AUSTPAC
RESOURCES N.L.

Annual Report 2009

Austpac Demonstration Plant

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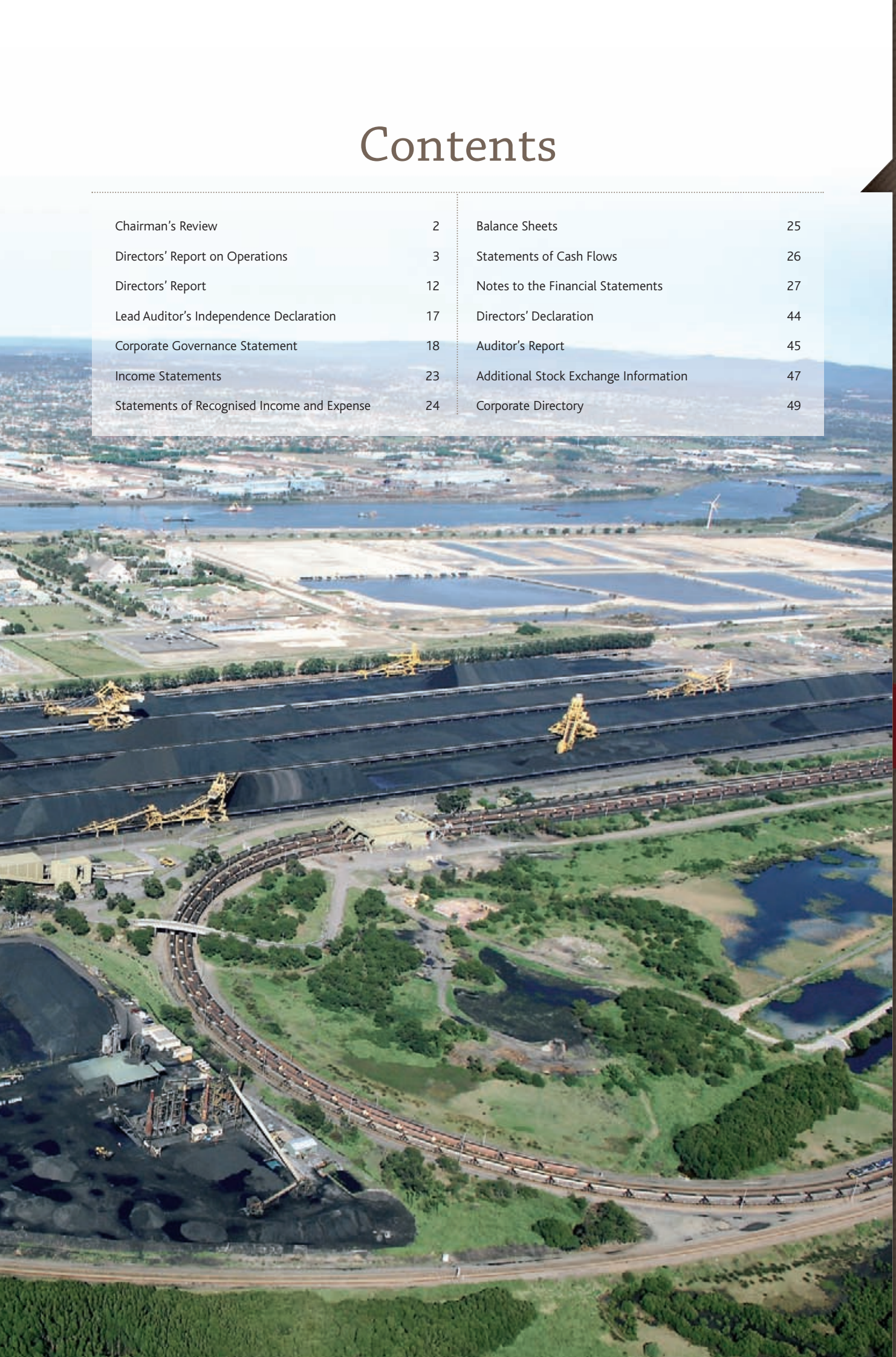


Chairman's Review

The year under review was successful for Austpac Resources N.L. The 3,000 tpa ERMS SR Demonstration Plant at Newcastle was completed and proved all Austpac's technologies, with the plant in continuous operation under commercial conditions. Steelmakers' interest arose during the commissioning of the Demonstration Plant following Austpac's announcements that the Company had used the EARS acid regeneration and DRI direct reduction processes to recycle spent pickle liquor and iron ore. This led to the development of a business plan to use Austpac's existing facility in a new project; the Newcastle Iron Recovery Plant, which will produce high grade iron and hydrochloric acid from steel mill by-products and will generate revenue for the Company.

The EARS section of the ERMS SR Demonstration Plant has the capacity to treat 13,000 tpa of spent pickle liquor and 25,000 tpa of mill scale, but some equipment items need replacing for a minimal capital outlay to ensure the EARS section can operate continuously on a long term basis. Discussions with a number of steel producers have established that there is sufficient spent pickle liquor and mill scale available to commence plant refurbishment. The upgrade will take 3 months and it is expected that the Newcastle Iron Recovery Plant will commence operations early in 2010 and be operating at full capacity later in the year.

BHP Billiton continues as Austpac's largest shareholder with 6.24% of the issued capital. During the year, the Company received continuing support from existing shareholders and new overseas investors. The Company also accessed research and development funding through the Government Research and Development tax concession refund for eligible technology expenditure. It was therefore not necessary to call upon the five year, $3 million equity finance facility with the USA investment fund, YA Global Investments (formerly Cornell Capital Partners).

I would like to thank my fellow directors and the Company's management team for their dedicated efforts and the significant advances achieved. As Austpac continues to progress quickly toward the commercialisation of all of its proprietary technologies, I am confident these developments will bring rewards to our shareholders in the very near future.

T Cuthbertson
Chairman

EARS section of the 3,000 tpa Demonstration Plant, completed in September 2008. The inset shows the empty structure at July 2008.

Directors' Report

2008/09 HIGHLIGHTS

- **Austpac has proven the effectiveness of the world's only fully continuous synrutile process that produces ultra high grade synrutile and an iron co-product.** Austpac has also demonstrated the ability to regenerate acid and high purity iron from steel mill by-products, and to produce direct reduced iron from iron ore fines.

- **Samples of the synrutile produced by the ERMS SR Demonstration Plant during October 2008 were sent for testing by four international titanium dioxide pigment manufacturers and two major titanium metal producers.** All companies confirmed that the quality is commercially acceptable.

- **A significant outcome of the 2008 program at the Demonstration Plant was the proving of the EARS and DRI processes by using spent pickle liquor to produce strong hydrochloric acid and high purity iron metal pellets, giving rise to a new project to recycle steel mill by-products.**

- **Discussions with steel producers have established that there is sufficient mill scale and spent pickle liquor available, as well as product markets, to ensure the profitable operation of an EARS plant.** This assessment justified an immediate focus on the conversion of the EARS acid regeneration section of Austpac's existing facility into a steel by-product recycling plant; the Newcastle Iron Recovery Plant.

- **The refurbishment of the EARS section is based on experience gained during operations in 2008, and includes replacing or reconfiguring some equipment items to ensure the long term operability of the Plant.** The upgrade will take three months and the Plant is expected to start operating early in 2010.

The Open Day at the Demonstration Plant in October 2008 attracted the interest of shareholders and local people. The inset shows two journalists questioning an Austpac engineer.

COMPLETION OF 3,000 TPA ERMS SR DEMONSTRATION PLANT

In December 2008, the campaign to prove Austpac's technologies, collectively termed the "ERMS SR" process, was successfully completed at the Newcastle Demonstration Plant on Kooragang Island. The showcasing of the relevant technologies, including ilmenite roasting, EARS acid regeneration, the continuous leach reactor (CLR), and the direct reduction of iron oxides to iron pellets (DRI), was a major achievement that has allowed the Company to move into commercialisation.

Austpac has now proven the world's only fully continuous synrutile process that produces ultra high grade synrutile and an iron co-product. Operations at the plant also proved the ability of the EARS process to regenerate acid from spent pickle liquor (SPL – a waste created in finishing some steel products), and of the DRI process to produce iron metal pellets from iron ore fines, thus widening the commercial applications for the Company's technologies.

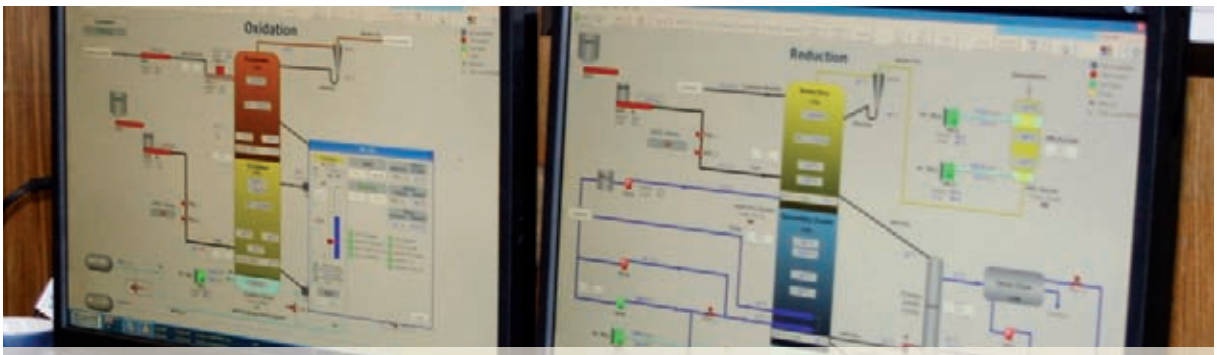
Funding for the ERMS SR Demonstration Plant

In 2004, Austpac recognised it would be necessary to build a plant capable of testing all the technologies that comprise the ERMS SR process. Such a plant was necessary to prove the technologies at a sufficient scale prior to committing to a commercial development, and funds were sought for a Demonstration Plant capable of producing at a rate of 3,000 tonnes per annum (tpa).

