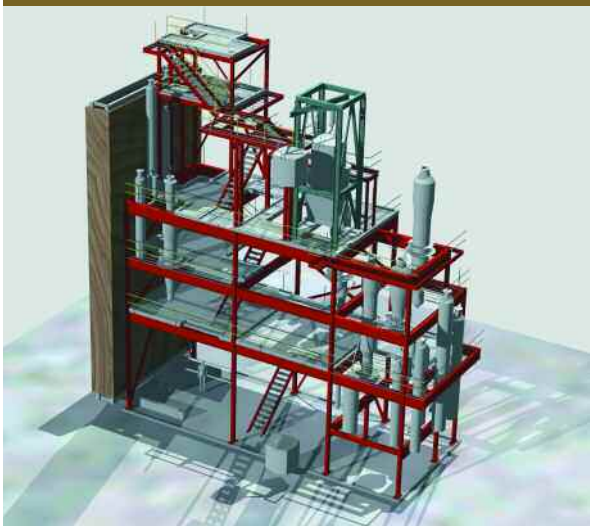
During the 2005 financial year, Austpac took the first step towards the commercialisation of our synthetic rutile technologies by commencing conversion of our test facilities at Kooragang Island, Newcastle, into an ERMS SR (synthetic rutile) Demonstration Plant.

This plant is a necessary precursor to a feasibility study for the first commercial ERMS SR plant. It has been designed for a nominal annual production capacity of 1,500 tonnes of high grade synthetic rutile, though consideration is currently being given to expanding some areas to 3,000 tpa capacity to reduce the scale-up to the commercial plant. When completed the plant will be fully integrated, and comprise an ilmenite roasting/magnetic separation section, an ilmenite leaching/SR calcining section and an EARS acid regeneration/iron metallisation section. This will allow us to validate all aspects of our technologies prior to their commercial use.

We estimate that the construction and operation of a 1,500 tpa Demonstration Plant, including the feasibility study, will cost around $5 million, though expanding the capacity could cost a further $1 million. The Board decided to commence plant construction using part of the proceeds of the Shareholder Share Purchase Plan which raised $1.27 million in September 2004, and a series of private placements throughout the year which raised a further $1.4 million, while seeking additional funds to complete the project.

I am pleased to report that our engineering team, despite working under tight budgets, has achieved good progress and the original process tower in Newcastle has been refurbished, expanded and clad, and the ilmenite roasting and magnetic separation section of the new plant is nearing completion. The work has cost $1.5 million to date and our progress is described and illustrated in the Directors' Report on Operations following this review.

3D rendering of the completed Demonstration Plant



In March this year, we arranged a five year $3 million equity finance facility with the USA investment fund, Cornell Capital Partners, to ensure the Company had future access to funds for working capital as required. The facility was activated with a preliminary placement raising $162,000, but it has not been used again so far because the Company has been enthusiastically supported by Australian investors through private placements.

Further funds are required to finish construction of our Demonstration Plant and undertake the feasibility study. Throughout the year we have continued to explore all avenues for these funds. We are in negotiations with an overseas group interested in the ERMS SR technology, with a view to obtaining finance for the feasibility study and the first commercial plant.

Once we secure the balance of the funds required for the plant and the feasibility study, we aim to embark on our first major commercial venture; an ERMS SR plant supplying high grade feedstock to the titanium pigment industry. I look forward to advising you of our progress.

T. Cuthbertson
Chairman

Austpac's New Technologies for the Titanium Industry

Directors' Report on Operations

Titanium and Austpac

Titanium is the ninth most abundant element in the earth's crust. It does not occur as free metal, generally being tightly bound with oxygen and other elements forming a range of oxides. Around 91% of the titanium used in the world is in the oxide form, titanium dioxide (TiO_2), with the balance used as metal (3%), and in other applications such as welding-rod coatings and furnace additives.

Titanium dioxide pigment is an inert white powder with high opacity, brilliant whiteness, excellent covering power and resistance to colour change. It is a valuable pigment and opacifier which is used in a broad range of paints, plastics, inks and paper. It is also used in cosmetics, sunscreens, toothpaste and some solar cells. As a quality of life product, the consumption of TiO_2 pigment increases in line with world economic growth.

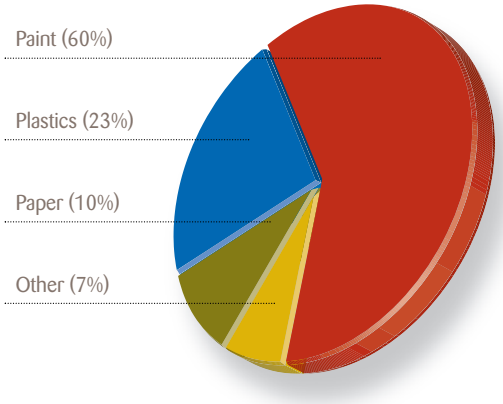
TiO_2 pigment is a US$ 8 billion industry dominated by the USA in production, consumption and pricing. There are six major pigment producers in a tight, highly competitive market. Demand for TiO_2 has grown steadily over the past 25 years at 3% per year, but in recent years demand has increased markedly in rising economies. Notably, demand in China is predicted to grow annually at 10% for the next ten years.

There are two commercial processes used to make TiO_2 pigment; the 'sulfate' and the 'chloride' processes. Around 60% of the world's pigment is produced by the chloride process, which requires a high-titanium feedstock, and accordingly the demand for such feedstock increases as consumption of pigment grows. Whilst naturally occurring minerals such as rutile and, in some cases, high-Ti ilmenite are used in the chloride process, most of the world's chloride feedstock is produced by upgrading the very common titanium mineral, ilmenite. This mineral contains about half titanium oxide and half iron oxide, and it can be upgraded by electro-smelting to form titania slag, or by chemically removing the iron to form synthetic rutile (SR). Slag can also be upgraded by leaching, one such product being termed 'UGS'.

Austpac's ERMS SR process will allow the Company to competitively enter the chloride feedstock market with one of the highest grade products available. The purity of ERMS SR also makes it an ideal feedstock for titanium metal manufacture.

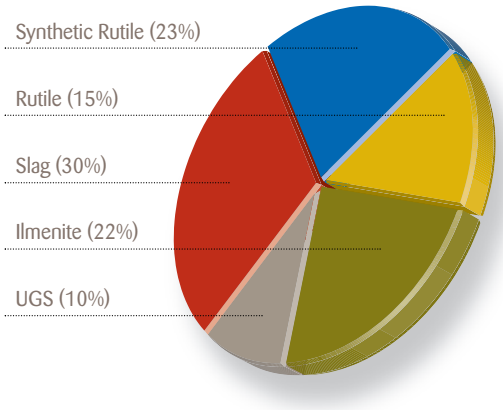
World consumption of Titanium Dioxide pigments (2004)

4.77 million tonnes of product



Chloride feedstock consumption (2004)

2.9 million tonnes of TiO_2 units



Meeting the need for high quality feedstock

Australia has been a leading producer of heavy minerals for more than fifty years, initially from the east coast of Australia, but now predominantly from Western Australia. Weathered or 'high-Ti' ilmenite is a major component of the ore assemblage of many of the WA sand mining operations, but it is not suitable for the sulfate pigment process.

Over the past thirty years, a large proportion of WA's high-Ti ilmenite has been converted into synthetic rutile using the Becher process, which was specially developed by the CSIRO to handle this type of material. Upgrading ilmenite to synthetic rutile increases the value seven fold. Australia now produces about 90% of the world's synthetic rutile, but the high-Ti resources in WA are becoming depleted and consequently that state's production will decline over the coming years.

In recent years, the heavy mineral potential of the Murray Basin has become recognised as a replacement for the mature operations in WA. Ilmenite generally comprises about half of the valuable heavy mineral assemblage, but it is unsuitable for the Becher process. Therefore, the two emerging mineral sand producers in the Basin intend, either to stockpile their ilmenite (~200,000 tpa by BeMaX Resources at Pooncarie in NSW) or bury it with their tailings (~350,000 tpa by Iluka Resources at Douglas in Victoria), after removal of the saleable rutile and zircon.

Austpac sees great potential in value-adding to ilmenite by manufacturing high grade synthetic rutile, which is an important feedstock for chloride pigment plants. The Company has been developing its processes for twelve years and has successfully processed over 70 ilmenites from heavy mineral deposits from all around the world. The Company's processes are described in detail later in this report. Austpac's ERMS SR synthetic rutile process is capable of beneficiating Murray Basin ilmenite and the technology is ready to be commercialised.

