



July 7, 2009

SHAREHOLDER UPDATE**NEWCASTLE EARS PROJECT**

- **Austpac has established that the amount of steel mill waste in eastern Australia is sufficient to commence construction of the Newcastle EARS Project with a view to commencing profitable operations late in 2009.**
- **Contracts for the long term supply of spent pickle liquor and mill scale, and for the sale of the regenerated hydrochloric acid and iron products, are expected to be signed in the next month.**
- **Refurbishment of the EARS section to enable continuous commercial operations will commence in the July-September 2009 Quarter.**

The Newcastle EARS Project is based on the commercial operation of the EARS acid regeneration section of the Newcastle ERMS SR Demonstration Plant as a steel waste recycling plant. Steelmakers' interest arose during the commissioning of the Plant following Austpac's announcements that the Company had successfully proved the EARS and DRI processes using spent pickle liquor (SPL) and iron ore respectively. This led to discussions with steelmakers to ascertain the amount of steel waste available and the development of a business model for the EARS project.

The \$10 million Newcastle ERMS SR Demonstration Plant was built to commercially prove Austpac's technologies. This was achieved in 2008. The EARS section of the Plant has the capacity to treat 13,000 tpa of SPL 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. At full capacity it is estimated that the EARS plant will generate a profit of \$7.0 million per year.

In 2006, Austpac and OneSteel collaborated on a program which demonstrated that two tonnes of mill scale could be added to every tonne of SPL to produce one tonne of regenerated hydrochloric acid and 1.6 tonnes of iron metal. During the past quarter Austpac initiated a second test program which showed that with a minor flow sheet modification, as much as 15 tonnes of mill scale can be processed with each tonne of SPL, which markedly improves flexibility of the Plant and the viability of the EARS Project.

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 through 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) 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 show ARI is amenable to cold briquetting; briquettes are the preferred form to add to an EAF melt. Independent briquetting testwork is planned to confirm these results and to provide samples for steel makers, and a roll briquetting press will be incorporated into the EARS plant to enhance the marketability of ARI.

Austpac has held discussions with a number of steel and steel waste producers during the previous quarter, and the Company is now confident there is sufficient SPL and mill scale available to justify commencing plant refurbishment in the July-September 2009 quarter. The upgrade will take 3 months and it is expected that the plant will commence operations late in 2009. The volume of treatable waste will increase as the steel industry returns to more normal production levels and the EARS plant should be operating at full capacity in 2010.

Negotiations for the long term supply of SPL and mill scale are at an advanced stage, now that available quantities are defined, and it is expected satisfactory agreements will be reached with suppliers shortly. At the same time, agreements for the sale of regenerated hydrochloric acid for steel pickling and the sale of ARI briquettes for steel making will also be executed.

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 waste products, and act as a model reference site to assist Austpac develop additional commercial opportunities. 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.

ERMS SR Synrutile Plant:

Samples of the ultra high grade synrutile produced by the Newcastle ERMS SR plant during October 2008 were sent to a number of titanium dioxide pigment and titanium metal manufacturers for testing. Austpac can now report that all companies have confirmed that the quality was acceptable for commercial use and several have expressed an interest in working with Austpac when the study for a commercial ERMS SR plant in eastern Australia commences.

The bankable feasibility study into the proposed 60,000 tpa plant will benefit from the additional information that will be obtained during ongoing operations of the EARS plant as a steel waste recycling plant.

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