BHP Billiton Limited, the world's largest resource group, recognised the potential of the ERMS SR technology in 2006 by funding a specific research program and subsequently participating in Austpac's capital raisings to fund the construction and operation of the ERMS SR Demonstration Plant. In June 2007, Austpac placed 25,000,000 fully paid ordinary shares with BHP Billiton to raise $5 million, and in June 2008, BHP Billiton participated in a second share placement and contributed a further $3 million to become Austpac's largest shareholder with a total holding of 55 million shares.

BHP Billiton was granted a licence in mid 2007 to use the ERMS SR technology in Africa, subject to payment of a royalty based on gross annual sales, and in June 2008, BHP Billiton acquired a non-exclusive licence to use Austpac's LTR (Low Temperature Roasting) technology in Africa.

Aerial photograph showing the Demonstration Plant located within the facilities of Mountain Industries Pty Ltd.



The Demonstration Plant is controlled by a PLC computer system and monitored on the interactive screens shown here.

Construction and Commissioning of the ERMS SR Demonstration Plant

Construction of the Demonstration Plant commenced in July 2007, and in March 2008 Stage One of the project, the ilmenite roasting section, was commissioned. This section operated continuously until July 2008 and during the campaign treated over 700 tonnes of ilmenite.

Construction of Stage Two, the ilmenite leaching/synrutile production and the EARS acid regeneration/DRI section, continued while Stage One operations were underway, and by September 2008, Stage Two was ready for operation. The first equipment to be commissioned was the DRI section, which was used to reduce iron ore fines from the Pilbara to iron metal pellets. This was followed by the EARS acid regeneration section, which was commissioned using SPL from an Australian steel mill and produced strong hydrochloric acid (HCl) for leaching. In mid October 2008, Austpac commenced leaching ilmenite using the new continuous leach reactor (CLR). The leached material was dried, calcined and passed over a rare earth roll magnet to ensure the purity of the synrutile product. At the end of October, operations ceased, having achieved the goal of producing sufficient high grade synrutile for market assessment by potential customers.

Analyses of samples verified that the bulk synrutile product contained over 97% TiO_2. This very high grade product proved the leaching efficiency of the CLR equipment and exceeded expectations based on previous bench-scale leaching of the same ilmenite. The bulk synrutile product also contains very low levels of iron and other impurities, and negligible amounts of uranium and thorium, indicating it is a suitable TiO_2 pigment feedstock and also a preferred feedstock for titanium sponge metal production.

Samples of the high grade synrutile were tested by four international TiO_2 pigment manufacturers and two titanium metal producers, who confirmed Austpac's product was commercially acceptable.

The bunded tank farm provides storage for spent pickle liquor and hydrochloric acid, as well as process and storm water.

THE NEWCASTLE IRON RECOVERY PLANT

A very positive outcome resulting from the 2008 program at the Newcastle Demonstration Plant was the proving of the EARS process by using spent pickle liquor (SPL) to produce strong (~25%w/w) hydrochloric acid and iron metal pellets.

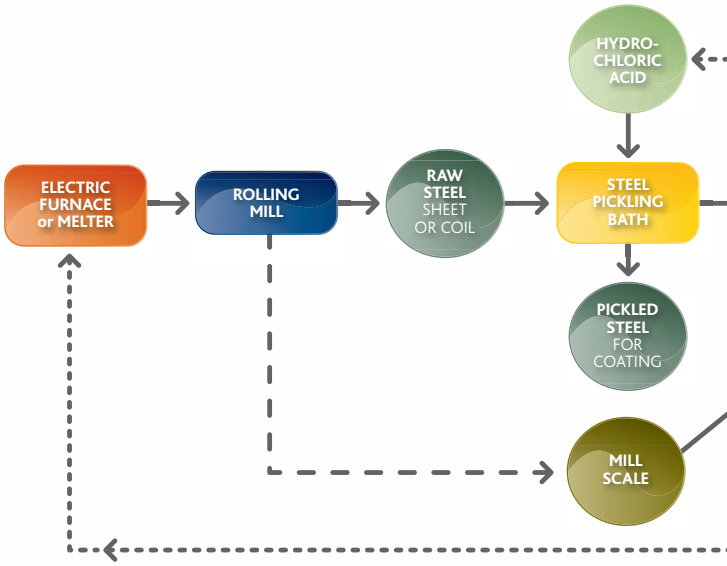
A tanker delivers spent pickle liquor from a steel mill.

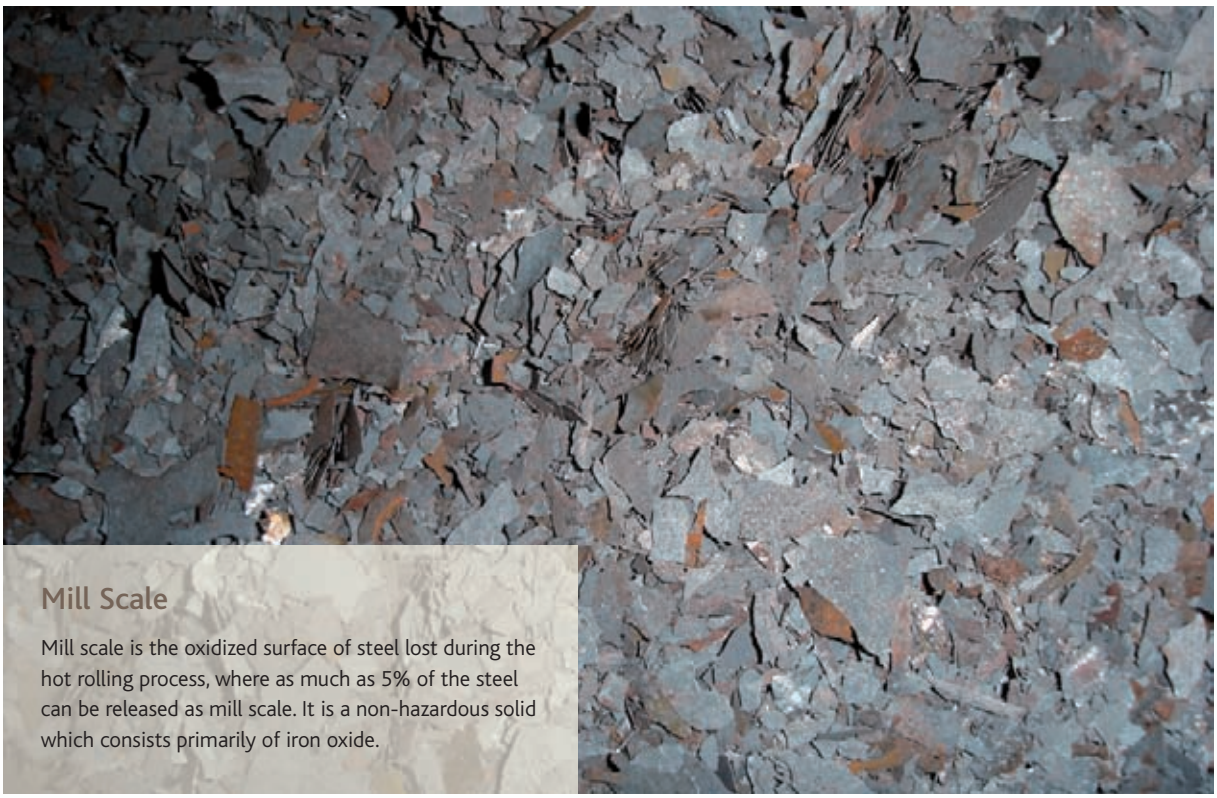
Spent Pickle Liquor

In the steel industry, products such as coated or galvanized steel must be cleaned to remove surface oxide scale prior to being treated. The cleaning process is termed "pickling", and is generally achieved in a bath of hydrochloric acid which removes the iron scale and forms an iron chloride solution. The acid concentration depletes and iron chloride increases over time until the bath is "spent", and the solution, called spent pickle liquor, (SPL), is removed from the bath and replaced with fresh acid.

The business plan for the Newcastle Iron Recovery Plant is based on the commercial operation of the EARS acid regeneration section of the ERMS SR Demonstration Plant as a steel by-product recycling plant. While the synrutile production capacity is 3,000 tpa, the EARS section of the Plant has the capacity to treat 13,000 tpa of iron chloride solution, which is a commercially viable amount given that the majority of the equipment is already installed at Newcastle.

Testwork conducted with OneSteel Limited early in 2007 showed that mill scale (iron oxide waste produced during steelmaking) could be mixed with SPL to recover both HCl and DRI. In 2009, Austpac conducted a follow-up test program which showed that with minor flow sheet modifications, as much as 15 tonnes of mill scale could be processed with each tonne of SPL, markedly improving the flexibility of the Plant and the viability of the proposed by-product recycling project.





Mill Scale

Mill scale is the oxidized surface of steel lost during the hot rolling process, where as much as 5% of the steel can be released as mill scale. It is a non-hazardous solid which consists primarily of iron oxide.