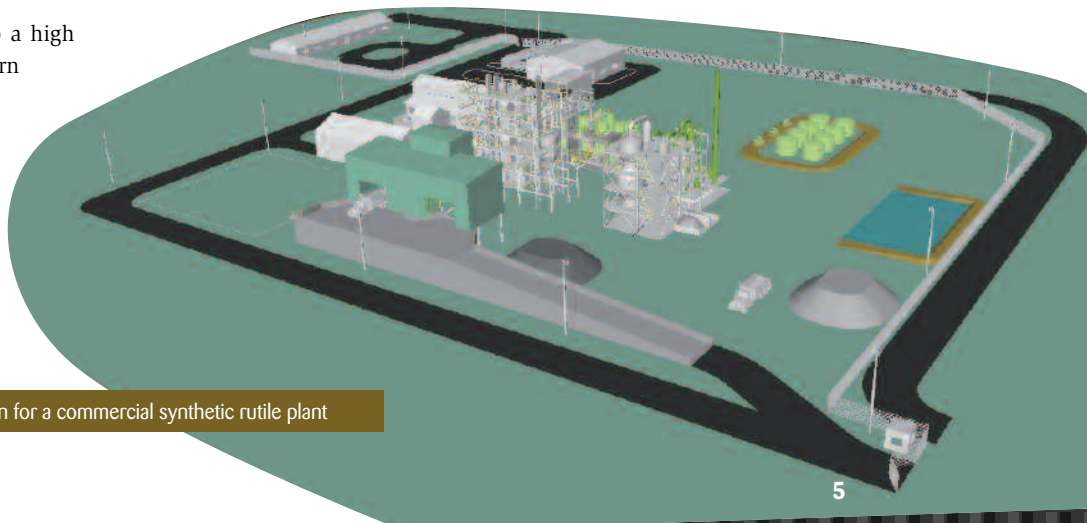
The Company's vision is to develop a high grade synthetic rutile facility in eastern Australia to meet forecast international shortfalls in titanium dioxide feedstock, so adding considerable value to the Basin's ilmenite resources.

Moving towards a commercial synthetic rutile plant

The extensive pilot plant work accomplished over the past years has shown that the ERMS SR process now warrants a detailed feasibility study to confirm the viability of a first commercial plant. The study will be based on the continuous operation of an integrated test facility, providing data for engineering design and cost estimation, with the plant located at a suitable site having easy access to raw materials, energy source and transport infrastructure to facilitate delivery to market.

Recognising the commercial necessity for both ilmenite supply and synthetic rutile off take agreements, Austpac developed the concept of building a plant in eastern Australia. In late 2003, the Company entered into a Memorandum of Understanding (MOU) to purchase ilmenite from Consolidated Rutile Limited, and a second MOU with Iluka Resources to sell ERMS SR from a conceptual plant in Queensland. The MOUs were subject to Austpac obtaining sufficient capital to complete a 'Bankable Feasibility Study', and it has not been possible to raise sufficient funds in the Australian market to complete this Study. The Company recently commenced evaluating alternative opportunities to the Queensland project.

To maintain the impetus to commercialise ERMS SR, Austpac decided to focus on the Murray Basin, which has two new heavy mineral deposits, both of which are expected to commence production in 2006. The high chrome, low value ilmenite concentrates from these operations can be readily upgraded with the ERMS SR process. Ilmenite supply and synthetic rutile sale agreements will of course need to be in place to complete a detailed feasibility study. Preliminary discussions in this regard are encouraging and are expected to develop over the coming months.



Conceptual design for a commercial synthetic rutile plant

Directors' Report on Operations

The ERMS SR Demonstration Plant

The first step toward the feasibility study for a commercial operation is an integrated plant to demonstrate the ERMS SR technology. This plant must be operated at a sufficient scale, and for a sufficient time, to satisfy engineering design requirements and to prove the risks associated with the technology and its scale-up to a commercial plant are low. Accordingly, in October 2004, Austpac committed to convert the Company's pilot plant facilities at Kooragang Island, Newcastle, to an ERMS SR Demonstration Plant.

The new plant will be fully integrated, with ilmenite roasting, leaching (using Austpac's proprietary continuous leach reactor), washing and calcining to produce high grade synthetic rutile, together with a complete EARS acid regeneration plant making super-strength (25%w/w) hydrochloric acid and iron metal pellets for market assessment. It was initially designed to produce at a nominal annualised rate of 1,500 tonnes of high grade synthetic rutile and over 1,000 tonnes of iron pellets, but consideration is being given to increasing the capacity of the leaching/washing/calcining and the EARS acid regeneration sections. The new plant and the feasibility study were estimated to cost around $5 million, however it was decided to commence the upgrade using existing cash reserves while we sourced additional funds to complete the project.

Following the preparation of the detailed design and layout of the Demonstration Plant, the upgrade commenced in November 2004 with the removal of superseded or surplus equipment from the process tower. The existing tower was then completely refurbished and painted to prevent corrosion, and steelwork was extended over several areas to enclose or support additional facilities. During the first half of 2005, critical parts of the tower were clad with coated steel sheeting to ensure operations will not be affected by weather. The magnetic separation building, the services building (the high and low pressure air compressors and the boiler) and the materials handling hoist housing were also completed. A large area between the outbuildings and the tower has been roofed, and two prefabricated buildings, which will be used as a control room and a motor control centre, were placed on the tower superstructure.

Oxidation roaster and pre-heater ready for installation

While the Demonstration Plant will be fully integrated, it has been divided into three major process areas. These are:

- **the roasting and magnetic separation section,**
- **the continuous leaching, filtering, washing and calcining section, and**
- **the EARS acid regeneration and iron metallisation section.**

The roasting/magnetic separation section forms the "front end" of the plant, and the leaching/calcining and the EARS/metallisation sections form the "back end" of the plant.

The front end of the plant has a design capacity of roasting 3,000 tonnes of ilmenite per year (equating to 1,500 tpa of synthetic rutile). It will be possible to run the front end and the back end of the plant sequentially, which will be essential if the capacity of the back end of the plant is increased. This option is an anticipated contingency in the current construction planning.

Austpac's technologies have been developed around fluid bed roasting, and the Company's engineers have extensive experience in the design, construction and operation of fluid bed roasters, the largest so far being equivalent to 20,000 tpa capacity. The roasting section consists of four fluid bed vessels; the Demonstration Plant will ultimately have a total of twelve fluid bed vessels, with a further four in each of the leaching/calcining and the EARS/metallisation sections. As a result, the completed Demonstration Plant will be one of the most extensive and instrumented fluid bed demonstration facilities in the world.

Construction of materials hoist shaft

Installation of ERMS afterburner

ERMS oxidation fluid bed roaster

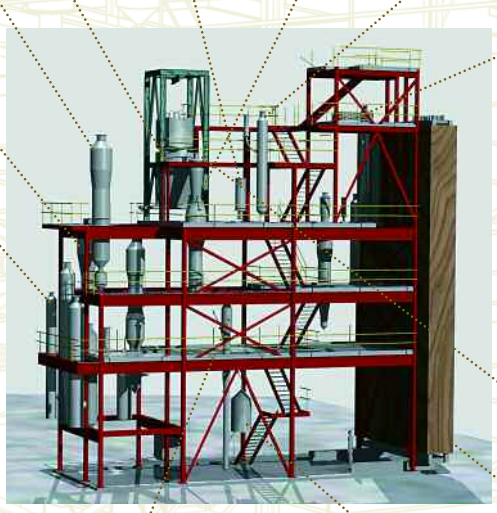
Materials handling bins

ERMS off-gas venturi scrubber

EARS fluid bed evaporator

Vacuum belt filter

Pyrohydrolysis fluid bed roaster



EARS absorption columns

Installation of pre-heater

Multi-pole magnetic separator

Continuous leach reactor

Anaerobic cooler

ERMS reduction fluid bed roaster

Directors' Report on Operations

The ERMS SR Demonstration Plant (continued)

The front end roasting section has been fabricated in-house at Kooragang Island and by September 2005 was nearing completion. The ilmenite pre-heater, oxidation and reduction roasters (all fluid beds), the innovative two stage anaerobic cooler (of which the second stage is also a fluid bed), the cyclone and afterburner for reduction gases, and the off gas handling systems have been constructed and installed in the process tower. The hot solids transfer lines, incorporating specially designed 'L'-valves and 'spade' valves to be used in the commercial plant, as well as the high pressure air lines and thermocouples, are now being installed.

High temperature solids isolation valve

The materials handling system consists of four bins (for ilmenite, coarse and fine coals, and roasted ilmenite), conveyors, weigh hoppers and mass flow feeders for the various roasters together with an automatic materials hoist. This equipment will be installed in a six metre high clad structure, which is being placed on top of the process tower and over the raw materials hoist shaft. Fabrication of the structure is well advanced. All that remains to complete the front end of the plant are the electrical systems, including the programmable logic controller, the blowers and modifications to the drum magnetic separators.

Installation of solids return seal

Austpac's engineers have completed the design and costing for the back end of the plant (leaching/calcining and EARS acid regeneration) and have allowed for two possible nominal production capacities; 1,500 tpa and 3,000 tpa of synthetic rutile. The larger capacity will cost an extra $1 million, but size is important from a commercial standpoint.

The scale-up (or upsizing) factor from the Demonstration Plant to the first commercial plant should be as low as possible to minimise risk. It is generally considered the factor should be less than 25:1 to be acceptable from a financing standpoint. At 1,500 tpa capacity, scale-up to a 30,000 tpa commercial plant would be 20:1; 3,000 tpa capacity would allow the commercial plant to be 60,000 tpa or larger.

The decision on final capacity and commencement of construction of the back end of the plant is dependent upon the Company's source of funds. Once these are secured it will take five months to build the back end. Thus it is anticipated the Demonstration Plant could be operational in the first half of 2006, culminating in a feasibility study and then, subject to project financing, the commencement of construction of a commercial plant later in the year.

Protecting our intellectual property

The ERMS SR process is unique among synthetic rutile processes in that it has two valuable products; high grade synthetic rutile and iron (also referred to as Direct Reduced Iron or DRI).

The iron leached from the ilmenite forms iron chloride, which is then processed through the EARS hydrochloric acid regeneration system to produce iron pellets, rather than being wasted as fine iron oxide sludge or red oxide dust, as it is in other processes. To preserve this advantage, a patent application was lodged in June 2005 to provide worldwide protection covering the conversion of iron chlorides to iron metal. Because the EARS process also has applications in steel pickling, we believe this patent will be commercially important in the future.

Austpac already holds patents over the ERMS roasting process, the EARS acid regeneration process and the innovative CLR (Continuous Leach Reactor), and maintains confidentiality over the Company's know-how in the ERMS SR production, anaerobic cooling, and other proprietary process steps.

ERMS SR >96% TiO_2

Iron metal co-product >95% Fe

Site selection for the first commercial plant

In June 2005, Austpac initiated a study of potential sites for an ERMS SR plant to process chrome-contaminated ilmenite concentrates purchased from the new mineral sand mines in the Murray Basin. These mines have the potential to supply a world class ERMS SR facility.

Important criteria being considered in assessing plant sites include access to ilmenite, proximity to rail transport, suitable port facilities, skilled labour and the availability and cost of energy. A number of sites in New South Wales, South Australia and Victoria are being evaluated. Positive discussions have already been held with the relevant Government authorities in South Australia and Victoria, and will continue over the next six months as the site selection process proceeds. The site selection study is being undertaken in conjunction with the construction of the Demonstration Plant so that the results can be used in the ERMS SR plant's feasibility study.

International interest

During the year under review, testwork was successfully undertaken at the Newcastle pilot plant for North American and other companies, generating further interest in our technologies. One of these programs resulted in Austpac preparing a formal proposal to build a roasting and calcining unit in Canada, and the client is still considering the implementation of this proposal.

There has been increasing overseas interest in the Company's achievements. The high regard for our team is reflected in Managing Director Mike Turbott's role as Co-Chairman of 'Intertech TiO_2 2005', the international titanium dioxide pigments and minerals conference held in France during March 2005. Austpac's Senior Process Engineer John Winter presented a well-received technical paper on the ERMS SR technology at this major event.

Austpac shareholders visit Kooragang Island

Directors' Report on Operations

Overview of Austpac's technologies

Austpac has developed six innovative processes for the upgrading of the common titanium mineral ilmenite. These processes have direct application to the mineral sands, the titanium dioxide and other industries.

➔ **ERMS** *(Enhanced Roasting and Magnetic Separation)* is a proprietary high temperature roasting process, which selectively magnetises ilmenite so that it can be easily separated from other minerals which are deleterious contaminants, such as chromite.

In an ERMS roast, the titanium component of ilmenite 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 the process can be modified and incorporated into the ERMS SR process for making high grade synthetic rutile.

ERMS fluid bed roasting

➔ **EARS** *(Enhanced Acid Regeneration System)* is a proprietary process for regenerating hydrochloric acid from spent metal chloride liquors. Leaching ilmenite produces large quantities of iron chloride liquor which are processed in an EARS plant to make strong (super-azeotropic) acid, while the iron is converted into a metallised form suitable for use in the steel industry. This latter step is also protected by Austpac's new 'iron chloride to iron metal' patent application. The DRI can be used to substitute iron ore in steel manufacture without any further greenhouse gas emissions. Recovering acid contributes significantly to reducing the costs of synthetic rutile manufacture. The EARS process has also been used to produce nickel oxide pellets from nickel chlorides, so it has a potentially valuable application in the nickel industry.

Magnetic separation of ERMS SR

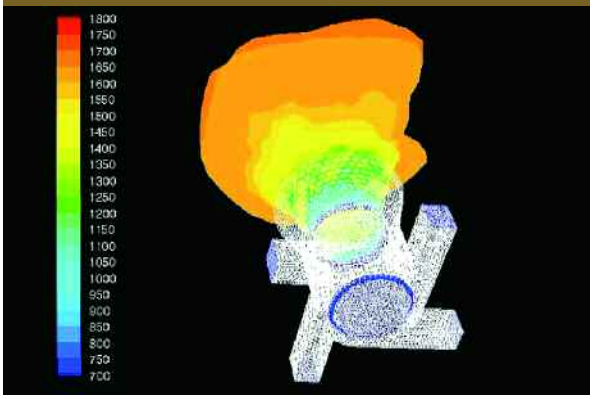
➔ The **ERMS SR** process combines Austpac's technologies and know-how in a number of innovative and now well-proven process steps to produce a very high grade synthetic rutile from any type of ilmenite. Ilmenite is initially conditioned with a modified ERMS roast, and then rapidly leached at atmospheric pressure with 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_2). This grade means that ERMS SR is significantly more pure 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, with no solid or liquid discharge.

An ERMS SR plant is less capital intensive than synthetic rutile plants employing other processes.

➔ The **CLR** *(Continuous Leach Reactor)* is 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. The CLR has applications in other industries where continuous leaching is an advantage.

Simulation of combustion in the afterburner



➔ The **LTR** *(Low Temperature Roasting)* 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 been licensed to BeMaX Resources to remove chromite from ilmenite concentrate from the Pooncarie project in the Murray Basin. The LTR process has also been used to upgrade iron minerals for the steel industry, and in 2004 Austpac designed and operated a 2.5 tonnes per hour LTR roaster for New Zealand Steel at their Glenbrook facilities near Auckland.

Assembling an LTR roaster

➔ The **BTS** *(Beneficiated Titania Slag)* 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_2 content of slag and thereby enhance its market value.

Murray Basin – E.L. 4521 Horsham, Victoria

Austpac's WIM 150 deposit contains approximately five million tonnes of zircon and approximately 12.5 million tonnes of ilmenite; a very large resource of heavy minerals. Austpac demonstrated some years ago that a +95% TiO_2 synthetic rutile can be produced from the fine grained WIM 150 ilmenite, and has also successfully agglomerated this product. However, at that time the Company was concentrating on processing coarse grained ilmenite and full scale test work on WIM 150 ilmenite was deferred.

In February 2004, Austpac and Australian Zircon N.L. (formerly Southern Titanium N.L.) signed a farm-in agreement to investigate the potential for the development of Austpac's WIM 150 heavy mineral deposit. Australian Zircon will earn an 80% participating interest by completing a bankable feasibility study on WIM 150, after which Austpac may elect to maintain a 20% working interest or convert to a 10% net profit interest.