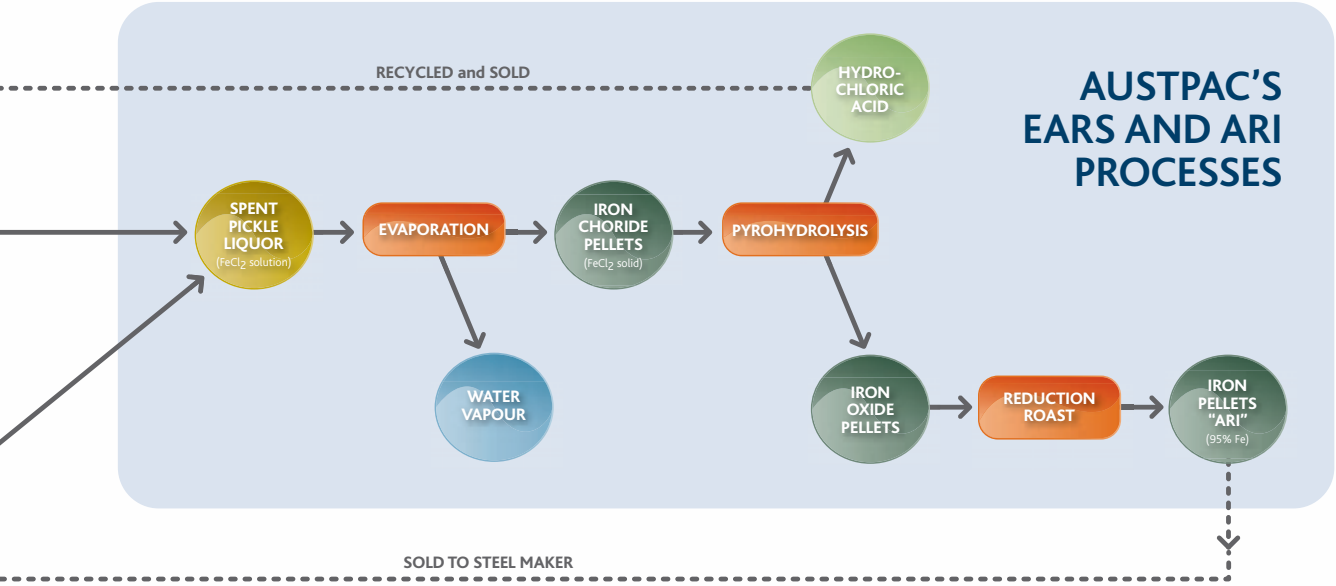
Thus the objective of the Newcastle Iron Recovery Plant is to treat two waste products from the steel industry, SPL and mill scale, and convert them into hydrochloric acid and iron pellets on a commercial basis. This project has clear environmental benefits as waste products are turned into saleable products and will solve a significant waste disposal problem in the steel industry.

The ERMS SR Demonstration Plant, which includes the EARS plant, proved the Company's technologies. However it was not built for long term operations and as a result some equipment items in the EARS section require replacing or refurbishing so the plant can undertake long term, 24 hour/7 days per week operations, a prerequisite for commercial operations. Given most of the EARS section is in place, Austpac estimates it will take three months to complete the refurbishment and a further month to fully commission, so the plant will commence production early in 2010.

EARS (Enhanced Acid Regeneration System)

The name EARS refers to Austpac's patented system for regenerating fresh hydrochloric acid from iron chloride solutions. HCl is used to leach iron from ilmenite, for steel pickling, for cleaning bricks and for swimming pool acidification.

AUSTPAC'S EARS AND ARI PROCESSES



Austpac Reduced Iron

Direct reduced iron is iron metal produced by reducing iron ore directly as a solid without passing through a molten phase. Austpac has patented a new DRI process, which is used as the final step in the EARS acid regeneration process, to reduce the iron oxide pellets formed during the pyrohydrolysis of iron chloride solutions to iron pellets. These are referred to as the **Austpac Reduced Iron (ARI)** product.

Following discussions with a number of steel and steel by-product producers, the Company is confident there is sufficient SPL and mill scale available, as well as product markets, to ensure the profitable processing of these by-products. This justified an immediate focus on the conversion of the EARS acid regeneration section of the Newcastle facility into a steel by-product recycling plant. The EARS section has a capacity to treat 13,000 tpa of spent pickle liquor and 25,000 tpa of waste mill scale.

Supply agreements for both spent pickle liquor as well as mill scale from steel plants around Australia are in the final stages of negotiation, as are arrangements for the sale of the regenerated acid and iron products.

The steel mill waste products (SPL and mill scale) are chemically derived materials and therefore do not contain the deleterious elements which would be carried though in the reduction of iron ore by a DRI process. They have been effectively upgraded during the steel-making steps. The "metallised" iron product (**Austpac Reduced Iron – ARI**) produced from an EARS plant treating steel waste is unusually pure compared to other DRI materials and will constitute a premium feed for an electric arc furnace (EAF).

Preliminary tests have shown that ARI is amenable to cold briquetting, which is significant because briquettes are the preferred form to add to an EAF melt. Independent briquetting testwork is underway to provide samples for testing by steel makers. A roll briquetting press is being incorporated into the EARS plant to enhance the marketability of ARI.

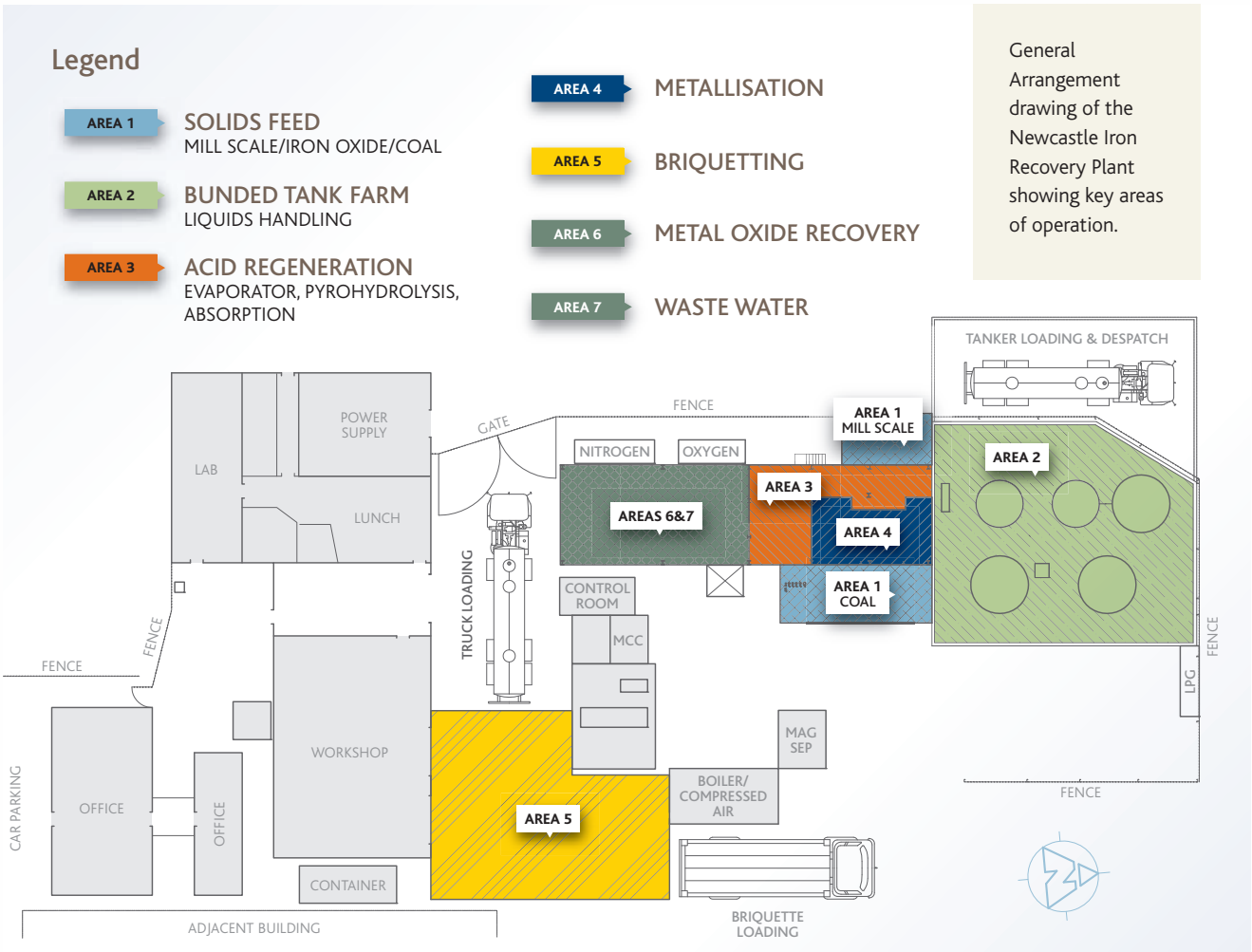
Electric Arc Furnace

An electric arc furnace is a furnace that heats batches of material using electricity. Arc furnaces range in size from approximately one tonne capacity (used in foundries for producing cast iron products) up to about 400 tonne units used for secondary steelmaking.

At full production, the plant would produce over 7,000 tpa of 25% HCl and over 18,000 tpa of ARI. Using data obtained during operations last year and current costs with sales to local businesses, Austpac estimates such an operation would generate a net profit of $7 million per year. The reconstruction program at the Newcastle plant is now underway and commercial operations are expected to commence in the first quarter of 2010.

The EARS plant will create permanent jobs in Newcastle and will convert steel waste from the Hunter region and elsewhere in eastern Australia into saleable products in an environmentally effective manner.

The refurbished Newcastle plant will demonstrate the effectiveness of the EARS technology for recycling steel mill by-products, and act as a model reference site to assist Austpac develop additional commercial opportunities in the steel and related industries. Austpac's objective is to establish a number of waste treatment plants around the world, either as build-own-operate plants or in association with steelmakers.



General Arrangement drawing of the Newcastle Iron Recovery Plant showing key areas of operation.