Australian Zircon commenced work with a comprehensive literature study and a field inspection of the WIM 150 resource. They initially assessed a small sample of a WHIMS non-magnetic fraction to establish the characteristics of the zircon and high-titanium products. They then collected five tonnes of the fine grained mineralisation which was shipped to Roche Mining (MT) in Queensland for concentrating and dry milling to produce mineral products for external market assessments.

Australian Zircon reported that Roche Mining has developed a multi-stage wet processing gravity flow sheet which produced an acceptable grade heavy mineral from the WIM 150 bulk sample, with a zircon recovery of 87% (high by industry standards). They stated that "this is the best test result yet achieved with the fine grained WIM 150 core mineralization and prospects for major zircon production from this resource have improved markedly".

While a number of marketing aspects need to be addressed with respect to WIM 150 zircon, Austpac will continue to work with Australian Zircon to ensure the WIM 150 deposit continues to move toward development.

Schedule of Mining Tenements in Victoria at 30 October 2005		
Nature of Title	EL 4521	ELA 4532
Area	377 sq km	377 sq km
Name	Horsham	Horsham
Status	Granted 1/12/00 for 5 years	Application pending processing under the Native Title Act
Registered Holder	Austpac Resources N.L.	
Beneficial Interests of Austpac Resources N.L. Group	100%	100%

Directors' Report

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 2005 and the auditors' report thereon.

DIRECTORS

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

TERRY CUTHBERTSON ACA

Chairman

Age 55

Mr Cuthbertson is currently Chairman of Montec International Limited and 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 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.

ROBERT J. HARRISON FAICD

Non-Executive Director

Age 66

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, Japan, Europe and North America.

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

MICHAEL J. TURBOTT

BSc (Hons), FAusIMM, MAIG

Managing Director

Age 61

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 37 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.

Mr Charles A. MacDonald was appointed a director on 1 May 2004 and resigned as a director on 31 August 2004.

Mr Gaston is a Chartered Secretary with 30 years listed public company experience including Lend Lease Corporation, Peko Wallsend Limited and American Metals Climax (AMAX).

Officers who were previously partners of the current audit firm KPMG, at the time when KPMG undertook an audit of the Company (prior to 1996) – T. Cuthbertson.

Directors' Interests and Benefits

The relevant interest of each director in the share capital of the Company at the date of this 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	–	1,766,667
Michael J. Turbott	5,867,785	3,283,333
Robert J. Harrison	500,000	–

In accordance with the Company's articles of association, Mr Terry Cuthbertson 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	12	12	2	1
Michael J. Turbott	12	12	2	1
Robert J. Harrison	11	11	2	1
Charles A. MacDonald	–	–	–	–

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

No dividends were paid or declared by the Company during the year. 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 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 25 to the financial statements.

PLACEMENT

Since 30 June 2005, a placement has been made in September 2005 for 17,000,000 fully paid ordinary shares at 3.1 cents each to raise $527,000 for working capital.

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.

Directors' Report

Environmental Regulation

The consolidated entity's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its technology development.

The directors are not aware of any breach during the period covered by this report.

Remuneration 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 for the year ending 30 June 2005 are:

	Base	Non Cash Benefits	Consulting Fees	Super	Total
	$	$	$	$	$
Mr M.J. Turbott	104,855	20,700	–	12,000	137,555
Mr T. Cuthbertson	25,000	–	11,250	–	36,250
Mr C.A. MacDonald	2,500	–	–	–	2,500
Mr R. Harrison	12,500	–	11,250	–	23,750

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 2005.

FIXED REMUNERATION

Directors' current remuneration is as follows:

	Base	Non Cash Benefits	Consulting Fees	Super	Total
	$	$	$	$	$
Mr M.J. Turbott	120,000	20,700	–	12,000	152,700
Mr T. Cuthbertson	25,000	–	15,000	–	40,000
Mr R. Harrison	15,000	–	15,000	–	30,000

Current non-executive Director Fees are within levels approved by shareholders in general meeting on 20 November 1997 ($55,000).

Non cash benefits relate to motor vehicles during the financial year for the Managing Director and consultancy fees relate to additional services provided by Messrs Cuthbertson and Harrison for professional time in excess of normal Director duties.

PERFORMANCE REMUNERATION

There is no performance linked remuneration other than the Employee Share Purchase Plan which is designed to retain and motivate key employees. No issues under the plan are proposed this year. Directors are entitled to participate in the Employee Share Purchase Plan when issues are proposed. All issues under the plan are approved in Annual General Meeting before being allocated.

SERVICE AGREEMENTS

There are no current service agreements for Directors or staff of the Company. No bonuses are paid to non-executive Directors. No retirement benefits are paid to non-executive Directors. No termination benefits are paid to non-executive Directors.

The Remuneration Committee ascertains non-executive Director remuneration and also staff remuneration which are separate and distinct.

Remuneration is set by the Board of Directors and reflects a cost containment programme implemented in 2003 reducing overheads by $400,000 p.a. Reported remuneration is therefore below market for those reported. The Company has a remuneration policy aimed at retention of key technical staff to ensure the progression and commercialisation of the Company's technologies.

This policy is somewhat restricted by limited funds, however, the employee share purchase plan, when implemented, provides staff with an incentive and sense of ownership.

Options

During or since the end of the financial year no options have been granted by the company and there are no outstanding options on issue at the date of this report.

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 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.

Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties. These fees are detailed in Note 4 of the financial statements.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor.
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional Independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act, as provided below, is included in the directors' report.

Signed at Sydney this thirtieth day of September 2005 in accordance with a resolution of the Board of Directors of Austpac Resources N.L.

T. Cuthbertson
Chairman

M.J. Turbott
Managing Director

Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Austpac Resources N.L.

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

A. Jones
Partner

Sydney, 30 September 2005

Corporate Governance Statement

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.

Board Process

The Board holds 12 scheduled meetings every year plus any additional meetings as required. The agenda for board meetings is prepared by the Company Secretary in conjunction with the Chairman and Managing Director. Standing agenda items include the Managing Directors report, financial report and project activity reports together with governance and compliance issues. Board papers are circulated in advance.

The monthly board papers include monthly and year to date financial reports for all projects and corporate. A monthly revised forecast for the financial year is presented at each Board Meeting and compared against approved budgets.

Twelve monthly budgets are submitted for the forthcoming financial year, three months in advance and reviewed three times for refinement and ultimate approval.

Three year and five year plans are maintained and revised in accordance with requirements and financial capability of the consolidated entity.

Composition of the Board

At the date of this report, the Board of Directors comprises a non-executive independent chairman, one independent Director and the Managing Director.

The members of the Board of Directors appear on page 12 of the Directors Report with brief resumes and profiles. The Board elects Directors on the basis of Corporate requirements and project activity. High calibre independents with substantial experience at senior level are sought when required. Directors are considered independent if they meet the following independent Directors standard:

- Is not a substantial shareholder of Austpac Resources N.L.;
- Has not within the last 3 years been employed in a senior capacity by Austpac Resources N.L. or been a director after ceasing to hold any such employment;
- Is not a principal or employee of a professional advisor to Austpac Resources N.L.;
- Is not a material supplier or customer of Austpac Resources N.L. or an officer of or directly or indirectly associated with a significant supplier or customer;
- Has no material contractual relationship with Austpac Resources N.L. or any of its associates other than as a director of Austpac Resources N.L.;
- Has no other interest or relationship that could interfere with the director's ability to act in the best interests of Austpac Resources N.L. and independently of management; and
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of Austpac Resources N.L.

In this context the Board considers material, any director-related business relationship that is or is likely in the future to be more than 10 per cent of the director-related business's revenue.

All directors are expected to act in the best interests of Austpac Resources N.L.

The members of each Board Committee are independent directors. The Audit Committee, the Compliance Committee and the Remuneration Committee are chaired by an independent director and are composed of independent directors.

Board Committees

Three permanent Board Committees have been established to assist in the execution of the Board's responsibilities as described below. These are:

- Audit Committee;
- Compliance Committee;
- Remuneration Committee.

These Committees have charters which are reviewed on a regular basis. All Board members are free to attend any meeting of any Board Committee. All Committees have access to professional advice from the employees within Austpac Resources N.L. and from appropriate external advisors. Committees may meet these external advisors without Management being present.

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.

The Committee 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 R. Harrison

The profiles of these Directors are included on page 12 of the Director's Report. The Directors of this Committee are independent Directors.

The external auditors, the Managing Director and Company Secretary, are invited to Audit Committee meetings. The Committee meets twice a 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 2005;
- liasing 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 Internal Control Plan is adhered to;
- improving the quality of the accounting function.

Corporate Governance Statement

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.

The Managing Director and Company Secretary/Chief Financial Officer have declared in writing to the Board that Austpac Resources N.L. Financial Report for the year ended 30 June 2005 presents fairly, in all material respects, Austpac Resources N.L. financial condition and operational results and is in accordance with applicable Accounting Standards. The Committee has the power to conduct or authorise investigations into, or consult independent experts on, any matters within the Committee's scope of responsibility. The Committee has a documented charter which incorporates the ASX Best Practice Guidelines.

The Committee assists the Board to fulfil its corporate governance and disclosure responsibilities in relation to financial reporting, internal control structure, risk management systems and internal and external audit. This includes:

- exercising oversight of the accuracy and completeness of the financial statements and their adequacy for security holders, compliance with the Corporations Act 2001, ASX Listing Rules and other regulatory requirements;
- making informed decisions regarding accounting policies, practices and disclosures;
- reviewing Austpac Resources N.L.'s policies and procedures for convergence with the Australian equivalent to International Financial Reporting Standards ("AIFRS") for reporting periods beginning on 1 July 2005;
- reviewing the scope and results of operational risk reviews and external audits;
- assessing the performance and adequacy of Austpac Resources N.L.'s internal control framework including accounting, compliance and operational risk management controls;
- annual review of the performance of the internal audit team, including a review of their independence, coordination with external auditors, resource levels and a review of their findings and management responses;
- annual review of the external auditor's performance taking into account the duration of the appointments, date of partner rotation, fees paid and considering matters requiring discussion in the absence of Management; and
- other related matters including monitoring insurance coverage, related party transactions and monitoring litigation other than in the normal course of business.

The Audit Committee also has responsibility for the oversight and monitoring of risk management. It is also responsible for the nomination and removal of external auditors. The following principles and practices are adopted:

- The external auditor must remain independent of Austpac Resources N.L. at all times;
- The external auditor must be appointed by the Audit Committee;
- The external auditor is to be appointed to all controlled entities in the Group;
- The external auditor must not undertake staff recruitment, internal audit or management and IT consulting;
- The external auditor is not to provide non-audit services under which the auditor assumes the role of management, becomes an advocate for Austpac Resources N.L. or audits its own professional expertise;
- The external audit engagement partner and review partner will be rotated every five years.

The external auditor provides an annual declaration of independence as required by the *Corporations Act 2001*,which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies.

THE COMPLIANCE COMMITTEE

The Compliance Committee is responsible for monitoring and reviewing the effectiveness of the Compliance Plan and function and in ensuring adherence to applicable laws and regulations.

The Compliance Committee comprised the following members during the year:

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

The profiles of these Directors are included on page 12 of the Director's Report. The Directors of this Committee are independent Directors.

The role of the Compliance Committee includes responsibility for evaluation of the effectiveness of Austpac Resources N.L.'s compliance systems which are designed to protect the interests of security holders. The Compliance Committee meets regularly and reviews compliance with ASX listing rules and procedures and reporting, A.S.I.C. requirements and regulations and adherence to the Corporations Act 2001.

Risk Management

Oversight of the risk management system

The Board oversees the establishment, implementation and annual review of Austpac Resources N.L. risk management system with assistance from the Audit Committee. Management has established and implemented a risk management system for assessing, monitoring and managing operational financial reporting and compliance risk for Austpac Resources N.L.

Functional systems of risk management and reporting between project level, senior management and the Board of Directors have been established.

The Managing Director and the Company Secretary/Chief Financial Officer have declared, in writing to the Board, that Austpac Resources N.L.'s financial reporting, risk management and associated compliance and controls have been assessed and are operating efficiently and effectively.

During each Audit Committee meeting the Audit Committee reports to the Board on the status of risks through integrated risk management programmes aimed at ensuring all risks are identified, assessed and appropriately managed.

In addition the Managing Director and Company Secretary/Chief Financial Officer have declared in writing to the Board that:

a) Austpac Resources N.L.'s financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and

b) Austpac Resources N.L's risk management, internal compliance and control systems are operating efficiently and effectively in all material respects.

Risk Profile

In order to identify the material risks facing Austpac Resources N.L. and prioritise the actions necessary to mitigate these risks, an annual risk review is undertaken to identify, assess, monitor and manage the financial, operational and strategic risks.

Risk management and compliance and control

A robust risk management framework coupled with thorough internal reporting processes and highly qualified, competent and reliable staff provides Austpac Resources N.L. with a solid platform from which Austpac Resources N.L. manages the main areas of risk impacting the business.

Assessment of effectiveness

The effectiveness of risk management practices is assessed and reported to both Executive Management and the Audit Committee.

Commitment to shareholders and an informed market

The Board believes that security holders and the investment market generally, should be informed of all major business events that influence Austpac Resources N.L. in a timely and widely available manner.

The full board of directors ensures that Austpac Resources N.L. meets its disclosure obligations under ASX Listing Rule 3.1.

Corporate Governance Statement

Austpac Resources N.L. produces two sets of financial information annually; the half-yearly Financial Report for the six months to 31 December and the Annual Report and Financial Report for the year to 30 June. This is in addition to the Australian Stock Exchange quarterly working capital reports in July, October, January and April.

Shareholders have the right to attend the Annual General Meeting of Shareholders, usually held towards the end of November each year. Shareholders are provided with an explanatory memorandum on the resolutions proposed in the Notice of Meeting. A copy of the Notice of Meeting is mailed to shareholders who are encouraged to vote on all resolutions. Unless specifically stated in the Notice of Meeting, all holders of securities are eligible to vote on all resolutions. In the event that shareholders cannot attend the Annual General Meeting of Shareholders they are able to lodge a proxy in accordance with the Corporations Act 2001. Proxy forms may be lodged by facsimile. Austpac Resources N.L.'s external auditor also attends the AGM and is available to answer any questions about the conduct of the audit and the audit report from security holders.

Staff and director trading in Austpac Resources N.L.'s securities

Austpac Resources N.L. Board members may only trade in Austpac Resources N.L.'s securities during a nominated trading window which is within three weeks after any announcement to the Australian Stock Exchange. At other times, they may trade with the concurrence of two Non-Executive Directors, one of which must be the Chairman. Trading in securities by Directors and senior staff at any time requires the consent of two Non-Executive Directors, one of which must be the Chairman. All other employees require the prior consent of the Managing Director to trade in securities.

REMUNERATION COMMITTEE

The Remuneration Committee meets in January each year or more frequently if Cost Containment programs are to be implemented. The members of the Remuneration Committee are:

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

The profiles of these Directors are included on page 12 of the Director's Report. The Directors of this Committee are independent Directors.

The Remuneration Committee assists the Board in ensuring that Austpac Resources N.L.'s remuneration levels are appropriate in the markets in which it operates and are applied fairly to attract and retain appropriately qualified and experienced directors and senior staff. The Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies.

The Committee also has the responsibility to review and approve, on behalf of the Board, recommendations for annual staff remuneration made by Management and review and recommend to the Board:

- proposals for changes to remuneration policies and human resources issues which are referred to the Board by the Managing Director;
- remuneration recommendations relating to the Chairman, Non-Executive Directors, the Managing Director and senior Management, including incentive policies for the Managing Director and the senior Management team;
- Austpac Resources N.L. recruitment, retention and termination policies and procedures for senior Management;
- incentive schemes;
- superannuation arrangements;
- creation or amendment of any employee or executive share schemes; and
- the remuneration framework for Non-Executive Directors including the amount of directors' fees, any increase in the overall amount of directors' fees and any increase requiring security holder approval.