THE COMMERCIAL ERMS SR SYNRUTILE PLANT

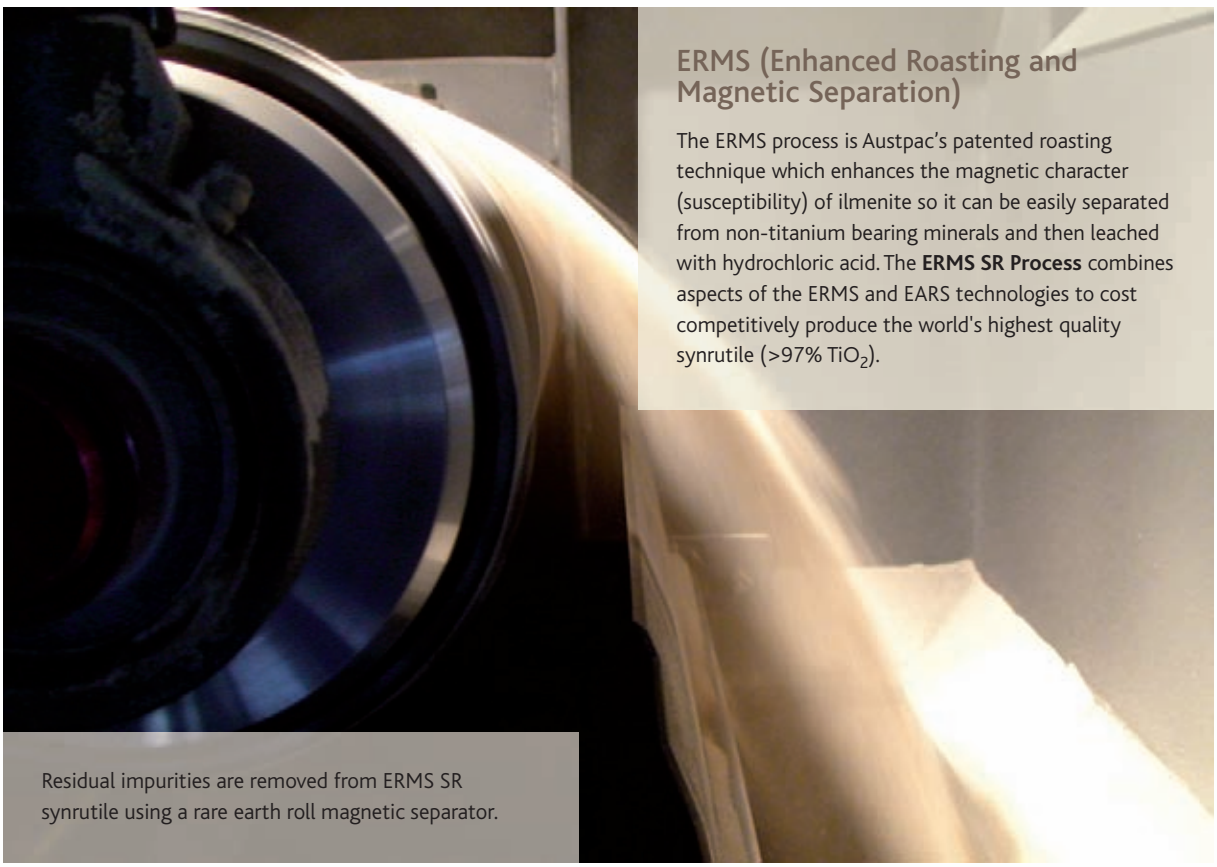
Austpac's longer term goal is to commercialise the ERMS SR technology by building a 60,000 tpa synrutile plant in eastern Australia, subject to the completion of a Bankable Feasibility Study (BFS). This is an acceptable 20 times scale up from the Newcastle Demonstration Plant. The first stage of the BFS is an external engineering study to establish capital and operating costs, and the information gathered during the 2008 operations at the Demonstration Plant will be used to design the final flow sheet and size the equipment for the commercial plant.

In 2008, the ilmenite roasting and magnetic separation section of the Plant, successfully operated for five months. During this time steady state conditions were reached and maintained, which generated a large amount of data and allowed the preparation of the process flow diagrams for the engineering study for the proposed 60,000 tpa ERMS SR synrutile plant.

Due to time constraints, the ilmenite leaching/synrutile production and the EARS acid regeneration/DRI production section, only fully operated for a few weeks. It was recognised that ongoing operations at steady state would be required to generate reliable data for the engineering study.

Consequently, the Company focused on the EARS/DRI section of the plant to achieve two objectives. Firstly, by using the existing plant to recycle steel mill by-products, the sale of Austpac Reduced Iron and hydrochloric acid will generate a near term cash flow and demonstrate our technology to the steel industry. Secondly, these operations will also provide operational data for the design and engineering of a 60,000 tpa ERMS SR plant.

Austpac's patented continuous leach reactor is a world first for synrutile production.



Residual impurities are removed from ERMS SR synrutile using a rare earth roll magnetic separator.

ERMS (Enhanced Roasting and Magnetic Separation)

The ERMS process is Austpac's patented roasting technique which enhances the magnetic character (susceptibility) of ilmenite so it can be easily separated from non-titanium bearing minerals and then leached with hydrochloric acid. The **ERMS SR Process** combines aspects of the ERMS and EARS technologies to cost competitively produce the world's highest quality synrutile (>97% TiO_2).

During the year, discussions were held with potential suppliers of raw materials, such as ilmenite and coal, for the proposed 60,000 tpa plant, and preliminary enquiries were also made into transport and infrastructure suitability (road, rail, power, port and shipping). These will be finalised when the site for the proposed plant has been selected. The synrutile will be exported to titanium metal and/or TiO_2 pigment plants, and the ARI will be sold to Australian steel producers.

Once Austpac obtains the necessary data on the EARS process from operations at the Newcastle Iron Recovery Plant in 2010, it will be possible to continue the engineering study into the commercial ERMS SR plant. One international titanium group has indicated an interest in participating in the BFS, which could commence later in the year.

INTERNATIONAL TiO_2 CONFERENCE

Managing Director Mike Turbott was Co-Chairman of the 11th IntertechPira TiO_2 Conference held in Rome during April 2009, at which Austpac's General Manager – Technology Development, John Winter, delivered a landmark paper. This was the first presentation of the proven ERMS SR process to a world-wide forum, and further enhanced Austpac's standing in the global titanium and synrutile industry. Winning the Applied Technology of the Year category at the 2008 National Mining Awards is testament to this increasing recognition.

Four international TiO_2 pigment manufacturers and two major titanium metal producers confirmed that ERMS SR synrutile is commercially acceptable.

Installation of equipment to allow the regular monitoring of groundwater.

Aircore drilling operations east of the WIM150 resource to investigate the local hydrogeological conditions.

EXPLORATION LICENCE 4521, HORSHAM, VICTORIA

During the year under review, the investigation of the mineral potential of Exploration Licence 4521 has proceeded along two concurrent paths. Austpac has undertaken several introductory drilling programs to assess the gold and base metal potential of the covered volcanic rocks within the southwest and eastern portions of the tenement. At the same time, the Horsham Joint Venture has commenced the first stage of a Bankable Feasibility Study on the potential development of the WIM150 mineral sands deposit. This stage includes reviewing the water supply options for the project and compiling data on the relevant regulatory processes. The commencement of a feasibility study of WIM150 marks a significant advance in the assessment of the mineral resources within E.L. 4521. Under the Horsham Joint Venture, the funding party may earn an 80% interest in the WIM150 heavy minerals project by completing a Bankable Feasibility Study on the WIM150 project area.

During the first quarter of 2009, approvals were obtained for a drilling program which was designed to investigate the hydrogeology of the area east of Taylors Lake and to determine the suitability of this water for possible use in processing ore from WIM150. This drilling has improved the understanding of the local hydrogeological conditions. Regular monitoring of groundwater observation bores established during this program has commenced. A pump testing program is planned to further investigate the groundwater conditions in the vicinity of the WIM150 resource.

Aircore drilling completed during January and April, based on high quality aeromagnetic coverage, provided an initial assessment of the mineral potential of the Cambrian basement rocks which occur beneath the much younger marine sediments of the Murray Basin. This drilling intersected intermediate volcanic lithologies at two separate localities. However, the most significant achievement was the discovery of fresh water in a hole located in the southern portion of the licence, outside the area subject to the Horsham Joint Venture. The location and the analyses of the water have been passed on to the appropriate authorities in Horsham.

Schedule of Mining Tenements in Victoria at 30 October 2009

Nature of Title	**EL 4521**
Area	**377 sq km**
Name	**Horsham**
Status	**Granted 1/12/07 for two years**

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 of the consolidated entity, being the company and its controlled entities, for the financial year ended 30 June 2009 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 59

Mr Cuthbertson is currently Chairman of Montec International Limited, S2 Net Limited, Mint Wireless Ltd, South American Iron and Steel Ltd, Sun Biomedical Limited and MyNetFone Ltd. He was previously Group Finance Director for Tech Pacific Holdings Pty Ltd which generated over $2 billion in revenues from operations throughout the Asia-Pacific Region. From 1986 to 1995 he was a Senior Partner of KPMG, specialising in strategic and corporate advice to major corporations. Mr Cuthbertson brings extensive international corporate experience to Austpac including a practical operating knowledge of business practices and structures in India, China and Southeast Asia.

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

MICHAEL J. TURBOTT *BSc (Hons), FAusIMM, MAIG* **Managing Director**
Age 65

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 41 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 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. The ERMS SR process is used for the production of high grade synthetic rutile and iron metal pellets from ilmenite. Austpac's technologies are also applicable to the steel industry where they can recover hydrochloric acid, iron and zinc from waste pickle liquors, mill scale and electric arc furnace dust. Austpac also has a process to produce direct reduced iron from iron ore fines.

ROBERT J. HARRISON *FAICD* **Non-Executive Director**
Age 70

Mr Harrison has over 21 years' experience in the marketing of ilmenite, rutile and zircon. He was Managing Director of Consolidated Rutile Limited's marketing subsidiary Minerals Pty Limited for a number of years before forming the mineral sands marketing consultancy Mineralex Agencies Pty Limited, of which he is Managing Director. Since 1986 Mr Harrison has provided marketing support, market surveys, statistical analyses and product reviews for titanium dioxide feedstocks, titanium dioxide pigments and zircon to a range of significant producers and consumers of those products in Australia, India, Africa, Europe and the North America.

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

Company Secretary

Mr Gaston is a Chartered Secretary with 36 years listed public company experience including Lend Lease Corporation, Peko Wallsend Limited and American Metals Climax (AMAX).

Officers who were previously partners of the audit firm

Officers who were previously partners of the current audit firm KPMG, at the time when KPMG undertook an audit of the company – T. Cuthbertson who retired from KPMG in 1995.