Statements of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2005

AUSTPAC RESOURCES N.L. AND ITS CONTROLLED ENTITIES	NOTE	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
Revenue	2	**23,712**	13,521	**23,712**	13,521
Expenses from ordinary activities					
Administration expenses		**(1,781,750)**	(1,070,863)	**(1,781,750)**	(1,070,863)
Borrowing costs		**(24,324)**	(20,802)	**(24,324)**	(20,802)
Loss from ordinary activities before related income tax benefit	3	**(1,782,362)**	(1,078,144)	**(1,782,362)**	(1,078,144)
Income tax benefit relating to ordinary activities	5	–	–	–	–
Loss from ordinary activities after related income tax benefit		**(1,782,362)**	(1,078,144)	**(1,782,362)**	(1,078,144)
Basic and diluted loss per ordinary share	23	**($0.003)**	($0.003)		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 24 to 40.

Statements of Financial Position

AS AT 30 JUNE 2005

AUSTPAC RESOURCES N.L. AND ITS CONTROLLED ENTITIES		CONSOLIDATED		THE COMPANY	
	NOTE	2005	2004	2005	2004
		$	$	$	$
Current Assets					
Cash assets		**344,066**	271,692	**344,066**	271,692
Receivables	6	**94,420**	16,012	**94,420**	16,012
Total Current Assets		**438,486**	287,704	**438,486**	287,704
Non-Current Assets					
Receivables	6	**–**	–	**7,300**	7,300
Other financial assets	7	**–**	–	**6,616,480**	6,616,480
Plant and equipment	8	**233,159**	275,764	**233,159**	275,764
Exploration, evaluation and development expenditure	9	**13,392,440**	12,339,199	**6,768,660**	5,715,419
Total Non-Current Assets		**13,625,599**	12,614,963	**13,625,599**	12,614,963
Total Assets		**14,064,085**	12,902,667	**14,064,085**	12,902,667
Current Liabilities					
Payables	10	**452,137**	374,393	**452,137**	374,393
Interest bearing liabilities	11	**124,186**	67,454	**124,186**	67,454
Provisions	12	**281,747**	280,000	**281,747**	280,000
Total Current Liabilities		**858,070**	721,847	**858,070**	721,847
Non-Current Liabilities					
Interest bearing liabilities	11	**91,892**	208,310	**91,892**	208,310
Total Non-Current Liabilities		**91,892**	208,310	**91,892**	208,310
Total Liabilities		**949,962**	930,157	**949,962**	930,157
Net Assets		**13,114,123**	11,972,510	**13,114,123**	11,972,510
Equity					
Contributed equity	13	**45,491,455**	42,567,480	**45,491,455**	42,567,480
Accumulated losses	14	**(32,377,332)**	(30,594,970)	**(32,377,332)**	(30,594,970)
Total Equity		**13,114,123**	11,972,510	**13,114,123**	11,972,510

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 24 to 40.

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
Cash Flows from Operating Activities					
Cash receipts in the course of operations		**–**	–	**–**	–
Interest received		**23,712**	13,521	**23,712**	13,521
Cash payments in the course of operations		**(1,717,964)**	(1,183,240)	**(1,717,964)**	(1,183,240)
Borrowing costs paid		**(24,324)**	(20,802)	**(24,324)**	(20,802)
Net cash used in operating activities	22(A)	**(1,718,576)**	(1,190,521)	**(1,718,576)**	(1,190,521)
Cash Flows from Investing Activities					
Payments for property, plant and equipment		**(20,098)**	(4,734)	**(20,098)**	(4,734)
Payments for:					
Mineral Technology Development and Exploration Expenditure		**(1,053,241)**	(59,060)	**(1,053,241)**	(59,060)
Net cash used in investing activities		**(1,073,339)**	(63,794)	**(1,073,339)**	(63,794)
Cash Flows from Financing Activities					
Proceeds from issue of shares		**2,923,975**	1,387,925	**2,923,975**	1,387,925
Lease payments		**(59,686)**	(55,893)	**(59,686)**	(55,893)
Net cash provided by financing activities		**2,864,289**	1,332,032	**2,864,289**	1,332,032
Net increase/(decrease) in cash held		**72,374**	77,717	**72,374**	77,717
Cash at the beginning of the financial year		**271,692**	193,975	**271,692**	193,975
Cash at the end of the financial year	22(B)	**344,066**	271,692	**344,066**	271,692

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 24 to 40.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

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/loss 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 or the joint venturing or sale of interests held in mineral projects.

Without the equity raisings or 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.

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.

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 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:

	2005	2004
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.

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. These expenditures are not currently being amortised as the policy applied by the Company is to amortise these assets on a systematic basis over projected revenue streams once commercial licence agreements have been executed.

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 on behalf of employees to a defined contribution superannuation fund. 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 after completion of certain project milestones. The licences signed with Iscor are payable upon commencement and commissioning of a new project development in South Africa using 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. Interest rates on deposits during the financial year varied from 3% p.a. to 5% p.a. The Company did not operate a bank overdraft during the financial year.

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.

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	
	2005	2004	2005	2004
	$	$	$	$
Note 2: Revenue from Ordinary Activities				
Other revenue from activities:				
– Interest received	**23,712**	13,521	**23,712**	13,521
Total revenue from ordinary activities	**23,712**	13,521	**23,712**	13,521
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	**24,324**	20,802	**24,324**	20,802
Administration Expenses				
Amortisation of leased assets	**59,686**	55,189	**59,686**	55,189
Depreciation of plant and equipment	**3,017**	19,311	**3,017**	19,311
Lease rental expense:				
Operating leases	**70,074**	70,074	**70,074**	70,074
Movement in employee provisions	**1,747**	36,001	**1,747**	36,001
Note 4: Auditors' Remuneration				
Audit Services – KPMG Australia				
– Audit and review of financial reports	**47,000**	36,500	**47,000**	36,500
Other Services				
Auditors of the Company – KPMG Australia				
– Taxation services	**10,000**	28,087	**10,000**	28,087

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
Note 5: Taxation				
Income Tax Benefit				
Prima facie income tax benefit calculated at 30% (2004:30%)on the loss from ordinary activities	**(534,709)**	(323,443)	**(534,709)**	(323,443)
Decrease in income tax benefit due to:				
Timing differences not brought to account as a Future Income Tax Benefit	**12,000**	10,800	**12,000**	10,800
Losses not brought to account as a Future Income Tax Benefit	**522,709**	312,643	**522,709**	312,643
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	**2,528,199**	2,005,490	**2,528,199**	2,005,490
Timing differences	**84,524**	84,000	**84,524**	84,000
	2,612,723	2,089,490	**2,612,723**	2,089,490

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

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

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

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

Dividend Franking Account

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

Note 6: Receivables				
Current				
Other debtors	**94,420**	16,012	**94,420**	16,012
Non-current				
Loans to controlled entities	**–**	–	**7,300**	7,300

Loans to controlled entities are interest free with no fixed term of repayment.

The effective weighted average interest rate for receivables is Nil (2004:Nil).

Note 7: Other financial assets

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
Non-current				
Shares in controlled entities (unquoted) at cost	**–**	–	**6,616,480**	6,616,480

PARTICULARS IN RELATION TO THE COMPANY AND ITS CONTROLLED ENTITIES		CLASS OF SHARE	HOLDING	
			2005	2004
			$	$
The Company:	Austpac Resources N.L.			
Controlled Entities:	Almeth Pty Ltd	Ord	**100%**	100%
	Austpac Technology Pty Ltd	Ord	**100%**	100%

All controlled entities are incorporated in Australia and carry on business in Australia.

Note 8: Plant and Equipment

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
Leased plant, equipment and motor vehicles capitalised	**442,751**	442,751	**442,751**	442,751
Less: Accumulated amortisation	**(226,673)**	(166,987)	**(226,673)**	(166,987)
	216,078	275,764	**216,078**	275,764
Plant and equipment at cost	**20,098**	431,851	**20,098**	519,132
Less: Accumulated depreciation	**(3,017)**	(431,851)	**(3,017)**	(519,132)
	17,081	–	**17,081**	–
Total plant, equipment – net book value	**233,159**	275,764	**233,159**	275,764
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	**275,764**	253,218	**275,764**	253,218
Additions	**–**	77,735	**–**	77,735
Amortisation	**(59,686)**	(55,189)	**(59,686)**	(55,189)
Carrying amount at end of year	**216,078**	275,764	**216,078**	275,764
Plant and Equipment				
Carrying amount at beginning of year	**–**	14,577	**–**	14,577
Additions	**20,098**	4,734	**20,098**	4,734
Depreciation	**(3,017)**	(19,311)	**(3,017)**	(19,311)
Carrying amount at end of year	**17,081**	–	**17,081**	–

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
Note 9: Exploration, Evaluation and Development Expenditure				
Exploration and/or evaluation phase expenditure, at cost	**617,548**	624,962	**617,548**	624,962
Mineral Technology Development expenditure, at cost	**12,774,892**	11,714,237	**6,151,112**	5,090,457
	13,392,440	12,339,199	**6,768,660**	5,715,419

ERMS mineral technology development expenditure was valued by Mr Michael J. Noakes, MMICA, FAusIMM, FIMM, CEng, an independent mineral processing and metallurgical consultant, for the year ended 30 June 2005 at $18.9 million based on commercial application of the technology in its current form. This valuation exceeds the capitalised value of $12,774,892.