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	–	5,266,667
Michael J. Turbott	12,867,785	3,283,333
Robert J. Harrison	4,000,000	–

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*		*Remuneration Committee*	
			Meetings attended	Meetings Held	Meetings attended	Meetings Held
Terry Cuthbertson	12	12	2	2	1	1
Michael J. Turbott	12	12	2	2	1	1
Robert J. Harrison	12	12	2	2	1	1

Principal Activities

The principal activity of the consolidated entity is the development of mineral processing technology and exploration and development of mineral sands deposits and gold 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.

Subsequent Events

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 other than the placement of 67,000,000 shares at 3 cents each to raise $2,010,000.

Likely Developments

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

Environmental Regulation

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

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

Remuneration Report (audited)

Directors' and Senior Executives' Emoluments

The Board remuneration policy is to ensure the remuneration package properly reflects the duties and responsibilities of the director. 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. The company has a remuneration policy aimed at retention of key technical staff to ensure the progression and commercialisation of the company's technologies.

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.

Executive Directors are solely remunerated by fixed remuneration packages, including base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to super funds.

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 22 November 2007 when shareholders approved an aggregate remuneration of $150,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually.

Each non-executive director either receives a fee for being a director of the company and, if other services are provided, under a consultancy agreement. An additional fee may be payable for each board committee on which a director sits. The payment of additional fees for serving on a committee recognises the additional time commitment required by directors who serve on one or more sub committees. At this time there are no such committees, operating or required.

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the director on market or issued in lieu of fees at a market price). It is considered good governance for directors to have a stake in the company. The non-executive directors of the company can participate in the Employee Share Purchase Plan.

Executive director remuneration

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to align the interests of executives with those of shareholders.

Remuneration consists of fixed remuneration only.

Fixed Remuneration

Objective

Remuneration is set by the Board of Directors and reflects a cost containment programme implemented in January 2009.

Structure

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles) as well as employer contributions to super funds.

Variable Remuneration

There is no variable remuneration.

Employment contracts

Currently no employee is employed under contract.

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 2009 are:

	Base	*Short Term* Non Monetary Benefits	Consulting Fees	*Post Employment* Super	2009 Total
	$	$	$	$	$
Mr M.J. Turbott	208,000	20,700	–	62,660	291,360
Mr T. Cuthbertson	70,000	–	35,000	–	105,000
Mr R. Harrison	50,000	–	35,000	–	85,000
	328,000	**20,700**	**70,000**	**62,660**	**481,360**

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 2008 are:

	Base	*Short Term* Non Monetary Benefits	Consulting Fees	*Post Employment* Super	2008 Total
	$	$	$	$	$
Mr M.J. Turbott	182,502	20,700	–	62,660	265,862
Mr T. Cuthbertson	52,500	–	30,000	–	82,500
Mr R. Harrison	35,000	–	30,000	–	65,000
	270,002	**20,700**	**60,000**	**62,660**	**413,362**

Non monetary 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.

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 $231,780 during the financial year ended 30 June 2009 ($176,727 – 2008).

Employee Share Plans

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. 8,000,000 shares were issued under the plan during the financial year ended 30 June 2009 – and were approved at the Annual General Meeting held on 24 November 2008.

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 3 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; and

> 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 Lead auditors' independence declaration as required under Section 307C of the Corporations Act, as provided on page 17, is included in the Directors' Report.

Signed at Sydney this twenty fifth day of September 2009 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*
Year ended 30 June 2009

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 2009 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Anthony Jones
Partner

Sydney, 25 September 2009

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 formulating 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 usually 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 and the Remuneration Committee are chaired by an independent Director and are composed of independent Directors.

Board Committees

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

> Audit 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 Directors' 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;

> liaising with the external auditors and ensuring that annual and half-year statutory audits are conducted in an effective manner;

> monitoring the establishment of an appropriate internal control framework and considering enhancements;

> monitoring the establishment of appropriate ethical standards;

> monitoring the procedures in place to ensure compliance with the *Corporations Act 2001* and Stock Exchange Listing Rules and all other regulatory requirements;

> addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions;

> reviewing reports on any major defalcations, frauds and thefts from the company and ensuring that the company's Internal Control Plan is adhered to;

> improving the quality of the accounting function.

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 lodgment 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 2009 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 fulfill 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 equivalents to International Financial Reporting Standards ("AIFRS") for reporting periods beginning on 1 July 2006;
> 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 is to be appointed to all controlled entities in the Group;
> The external auditor must not undertake staff recruitment or provide internal audit, management, or IT consulting services to Austpac Resources N.L.;
> 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.

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.

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 Directors' 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.

Income Statements

For the year ended 30 June 2009

Austpac Resources N.L. and its Controlled Entities	Note	CONSOLIDATED 2009 $	CONSOLIDATED 2008 $	THE COMPANY 2009 $	THE COMPANY 2008 $
Administrative expenses		**(2,556,417)**	(3,773,636)	**(2,556,417)**	(3,773,636)
Loss before financing costs		**(2,556,417)**	(3,773,636)	**(2,556,417)**	(3,773,636)
Financial income	2	**58,212**	217,887	**58,212**	217,887
Financial expenses	2	**(9,375)**	–	**(9,375)**	–
Net Financing income/(expense)	2	**48,837**	217,887	**48,837**	217,887
Loss before tax		**(2,507,580)**	(3,555,749)	**(2,507,580)**	(3,555,749)
Income tax benefit	5	**794,964**	241,079	**794,964**	241,079
Loss after tax		**(1,712,616)**	(3,314,670)	**(1,712,616)**	(3,314,670)
Attributable to:					
Equity holders of the parent		**(1,712,616)**	(3,314,670)	**(1,712,616)**	(3,314,670)
		2009 cents	**2008 cents**		
Basic and diluted loss per share	7	**(0.22)**	(0.49)		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 27 to 43.

Statements of Recognised Income & Expense

For the year ended 30 June 2009

Austpac Resources N.L. and its Controlled Entities	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Loss for the year	**(1,712,616)**	(3,314,670)	**(1,712,616)**	(3,314,670)
Total recognised income and expense for the year	**(1,712,616)**	(3,314,670)	**(1,712,616)**	(3,314,670)
Attributable to:				
Equity holders of the parent	**(1,712,616)**	(3,314,670)	**(1,712,616)**	(3,314,670)

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements as set out on pages 27 to 43.

Balance Sheets

As at 30 June 2009

Austpac Resources N.L. and its Controlled Entities	Note	CONSOLIDATED 2009 $	CONSOLIDATED 2008 $	THE COMPANY 2009 $	THE COMPANY 2008 $
ASSETS					
Cash and cash equivalents	8	**205,092**	5,258,604	**205,092**	5,258,604
Other receivables	9	**1,476,337**	750,002	**1,476,337**	750,002
Total Current Assets		**1,681,429**	6,008,606	**1,681,429**	6,008,606
Property, plant and equipment	11	**218,614**	274,565	**218,614**	274,565
Intangible assets	12	**15,981,816**	11,817,542	**15,981,816**	11,817,542
Total Non-Current Assets		**16,200,430**	12,092,107	**16,200,430**	12,092,107
Total Assets		**17,881,859**	18,100,713	**17,881,859**	18,100,713
LIABILITIES					
Trade and other payables	13	**911,743**	959,409	**911,743**	959,409
Interest bearing loans and borrowings	14	**67,254**	85,854	**67,254**	85,854
Employee benefits	15	**496,009**	427,527	**496,009**	427,527
Total Current liabilities		**1,475,006**	1,472,790	**1,475,006**	1,472,790
Interest bearing loans and borrowings	14	**135,207**	163,661	**135,207**	163,661
Total Non-Current Liabilities		**135,207**	163,661	**135,207**	163,661
Total Liabilities		**1,610,213**	1,636,451	**1,610,213**	1,636,451
Net Assets		**16,271,646**	16,464,262	**16,271,646**	16,464,262
EQUITY					
Issued capital	16	**64,809,454**	63,289,454	**64,809,454**	63,289,454
Accumulated Losses	17	**(48,537,808)**	(46,825,192)	**(48,537,808)**	(46,825,192)
Total equity		**16,271,646**	16,464,262	**16,271,646**	16,464,262

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 27 to 43.

Statements of Cash Flows

For the year ended 30 June 2009

	Note	CONSOLIDATED 2009 $	CONSOLIDATED 2008 $	THE COMPANY 2009 $	THE COMPANY 2008 $
Cash Flows from Operating Activities					
Cash paid to suppliers and employees		**(2,532,512)**	(3,445,602)	**(2,532,512)**	(3,445,602)
Interest received		**58,212**	217,887	**58,212**	217,887
Interest paid		**(9,375)**	–	**(9,375)**	–
Income tax refund received		**395,655**	241,079	**395,655**	241,079
Net cash used in operating activities	23	**(2,088,020)**	(2,986,636)	**(2,088,020)**	(2,986,636)
Cash Flows from Investing Activities					
Payments for property, plant and equipment		**–**	(16,944)	**–**	(16,944)
Payments for intangible assets:					
Mineral Technology Development		**(4,095,682)**	(5,368,622)	**(4,095,682)**	(5,368,622)
Exploration and Evaluation		**(68,592)**	(4,227)	**(68,592)**	(4,227)
Net cash used in investing activities		**(4,164,274)**	(5,389,793)	**(4,164,274)**	(5,389,793)
Cash Flows from Financing Activities					
Proceeds from issue of share capital		**1,245,836**	13,568,933	**1,245,836**	13,568,933
Payment of finance lease liabilities		**(47,054)**	(49,282)	**(47,054)**	(49,282)
Net cash from financing activities		**1,198,782**	13,519,651	**1,198,782**	13,519,651
Net increase/(decrease) in cash held		**(5,053,512)**	5,143,222	**(5,053,512)**	5,143,222
Cash and cash equivalents at 1 July		**5,258,604**	115,382	**5,258,604**	115,382
Cash and cash equivalents at 30 June		**205,092**	5,258,604	**205,092**	5,258,604

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 27 to 43.

Notes to the Financial Statements

For the year ended 30 June 2009

Note 1: Significant Accounting Policies

(A) SIGNIFICANT ACCOUNTING POLICIES

Austpac Resources N.L. (the "company") is a company domiciled in Australia. The consolidated financial report of the company for the year ended 30 June 2009 comprises the company and its subsidiaries (the "consolidated entity").

The financial report was authorised for issue by the directors on 25 September 2009.

Statement of Compliance

The consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The company and the consolidated entity's financial report also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

(B) BASIS OF PREPARATION

The financial report is presented in Australian dollars. The entity has not elected to early adopt any accounting standards and amendment.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

> Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the consolidated entity's 30 June 2010 financial statements.

> Revised AASB 123 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the consolidated entity's 30 June 2010 financial statements and will constitute a change in accounting policy for the consolidated entity. In accordance with the transitional provisions the company will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. The consolidated entity has not yet determined the potential effect of the revised standard on future earnings.

> Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the consolidated entity's 30 June 2010 financial statements. The consolidated entity has not yet determined the potential effect of the revised standard on the consolidated entity's financial report.

The financial report is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income 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.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report.

(C) GOING CONCERN

The financial report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The Directors believe that the company 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 commercialisation of mineral technologies, 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.

(D) BASIS OF CONSOLIDATION

(i) Subsidiaries

Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

In the company's financial statements, investments in subsidiaries are carried at cost.

(ii) Jointly controlled operations and assets

The interest of the consolidated entity in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements the assets it controls and the liabilities that it incurs, and the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

(iii) Transactions eliminated on consolidation

All intragroup balances and transactions, including any unrealised gains or losses are eliminated on consolidation.

(E) FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

(F) PROPERTY, PLANT AND EQUIPMENT

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 1 (k)). The carrying amount of property, plant and equipment is reviewed annually by directors to ensure that it is not in excess of the recoverable amount from those assets. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

Leases in terms of which the consolidated entity assumes substantially all of the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of a finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

> property, plant and equipment 7 years

> leased plant and equipment and motor vehicles 10 years

The residual value and actual lives are assessed annually.

(G) INTANGIBLE ASSETS – MINERAL TECHNOLOGY DEVELOPMENT

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see Accounting Policy 1(K)).

Amortisation

Mineral technology development assets are not currently being amortised as the policy applied by the consolidated entity is to amortise these assets on a systematic basis over projected revenue streams once commercial licence agreements have been agreed.

(H) INTANGIBLE ASSETS – EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the income statement.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations, in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment, accounting policy (k)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mining property and development assets within property, plant and equipment.

(I) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at amortised cost less impairment losses (see accounting policy 1 (K)).

(J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprises cash balances and call deposits.

(K) IMPAIRMENT

The carrying amounts of the consolidated entity's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see below).

Recoverable amounts are estimated annually for intangible assets not yet available for use. An impairment loss is recognised where the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use.

Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(L) EMPLOYEE BENEFITS

Liabilities for employee entitlements for wages, salaries and annual leave represent present obligations resulting from employees' services up to reporting date, calculated on undiscounted amounts based on current wage and salary rates, including related on-costs. Obligations for contributions to defined contribution superannuation plans are recognised as an expense in the income statement as incurred.

(M) PROVISIONS

Provisions are recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(N) TRADE AND OTHER PAYABLES

Trade and other payables are stated at amortised cost.

(O) EXPENSES

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Net financing costs

Interest income and expense is recognised in the income statement as it accrues, using the effective interest method.

(P) INCOME TAX

Income tax on the loss for the years presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at balance sheet date and any adjustment to tax payable in respect of previous years. The balance sheet liability method is used under which deferred assets and liabilities are recognised for temporary differences between the tax values of assets and their carrying amounts in the financial statements.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(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) SEGMENT REPORTING

The consolidated entity operates in one segment only, being Mineral Sands and Mineral Sands Technology Development in Australia.

(S) ACCOUNTING ESTIMATES AND JUDGEMENTS

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

Recoverability of intangible assets

The carrying amount of intangible assets relating to mineral technology development and exploration and development total $15,981,816 ($11,817,542 – 2008). The consolidated entity assesses intangibles which are not being amortised annually in accordance with the accounting policy in note 1(K). 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 2009 at $216 million based on commercial application of the technology in its current form. This valuation exceeds the capitalised value of $15.3 million. The ultimate recoupment of cost carried forward are dependent upon the successful development and commercial exploitation or sale of the respective areas and technology.

(T) GOODS AND SERVICES TAX

Revenue, 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 taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part 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 balance sheet.

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

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Note 2: Net Financing Costs				
Interest Income	**58,212**	217,887	**58,212**	217,887
Interest Expense	**(9,375)**	–	**(9,375)**	–
Net financing income/(expense)	**48,837**	217,887	**48,837**	217,887
Note 3: Auditors' Remuneration				
Audit Services – KPMG Australia				
– Audit and review of financial reports	**50,000**	50,000	**50,000**	50,000
Other Services				
Auditors of the company – KPMG Australia				
– Taxation services	**35,000**	36,000	**35,000**	36,000
	85,000	86,000	**85,000**	86,000
Note 4: Personnel Expenses				
Wages and salaries	**640,395**	571,845	**640,395**	571,845
Contributions to defined contribution superannuation funds	**210,216**	210,090	**210,216**	210,090
Increase in liability for employee benefits	**68,482**	57,071	**68,482**	57,071
	919,093	839,006	**919,093**	839,006
Note 5: Income Tax Expense				
Recognised in the income statement				
Current tax benefit				
Current year	**(752,274)**	(1,066,725)	**(752,274)**	(1,066,725)
Deferred tax expense				
Current year deferred tax assets not recognised	**752,274**	1,066,725	**752,274**	1,066,725
Income tax benefit in income statement	**–**	–	**–**	–
Numerical reconciliation between tax benefit and pre-tax net loss				
Loss before tax	**(2,507,580)**	(3,555,749)	**(2,507,580)**	(3,555,749)
Prima facie income tax benefit using the domestic corporation tax rate of 30%	**(752,274)**	(1,066,725)	**(752,274)**	(1,066,725)
R & D Refund	**794,964**	241,079	**794,964**	241,079
Decrease in income tax benefit due to:				
Current year deferred tax assets not recognised	**752,274**	1,066,725	**752,274**	1,066,725
Income tax benefit on pre-tax net loss	**794,964**	241,079	**794,964**	241,079

Note 6: Deferred Tax Assets and Liabilities

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Deferred tax assets and (liabilities) are attributable to the following:				
Mineral technology development	**(4,583,490)**	(3,354,785)	**(4,583,490)**	(3,354,785)
Exploration and evaluation	**(211,055)**	(190,477)	**(211,055)**	(190,477)
Employee benefits	**148,803**	128,258	**148,803**	128,258
Unused tax losses	**4,645,742**	3,417,004	**4,645,742**	3,417,004
Net tax (asset)/liability	**–**	–	**–**	–
Deferred tax assets not recognised				
Deferred tax assets not recognised because it is probable that the benefits will be utilised against future taxable profits comprise:				
Unused tax losses	**4,404,853**	3,652,579	**4,404,853**	3,652,579

The deductible temporary differences do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits there from.

Note 7: Loss per share

The calculation of basic and diluted loss per share at 30 June 2009 was based on the loss attributable to ordinary shareholders of $1,712,616 (2008: $3,314,670) and a weighted average number of ordinary shares outstanding during the year ended 30 June 2009 of 774,517,017 (2008: 676,212,234), calculated as follows:

	CONSOLIDATED	
	2009	2008
	No. of shares	No. of shares
Weighted average number of shares		
Issued ordinary shares at 1 July	**758,609,494**	648,609,494
Effect of shares issued	**15,907,523**	27,602,740
Weighted average number of ordinary shares at 30 June	**774,517,017**	676,212,234
Loss per share	**2009 cents**	**2008 cents**
Basic and diluted loss per share	**(0.22)**	(0.49)

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Note 8: Cash and Cash Equivalents				
Bank balances	**205,092**	5,258,604	**205,092**	5,258,604
Note 9: Other Receivables				
Current				
Other receivables and prepayments	**1,476,337**	750,002	**1,476,337**	750,002

Note 10: Consolidated Entities

PARTICULARS IN RELATION TO THE COMPANY AND ITS CONTROLLED ENTITIES

		HOLDING	
		2009	2008
Parent Entity:	Austpac Resources N.L.		
Significant Subsidiaries:	Almeth Pty Ltd	**100%**	100%
	Austpac Technology Pty Ltd	**100%**	100%

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

Note 11: Property, Plant and Equipment

	CONSOLIDATED			THE COMPANY		
	Plant and Equipment	Fixtures and Fittings	Total	Plant and Equipment	Fixtures and Fittings	Total
	$	$	$	$	$	$
Cost						
Balance at 1 July 2007	1,190,595	44,982	**1,235,577**	1,190,595	44,982	**1,235,577**
Acquisitions	–	16,944	**16,944**	–	16,944	**16,944**
Disposals	–	–	**–**	–	–	**–**
Balance at 30 June 2008	1,190,595	61,926	**1,252,521**	1,190,595	61,926	**1,252,521**
Balance at 1 July 2008	1,190,595	61,926	**1,252,521**	1,190,595	61,926	**1,252,521**
Acquisitions	–	–	**–**	–	–	**–**
Disposals	–	–	**–**	–	–	**–**
Balance at 30 June 2009	1,190,595	61,926	**1,252,521**	1,190,595	61,926	**1,252,521**
Depreciations and impairment losses						
Balance at 1 July 2007	904,191	13,505	**917,696**	904,191	13,505	**917,696**
Depreciation and amortisation charge for the year	46,530	13,730	**60,260**	46,530	13,730	**60,260**
Balance at 30 June 2008	950,721	27,235	**977,956**	950,721	27,235	**977,956**
Balance at 1 July 2008	950,721	27,235	**977,956**	950,721	27,235	**977,956**
Depreciation and amortisation charge for the year	44,299	11,652	**55,951**	44,299	11,652	**55,951**
Balance at 30 June 2009	995,020	38,887	**1,033,907**	995,020	38,887	**1,033,907**
Carrying amounts						
At 1 July 2007	286,404	31,477	**317,881**	286,404	31,477	**317,881**
At 30 June 2008	239,874	34,691	**274,565**	239,874	34,691	**274,565**
At 1 July 2008	239,874	34,691	**274,565**	239,874	34,691	**274,565**
At 30 June 2009	195,575	23,039	**218,614**	195,575	23,039	**218,614**

The consolidated entity leases motor vehicles under finance lease agreements. At 30 June 2009 the net carrying amount of the leased motor vehicles, classified under plant and equipment was $195,575 (2008: $239,874). The leased equipment secures lease obligations (see note 19).