The ultimate recoupment of costs carried forward are dependent upon the successful development and commercial exploitation or sale of the respective areas and technology.

Note 10: Payables				
Current				
Trade Creditors	**452,137**	374,393	**452,137**	374,393

Trade creditors are non-interest bearing.

Note 11: Interest Bearing Liabilities				
Current				
Lease liabilities (secured)	**124,186**	67,454	**124,186**	67,454
Non-Current				
Lease liabilities (secured)	**91,892**	208,310	**91,892**	208,310

The effective weighted average interest rate is:
– Lease liabilities 7% (2004:7%) (Fixed)

Note 12: Provisions				
Current				
Employee benefits	**281,747**	280,000	**281,747**	280,000
Number of employees at year end	**6**	6	**6**	6

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$

Note 13: Contributed Equity

Issued and paid up Capital

493,454,461	(2004: 401,428,726) ordinary shares fully paid	**45,202,954**	42,328,980	**45,202,954**	42,328,980
28,850,000	(2004: 23,850,000) ordinary shares paid to $0.01	**288,500**	238,500	**288,500**	238,500
		45,491,454	42,567,780	**45,491,454**	42,567,480

Movements in Ordinary Share Capital				
Balance at the beginning of the financial year	**42,567,480**	41,179,555	**42,567,480**	41,179,555
Shares Issued:				
Placement – Australian institutions and local investors – 3,254,285 ordinary shares issued for cash in July 2004 at 3.5 cents each	**113,899**	–	**113,899**	–
Shareholder Share Purchase Plan – 42,302,500 ordinary shares issued for cash in September 2004 at 3 cents each	**1,269,075**	–	**1,269,075**	–
Placement – Local investors – 30,000,000 ordinary shares issued for cash in November 2004 at 3 cents each	**900,000**	–	**900,000**	–
Staff Share Purchase Plan – 5,000,000 ordinary shares issued at 3.1 cents each (paid to 1 cent) in November 2004	**50,000**	–	**50,000**	–
Placement – Cornell Capital LP – 3,468,950 ordinary shares issued for cash in April 2005 at 4.67 cents each	**162,000**	–	**162,000**	–
Placement – local investors – 13,000,000 ordinary shares issued for cash in June 2005 at 3.3 cents each	**429,000**	–	**429,000**	–
Placement – Local investors – 6,028,077 ordinary shares issued for cash in September 2003 at 6.5 cents each	**–**	391,825	**–**	391,825
Placement – Local investors – 6,000,000 ordinary shares issued for cash in December 2003 at 6 cents each	**–**	360,000	**–**	360,000
Placement – Australian institutions and local investors – 18,174,286 ordinary shares issued for cash in May 2004 at 3.5 cents each.	**–**	636,100	**–**	636,100
	45,491,454	42,567,480	**45,491,454**	42,567,480

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

Terms and Conditions

Ordinary Shares

Holders of fully paid ordinary shares are entitled to receive dividends if declared and are entitled to one vote per share at shareholders meetings. There are no partly paid listed shares.

Partly Paid Shares

Holders of Austpac Resources N.L. Employee Share Purchase plan shares are entitled to the same rights as ordinary shareholders, including entitlements to dividends if declared, once the shares are paid in full. The amount of unpaid capital is $4,190,364 (2004: $3,994,364). In the event of winding up, ordinary shareholders rank after creditors.

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.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
Note 14: Accumulated Losses				
Accumulated losses at beginning of year	**30,594,970**	29,516,826	**30,594,970**	29,516,826
Net loss attributable to members of the parent entity	**1,782,362**	1,078,144	**1,782,362**	1,078,144
Accumulated losses at the end of year	**32,377,332**	30,594,970	**32,377,332**	30,594,970
Note 15: Commitments				
Superannuation Commitments				
The Company acts as trustee for and contributes to a group employee superannuation fund. Contributions are based on 10% of employee gross salaries. 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	**150,000**	300,000	**150,000**	300,000
Lease (Operating)				
The Company has an operating lease commitment at Kooragang Island, Newcastle, the site of the ERMS/EARS pilot plant.	**72,000**	72,000	**72,000**	72,000

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$

Note 16: Lease Liabilities

Included as lease liabilities are the present value of future rentals for leased assets capitalised:				
Current	**124,186**	67,454	**124,186**	67,454
Non-Current	**91,892**	208,310	**91,892**	208,310
	216,078	275,764	**216,078**	275,764
Lease commitments in respect of capitalised finance leases are payable as follows:				
not later than one year	**137,783**	91,778	**137,783**	91,778
later than one year but not later than five years	**107,300**	237,181	**107,300**	237,181
	245,083	328,959	**245,083**	328,959
Deduct: Future finance charges	**29,005**	53,195	**29,005**	53,195
Total lease liability	**216,078**	275,764	**216,078**	275,764

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.

Note 17: Related Party Transactions

The consolidated entity was provided with consulting services by T. Cuthbertson of $11,250 (2004: $7,500), R. Harrison of $11,250 (2004: Nil). K. Turbott (spouse of M.J. Turbott) provided secretarial services totalling $38,333 (2004: $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, Robert Harrison, Charles A. MacDonald.

Details of Directors' shareholdings as at 30 June 2005 are shown on the following page.

Note 17:
Related Party Transactions CONTINUED

Details of Directors' shareholdings as at 30 June 2005 are as follows:

	1 July 2004 Held		Purchases		Received via Staff Share Plan		Sales		30 June 2005 Held	
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect
Terry Cuthbertson										
Fully paid ordinary	–	–	166,667	–	–	–	–	–	166,667	–
Ordinary share purchase plan paid to 1 cent	–	600,000	–	–	–	1,000,000	–	–	–	1,600,000
Michael John Turbott										
Fully paid ordinary	3,350,000	3,283,333	166,667	–	–	–	–	–	3,516,667	3,283,333
Ordinary share purchase plan paid to 1 cent	1,351,118	–	–	–	1,000,000	–	–	–	2,351,118	–
Robert Harrison										
Fully paid ordinary	–	–	–	–	–	–	–	–	–	–
Ordinary share purchase plan paid to 1 cent	–	–	–	–	–	500,000	–	–	–	500,000
Charles Alexander MacDonald										
Fully paid ordinary	–	–	–	–	–	–	–	–	–	–
Ordinary share purchase plan paid to 1 cent	–	–	–	–	–	–	–	–	–	–

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.

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	Consulting Fees	Super	Total
	$	$	$	$	$
Mr M.J. Turbott	104,855	20,700	–	12,000	**137,555**
Mr T. Cuthbertson	25,000	–	11,250	–	**36,250**
Mr R. Harrison	12,500	–	11,250	–	**23,750**
Mr C.A. MacDonald	2,500	–	–	–	**2,500**

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 2005.

Note 18:
Directors' and Senior Executives' Emoluments CONTINUED

FIXED REMUNERATION

Directors' current remuneration is as follows:

	Base	Non Cash Benefits	Consulting Fees	Super	Total
	$	$	$	$	$
Mr M.J. Turbott	120,000	20,700	–	12,000	152,700
Mr T. Cuthbertson	25,000	–	15,000	–	40,000
Mr R. Harrison	15,000	–	15,000	–	30,000

Current non-executive Director Fees are within levels approved by shareholders in general meeting on 20 November 1997 ($55,000).

Non cash benefits relate to motor vehicles during the financial year for the Managing Director and consultancy fees relate to additional services provided by Messrs Cuthbertson and Harrison for professional time in excess of normal Director duties.

PERFORMANCE REMUNERATION

There is no performance linked remuneration other than the Employee Share Purchase Plan which is designed to retain and motivate key employees. No issues under the plan are proposed this year. Directors are entitled to participate in the Employee Share Purchase Plan when issues are proposed. All issues under the plan are approved in Annual General Meeting before being allocated.

SERVICE AGREEMENTS

There are no current service agreements for Directors or staff of the Company. No bonuses are paid to non-executive Directors. No retirement benefits are paid to non-executive Directors. No termination benefits are paid to non-executive Directors.

The Remuneration Committee ascertains non-executive Director remuneration and also staff remuneration which are separate and distinct.

Remuneration is set by the Board of Directors and reflects a cost containment programme implemented in 2003 reducing overheads by $400,000 p.a. Reported remuneration is therefore below market for those reported. The Company has a remuneration policy aimed at retention of key technical staff to ensure the progression and commercialisation of the Company's technologies.

This policy is somewhat restricted by limited funds, however, the employee share purchase plan, when implemented, provides staff with an incentive and sense of ownership.

OPTIONS

During or since the end of the financial year no options have been granted by the company and there are no outstanding options on issue at the date of this report.

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

PLACEMENT

Since 30 June 2005, a placement has been made in September 2005 for 17,000,000 fully paid ordinary shares at 3.1 cents each to raise $527,000 for working capital.

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.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$

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	**617,548**	624,962	**617,548**	624,962

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.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$

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	**(1,782,362)**	(1,078,144)	**(1,782,362)**	(1,078,144)
Add/(less) non-cash items:				
Amortisation	**59,686**	55,189	**59,686**	55,189
Amounts set aside to provisions	**1,747**	36,001	**1,747**	36,001
Depreciation	**3,017**	19,311	**3,017**	19,311
Net cash used in operating activities before change in assets and liabilities	**(1,717,912)**	(967,643)	**(1,717,912)**	(967,643)
Change in assets and liabilities during the financial year:				
Decrease/(increase) in receivables	**(78,408)**	2,601	**(78,408)**	2,601
(Decrease)/increase in payables	**77,744**	(225,479)	**77,744**	(225,479)
Net cash used in operating activities	**(1,718,576)**	(1,190,521)	**(1,718,576)**	(1,190,521)

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	**344,066**	271,692	**344,066**	271,692

C. Non cash financing activities

The Company acquired leased plant and equipment amounting to $Nil (2004: $77,735) by way of finance leases during the financial year.

	CONSOLIDATED	
	2005	2004
	$	$

Note 23: Earnings per Share

Basic and diluted loss	**1,782,362**	1,078,144
Weighted average number of shares used to calculate basic and diluted earnings per share	**488,788,714**	404,054,154
Basic and diluted loss per ordinary share	**($0.003¢)**	($0.003¢)

Note 24: Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated at net fair value.

Note 25:
International Reporting Standards

IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) 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) applicable for reporting periods ended 30 June 2005.

Transition Management

The board has established a project to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 31 December 2005 half year and the 30 June 2006 financial year.

Assessment and planning phase

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. The assessment and planning phase is complete as at 30 June 2005.

Design and implementation phase

The design and implementation phase is in progress as at 30 June 2005.

Impact of transition to AIFRS

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated statements of financial performance and financial position would not be significantly different if determined in accordance with AIFRS. Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- Under current Australian GAAP, exploration and evaluation expenditure carried forward is valued on a cost basis in accordance with the exploration, evaluation and development expenditure accounting policy set out in Note 1 to the Financial Statements. Under AIFRS this will remain unchanged except that 'pre-exploration' costs will not be recognised. Pre-exploration costs are costs incurred prior to licenses being granted. Management are currently analysing capital expenditures.
- The adoption of AIFRS will require that the Group's use of financial derivatives and other financial assets and liabilities be recognised and measured at fair values in its accounting statements. The recoverable amount of financial assets and liabilities is based on the present value of the estimated future cash flows discounted at the original effective interest rate.
- Under AIFRS expenditure on research activities will be expensed as incurred whereas under current Australian GAAP certain research costs are included within development projects and therefore capitalised.

  Under AIFRS, expenditure on development activities must be capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

  On transition and as at 30 June 2005, research expenditure previously capitalised will be derecognised and an adjustment expected to be made through retained earnings of the consolidated entity at 1 July 2004. Management are currently analysing costs currently capitalised and development costs are being reviewed against the recognition criteria and tested for impairment.
- Under AIFRS impairment testing is undertaken for both current and non-current assets, including development costs. In addition, the recoverable amount test is more rigorous and prescriptive and requires the determination of recoverable amounts to be the higher of its 'value in use' or its 'fair value less costs to sell'. Value in use adopts discounted cash flow methodology but has more prescriptive requirements governing inputs into the impairment model. Impairment of assets will be determined at an asset or 'cash generating unit' (CGU) level. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows of other assets. To the extent that any impairment is determined, this will be recognised immediately in the Statement of Financial Performance.
- On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its value in a tax base balance sheet.
- Changes in accounting policies will be recognised by restating comparatives rather than making current adjustments with note disclosures of prior year effects.

Directors' Declaration

1. In the opinion of the Directors of Austpac Resources N.L.
   a) the financial statements and notes set out on pages 21 to 40 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 2005 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.

   The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the individuals acting in the role of chief executive officer and chief financial officer functions for the financial year ended 30 June 2005.

Signed in accordance with a resolution of the Directors.

T. Cuthbertson
Director

M.J. Turbott
Director

Sydney, thirtieth day of September 2005

Auditors' Report

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

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 1 to 25 to the financial statements, and the directors' declaration for both Austpac Resources N.L. (the 'Company') and Austpac Resources N.L. and its controlled entities (the 'consolidated entity'), for the year ended 30 June 2005. 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.

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 2005 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 financial reporting 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

A. Jones
Partner

Sydney, 30 September 2005

Additional Stock Exchange Information

Directors' Interests

The maximum contingent liability of the group for termination benefits under service agreements with directors and persons who take part in the management of the parent entity amount to $nil at 30 June 2005.

Shareholdings

SUBSTANTIAL SHAREHOLDERS

The number of shares held by the substantial shareholders listed in the holding Company's register as at 9 September 2005 was: Nil.

CLASS OF SHARES AND VOTING RIGHTS

At 9 September 2005 there were 3,814 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

Company Secretary:	Nicholas John Gaston
Principal Registered Office:	Level 12, 23 Hunter Street, Sydney NSW 2000 Telephone: (02) 9221 3211
Location of Registers of Securities:	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 9 September 2005

	NUMBER OF ORDINARY SHAREHOLDERS
1–1,000	150
1,001–5,000	602
5,001–10,000	484
10,001–100,000	1,796
100,001 and over	782
	3,814
Holders of less than a marketable parcel	1,492

The 20 largest shareholders hold 24.39% of the ordinary shares of the holding company.

20 Largest Shareholders as at 9 September 2005

	NUMBER OF ORDINARY SHAREHOLDERS	PERCENTAGE (%) HELD TO ISSUED CAPITAL
J.P. Morgan Nominees Australia Limited	18,202,857	3.44
Christopher Leech	16,343,646	3.09
Richard Louden Delaney	12,198,188	2.30
Prestcorp Pty Limited	9,517,233	1.80
Wayne Johnston	6,000,002	1.13
Michael J. Turbott	5,867,785	1.10
Stratagem Pty Ltd	5,254,202	.99
Austrom Pty Ltd	5,166,667	.98
Anthony Prestia	4,950,592	.94
Barrios Pty Limited	4,850,818	.92
Minford Pty Limited	4,666,667	.88
Rik Deaton	4,526,501	.86
Gary Koh	4,495,349	.85
Kerry Cameron King and Christine Margaret King	4,423,382	.84
Top Dog Trading Pty Limited	4,334,800	.82
Kamina Investment Holding Limited	4,000,000	.76
Dr Mark Stephen Thompson	4,000,000	.76
Fortis Clearing Nominees Pty Limited	3,815,000	.72
Nicholas John Gaston	3,330,000	.63
Eileen Alma Duhs	3,055,732	.58
Total	**128,999,421**	**24.39**

Corporate Directory

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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Email: apgtio2@ozemail.com.au
Website: www.austpacresources.com

Auditors

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

Solicitors

Gadens
77 Castlereagh Street
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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AUSTPAC
RESOURCES N.L.

Austpac Resources N.L.

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