Note 12: Intangible Assets

	CONSOLIDATED			THE COMPANY		
	Mineral Technology Development	Exploration and Evaluation	Total	Mineral Technology Development	Exploration and Evaluation	Total
	$	$	$	$	$	$
Balance at 1 July 2007	4,854,586	630,698	**5,485,284**	4,854,586	630,698	**5,485,284**
Expenditure	6,328,031	4,227	**6,332,258**	6,328,031	4,227	**6,332,258**
Balance at 30 June 2008	11,182,617	634,925	**11,817,542**	11,182,617	634,925	**11,817,542**
Balance at 1 July 2008	11,182,617	634,925	**11,817,542**	11,182,617	634,925	**11,817,542**
Expenditure	4,095,682	68,592	**4,164,274**	4,095,682	68,592	**4,164,274**
Balance at 30 June 2009	15,278,299	703,517	**15,981,816**	15,278,299	703,517	**15,981,816**

Independent Valuation

In June 2009 an independent valuation of the ERMS and EARS technologies was undertaken by Michael Noakes who placed a value of $216 million on the technologies.

Note 13: Trade and Other Payables

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Other trade payables and accrued expenses	**911,743**	959,409	**911,743**	959,409

Note 14: Interest Bearing Loans & Borrowings

This note provides information about the contractual terms of the consolidated entity's interest bearing loans and borrowings. For more information about the consolidated entity's exposure to interest rates, see note 24.

Current Liabilities				
Finance lease liabilities	**67,254**	85,854	**67,254**	85,854
Non-Current Liabilities				
Finance lease liabilities	**135,207**	163,661	**135,207**	163,661

The consolidated entity's lease liabilities are secured by the leased assets of $195,575 (2008: $249,515), as in the event of a default, the assets revert to the lessor.

Note 15: Employee Benefits

Current				
Liability for long service leave	**168,782**	141,163	**168,782**	141,163
Liability for annual leave	**327,227**	286,364	**327,227**	286,364
	496,009	427,527	**496,009**	427,527

Note 16: Contributed Equity

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Issued and paid up Capital				
761,209,494 (2008: 713,209,494) ordinary shares fully paid	**64,240,954**	62,800,954	**64,240,954**	62,800,954
53,400,000 (2008: 45,400,000) ordinary shares paid to $0.01	**568,500**	488,500	**568,500**	488,500
	64,809,454	63,289,454	**64,809,454**	63,289,454
Movements in Ordinary Share Capital				
Balance at the beginning of the financial year	**63,289,454**	53,369,454	**63,289,454**	53,369,454
Shares Issued:				
Staff Share Purchase Plan (paid to 1 cent). 8,000,000 at 6.6 cents each – November 2008.	**80,000**	–	**80,000**	–
Placement – Australian professional investors. 48,000,000 ordinary shares issued in May 2009.	**1,440,000**	–	**1,440,000**	–
Staff Share Purchase Plan (paid to 1 cent) 12,000,000 at 10.7 cents each – November 2007	**–**	120,000	**–**	120,000
Placement – International investors – 41,000,000 ordinary shares issued in December 2007	**–**	4,100,000	**–**	4,100,000
Placement – BHP Billiton and professional investors – 57,000,000 ordinary shares issued in June 2008	**–**	5,700,000	**–**	5,700,000
	64,809,454	63,289,454	**64,809,454**	63,289,454

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 $6,395,768 (2008: $5,947,768). In the event of winding up, ordinary shareholders rank after creditors.

Dividends

No dividends were declared or paid during the financial year ended 30 June 2009.

Note 17: Capital and Reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

	CONSOLIDATED AND COMPANY		
	Share Capital	Accumulated Losses	Total Equity
	$	$	$
Balance at 1 July 2007	53,369,454	(43,510,522)	**9,858,932**
Total recognised income and expense	–	(3,314,670)	**(3,314,670)**
Shares Issued	9,920,000	–	**9,920,000**
Balance at 30 June 2008	63,289,454	(46,825,192)	**16,464,262**
Balance at 1 July 2008	63,289,454	(46,825,192)	**16,464,262**
Total recognised income and expense	–	(1,712,616)	**(1,712,616)**
Shares Issued	1,520,000	–	**1,520,000**
Balance at 30 June 2009	64,809,454	(48,537,808)	**16,271,646**

Note 18: Commitments

Exploration and evaluation 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:

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Within one year	**28,375**	68,100	**28,375**	68,100
Between one and five years	**–**	28,375	**–**	28,375

Note 19: Lease Liabilities

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Lease (Capital – Finance)				
Lease commitments in respect of capitalised finance leases are payable as follows:				
Not later than one year	**67,254**	85,854	**67,254**	85,854
Later than one year but not later than five years	**135,207**	163,661	**135,207**	163,661
	202,461	249,515	**202,461**	249,515

Lease liabilities include $17,176 (2008: $14,001) for interest payable not later than one year. Lease liabilities include $19,408 (2008: $32,776) for interest payable later than one year but not later than five years.

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.

Operating Leases

Leases as lessee

Non-cancelable operating lease rentals are payable as follows:				
Less than one year	**124,000**	120,000	**124,000**	120,000
Between one and five years	**80,000**	203,880	**80,000**	203,880
	204,000	323,880	**204,000**	323,880

The consolidated entity leases office property at Kooragang Island and in Sydney.

During the year ended 30 June 2009, $159,494 was recognised as an expense in the income statement in respect of operating leases (2008: $106,664).

Note 20: Key Management Personnel Disclosures

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Non-executive directors
Mr T. Cuthbertson (Chairman)
Mr R. Harrison

Executive directors
Mr M. Turbott

Austpac Resources N.L. engaged Mr T. Cuthbertson and Mr R. Harrison for the provision of consultancy services. The terms and conditions of the services are no more favourable than those available, or which might reasonable be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Note 20: Key Management Personnel Disclosures CONTINUED

The details of the transactions are as follows:

			2009	2008
		Transaction	$	$
Specified Directors	Mr T. Cuthbertson	Consultancy Fees	**35,000**	30,000
	Mr R. Harrison	Consultancy Fees	**35,000**	30,000

K. Turbott (spouse of M. Turbott) provided secretarial services to the company.

The details of the transactions with K. Turbott are as follows:

Specified Directors	Mr M. Turbott	Consultancy Fees	**66,000**	66,000

Equity Instruments

Movement in shares

The movement during the reporting period in the number of ordinary shares of Austpac Resources N.L. held, directly, indirectly or beneficially, by each key management personnel, including their personally-related entities is as follows:

	2009			2008	
	Held at 1 July	Purchases	Held on 30 June	Held at 1 July	Held at 30 June
Specified Directors					
Mr T. Cuthbertson					
– Fully Paid Ordinary Shares	166,667	–	**166,667**	166,667	166,667
– Partly Paid Ordinary Shares	4,100,000	1,000,000	**5,100,000**	2,600,000	4,100,000
Mr M. Turbott					
– Fully Paid Ordinary Shares	6,800,000	–	**6,800,000**	6,800,000	6,800,000
– Partly Paid Ordinary Shares	7,351,118	2,000,000	**9,351,118**	4,351,118	7,351,118
Mr R. Harrison					
– Fully Paid Ordinary Shares	–	–	**–**	–	–
– Partly Paid Ordinary Shares	3,000,000	1,000,000	**4,000,000**	1,500,000	3,000,000

The above equity holdings include directors' entitlements arising under the consolidated entity Employee Share Purchase Plan.

Options and rights over equity instruments

No options were granted since the beginning of the financial year.

Apart from the details disclosed in this note, no other Director has entered into a material contract with the company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests subsisting at year end.

Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 10.

Non Key management personnel disclosures

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 10), and with its directors (see note 20).

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 $231,780 (2008: $176,727) during the year ended 30 June 2009.

Note 21: Events Subsequent to the end of the Financial Year

There are no events subsequent to the end of the financial year ending 30 June 2009 other than the placement of 67,000,000 shares at 3 cents each to raise $2,010,000, which in the opinion of the Directors affect significantly the operations of the consolidated entity.

Note 22: 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.

	CONSOLIDATED		THE COMPANY	
	2009	2008	2009	2008
	$	$	$	$
Non-Current Assets – intangibles				
Exploration and/or evaluation expenditure	**703,517**	634,925	**703,517**	634,925

Note 23: Reconciliation of Cash Flows from Operating Activities

Loss for the year	**(1,712,616)**	(3,314,670)	**(1,712,616)**	(3,314,670)
Adjustments for:				
Depreciation	**55,951**	60,260	**55,951**	60,260
Operating loss before changes in working capital and provisions	**(1,656,665)**	(3,254,410)	**(1,656,665)**	(3,254,410)
(Increase)/decrease in receivables	**(452,171)**	60,186	**(452,171)**	60,186
(Decrease)/increase in payables	**20,816**	207,588	**20,816**	207,588
Net cash used in operating activities	**(2,088,020)**	(2,986,636)	**(2,088,020)**	(2,986,636)

Note 24: Interest rate risk

The consolidated entity's investments in fixed-rate term deposits are exposed to a risk of change in their fair value due to changes in interest rates. The consolidated entity's investments in variable-rate bank accounts are exposed to a risk of change in cash flows due to changes in interest rates. Investments in short-term receivables and payables are not exposed to interest rate risk.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated at net fair value.

The fair values together with the carrying amounts shown in the balance sheet are as follows:

Note 24: Interest rate risk CONTINUED

		Carrying amount 2009	Fair value 2009	Carrying amount 2008	Fair value 2008
		$	$	$	$
Consolidated	Trade and other receivables	**1,476,337**	**1,476,337**	750,002	750,002
	Cash and cash equivalents	**205,092**	**205,092**	5,258,604	5,258,604
	Finance lease liabilities	**202,461**	**202,461**	249,515	249,515
	Trade and other payables	**911,743**	**911,743**	959,409	959,409
The company	Trade and other receivables	**1,476,337**	**1,476,337**	750,002	750,002
	Cash and cash equivalents	**205,092**	**205,092**	5,258,604	5,258,604
	Finance lease liabilities	**202,461**	**202,461**	249,515	249,515
	Trade and other payables	**911,743**	**911,743**	959,409	959,409

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

Note 25: Financial Risk Management

Overview

This note presents information about the company's and consolidated entity's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The company and the consolidated entity does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Credit Risk

Credit risk is the risk of financial loss to the consolidated entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the consolidated entity's receivables from customers and investment securities.

Presently, the consolidated entity undertakes technology development and exploration and evaluation activities exclusively in Australia. At the balance sheet date there were no significant concentrations of credit risk.

Cash and cash equivalents

The consolidated entity limits its exposure to credit risk by only investing in cash deposits with major banks.

Trade and other receivables

The consolidated entity and the company are exposed to credit risk in relation to receivables recorded on balance sheet.

The company and consolidated entity have established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables and investments. The management does not expect any counterparty to fail to meet its obligations.

Note 25: Financial Risk Management CONTINUED

Exposure to credit risk

The carrying amount of the consolidated entity's financial assets represents the maximum credit exposure. The consolidated entity's maximum exposure to credit risk at the reporting date was:

		CONSOLIDATED CARRYING AMOUNT	
		2009	2008
	Note	$	$
Receivables	9	**1,476,337**	750,002
Cash and cash equivalents	8	**205,092**	5,258,604

Impairment losses

None of the consolidated entity's other receivables are past due (2008: nil).

Guarantees

Consolidated entity policy is not to provide financial guarantees.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. The consolidated entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The consolidated entity does not have any external borrowings.

The company anticipates a need to raise additional capital in the next 12 months to meet forecast operational and exploration activities. The decision on how the company will raise future capital will depend on market conditions existing at that time.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	2–5 years
	$	$	$	$	$	$
Consolidated 30 June 2009						
Finance lease liabilities	202,461	239,045	42,215	42,215	41,821	112,794
Trade and other payables	911,743	911,743	911,743	–	–	–
Consolidated 30 June 2008						
Finance lease liabilities	249,515	296,292	78,945	20,910	41,821	154,616
Trade and other payables	959,409	959,409	959,409	–	–	–

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the consolidated entity's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Note 25: Financial Risk Management CONTINUED

Currency Risk

The consolidated entity is not exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currencies of consolidated entity entities, which is primarily the Australian dollar (AUD).

The consolidated entity has not entered into any derivative financial instruments.

Exposure to currency risk

The consolidated entity and the company is not exposed to currency risk and at balance sheet date the consolidated entity and the company holds no financial assets or liabilities which are exposed to foreign currency risk.

Interest rate risk

The consolidated entity is exposed to interest rate risk on cash investments, which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The consolidated entity does not use derivatives to mitigate these exposures.

The consolidated entity adopts a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in short terms deposit bearing interest income at commercial rates.

Profile

At the reporting date the interest rate profile of the consolidated entity's and the company's interest-bearing financial instruments was:

	CONSOLIDATED CARRYING AMOUNT		COMPANY CARRYING AMOUNT	
	2009	2008	2009	2008
	$	$	$	$
Fixed rate instruments				
Financial assets (surplus cash invested)	**59,571**	1,669,908	**59,571**	1,669,908
Financial liabilities (plant and equipment leases)	**202,461**	249,515	**202,461**	249,515

Fair value sensitivity analysis for fixed rate instruments

The consolidated entity does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Commodity Price Risk

The consolidated entity operates primarily in mineral sands technology development and in exploration and evaluation and accordingly the consolidated entity's financial assets and liabilities are subject to minimal commodity price risk.

Capital Management

The consolidated entity's objectives when managing capital are to safeguard the consolidated entity's ability to continue as a going concern, in order to maintain a strong capital base sufficient to maintain future technology development and exploration of projects. In order to maintain or adjust the capital structure, the consolidated entity may issue new shares or sell assets to reduce debt. The consolidated entity's focus has been to raise sufficient funds through equity to fund technology development and exploration and evaluation activities. The consolidated entity monitors capital on the basis of the gearing ratio, however there are no external borrowings at 30 June 2009.

The consolidated entity provides employees with opportunities to participate in the Austpac Resources NL Staff Share Purchase Plan.

There were no changes in the consolidated entity's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

Directors' Declaration

1. In the opinion of the Directors of Austpac Resources N.L:
   a) the financial statements and notes set out on pages 23 to 43 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 2009 and of their performance for the year ended on that date; and
      ii) complying with Australia Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
   b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(A); and
   c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. 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 2009.

Signed in accordance with a resolution of the Directors.

T. Cuthbertson
Director

M.J. Turbott
Director

Sydney, twenty fifth day of September 2009

Auditor's Report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AUSTPAC RESOURCES N.L.

Report on the financial report

We have audited the accompanying financial report of Austpac Resources N.L. (the company), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 25 and the directors' declaration set out on pages 23 to 44 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the consolidated entity, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the company's and consolidated entity's financial position and of their performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Austpac Resources N.L. is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2009 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) the financial report of the consolidated entity also complies with International Financial Reporting Standards as disclosed in note 1.

Uncertainty regarding continuation as a going concern

Without qualification to our opinion, attention is drawn to the following matter:

The financial report has been prepared on a going concern basis as discussed in note 1(c) 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(c), the directors state why they consider the going concern basis used in the preparation of the financial report is appropriate. As discussed in that note, without the commercialisation of mineral technologies, equity raisings or joint venturing or sale of interests held in mineral tenements and projects referred to by the directors, there are significant uncertainties as to whether the company and the consolidated entity will be able to continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included on pages 14 and 15 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Austpac Resources N.L. for the year ended 30 June 2009, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Anthony Jones
Partner

Sydney

25 September 2009

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 2009.

Shareholdings

Substantial Shareholders

The number of shares held by the substantial shareholder listed in the holding company's register as at 11 September 2009 was: 55,000,000.

Class of Shares and Voting Rights

At 11 September 2009 there were 4,407 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 3, 62 Pitt Street, Sydney NSW 2000 Telephone: (02) 9252 2599
Location of Registers of Securities:	Link Market Services Limited Securities Registration Services, HSBC Building 680 George Street, Sydney NSW 2000

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

Distribution of Shareholders as at 11 September 2009

	Number of Ordinary Shareholders
1–1,000	157
1,001–5,000	624
5,001–10,000	575
10,001–100,000	2,073
100,001 and over	978
	4,407
Holders of less than a marketable parcel	1,521

The 20 largest shareholders hold 30.12% of the ordinary shares of the holding company.

20 Largest Shareholders as at 11 September 2009

	Number of Ordinary Shares held	Percentage (%) held to Issued Capital
BHP Billiton Innovation Pty Ltd	55,000,000	6.24
Barrios Pty Ltd	24,476,780	2.78
Christopher Leech	23,095,082	2.62
Mr Richard Louden Delaney & Mr Ian Arthur Cains	18,372,112	2.08
Rik Deaton	15,664,845	1.78
Mr Antanas Guoga	15,000,000	1.70
Michael Turbott	14,651,118	1.66
ANZ Nominees Ltd	10,907,155	1.24
Prestcorp Pty Limited	10,398,358	1.18
Mr Maurice Bertram Pears & Mrs Judith Lorraine Pears	9,529,385	1.08
Mr Stephen Joseph Harris	8,558,512	.97
Pagodatree Investments Ltd	8,440,250	.96
Irrewarra Investments Pty Ltd	7,947,930	.90
Kerry & Christine King	7,130,049	.81
Anthony Prestia	6,950,592	.79
Frisco Holdings Pty Ltd	6,500,002	.74
Mr William John Gaymans & Mrs Zelda	5,934,968	.67
Mr John William Trude and Mr Peter Graham Eckett	5,685,000	.64
Mr John David Winter	5,669,000	.64
Robert Charles Claxton	5,609,216	.64
	265,520,354	**30.12**

Corporate Directory

MEMBERS OF THE BOARD

Chairman
Mr Terry Cuthbertson
ACA

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

Director
Mr Robert J. Harrison
FAICD

SECRETARIES

Company Secretary
Mr Nicholas J. Gaston
ACIS

GENERAL MANAGERS

General Manager, Technology Development
Mr John Winter
BEng (Hons) – Chemical Engineering, MIEAust, MIChemE

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

AUDITORS

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

SOLICITORS

Gadens Lawyers
77 Castlereagh Street
Sydney
NSW 2000

SHARE REGISTRY

Link Market Services Limited
Securities Registration Services
680 George Street
Sydney
NSW 2000

BANKERS

ANZ Bank
68 Pitt Street
Sydney
NSW 2000

STOCK EXCHANGE LISTING

Australian Securities Exchange Limited
(Melbourne)

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AUSTPAC
RESOURCES N.L.

ABN: 87 002 264 057

Level 3, 62 Pitt Street
Sydney, NSW 2000

GPO Box 5297
Sydney, NSW 2001

Phone: **+61 (0) 2 9252 2599**
Fax: **+61 (0) 2 9252 8299**
Email: **apgtio2@ozemail.com.au**
Website: **www.austpacresources.com**