AUSTPAC RESOURCES N.L.
ACN 002 264 057
Level 3
62 Pitt Street
SYDNEY NSW 2000
GPO Box 5297
SYDNEY NSW 2001
Telephone: (+61 2) 9252 2599
Facsimile: (+61 2) 9252 8299
Email: apgtio2@ozemail.com.au
www.austpacresources.com

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QUARTERLY REPORT TO 31 MARCH 2006

HIGHLIGHTS

- **Detailed design for Stage Two of the Kooragang Island ERMS SR Demonstration Plant continued at Newcastle, with emphasis on aspects of the iron metallisation stage of the EARS process. Work was also undertaken on fine particle agglomeration, a novel process that will have implications for deposits such as Austpac's large WIM 150 mineral sands resource in the Murray Basin.**

- **Discussions continued with corporate and investment groups for financing completion of the Demonstration Plant and the first commercial plant. In a recent development, two major corporations have now indicated an interest in working with Austpac to ascertain the application of the ERMS SR process to their resources. These relationships will be progressed during the coming quarter.**

- **A number of companies in Australia and overseas have now indicated a strong interest in the application of the EARS process to recover both acid and iron units lost in steel making. This new approach may lead to assistance with funding the EARS section of the ERMS SR Demonstration Plant, and is being actively pursued.**

- **The initial evaluation this quarter of the offshore gold exploration opportunity outlined last quarter was positive, with highly encouraging gold grades indicating further exploration is warranted.**

ERMS SR DEMONSTRATION PLANT AND RELATED DEVELOPMENTS

During the quarter, work continued on the roasting section, which is Stage One of the ERMS SR Demonstration Plant on Kooragang Island. Detailed design and costing for Stage Two (the leaching/calcining and EARS acid regeneration sections) was accelerated, and further evaluation of the metallisation of iron oxides produced by the EARS plant was undertaken. This final process step was the subject of a patent application last year, and the economic significance of a synthetic rutile process that not only produces high grade synthetic rutile, but also a premium iron feedstock for steel making, cannot be over-emphasized. Work included further development of the hot metal transfer system within the EARS plant.

The Demonstration Plant will have a nominal capacity of 3,000 tpa of ERMS SR and 1,500 tpa of iron pellets, and will be operated for sufficient time to produce samples for our product marketing campaign, with emphasis on the iron co-product. Australian steelmakers have already indicated a desire to test our iron pellets with a view to long term purchase agreements. The Demonstration Plant will facilitate the design of the first commercial ERMS SR plant, which is presently envisaged as producing 60,000 tpa of high grade synthetic rutile and at least 30,000 tpa of iron pellets.

The EARS acid regeneration system was developed to treat the iron chloride solutions resulting from leaching ilmenite with hydrochloric acid, an integral part of the ERMS SR process. Many steel plants also produce waste iron chloride solutions from the "pickling" process, which is the first step in preparing steel for coating. Also in steel making, a significant amount of iron is lost as "mill scale" during the rolling process. Austpac engineers recognized that the unique attributes of the EARS process could be applied not only to acid recovery but also to recovery of the iron lost as mill scale, thereby enhancing the profitability of a steel mill. Enquiries within the steel industry indicate that the pure iron metal pellets produced by the EARS process will constitute a premium feed for electric arc furnaces, replacing some of the contaminated scrap steel now used by the industry.

Work was also undertaken on samples provided by an overseas group on a novel method of agglomeration of fine materials such as ilmenite and synthetic rutile. This will continue in the coming quarter. The success of this program will have significant implications for fine mineral deposits such as Austpac's WIM 150 deposit in the Murray Basin, Victoria.

FUNDING FOR THE DEMONSTRATION PLANT AND RELATED PROCESSES

Discussions continued with corporate and investment groups for financing the completion of the Demonstration Plant and the first commercial plant, several of whom visited the plant during the quarter. In a recent development, two major corporations have now indicated an interest in working with Austpac to ascertain the application of the ERMS SR process to their resources. These relationships will be progressed during the coming quarter.

The recognition of the value of our EARS technology in the steel industry has resulted in a number of companies in Australia and overseas indicating a strong interest in the application of the EARS process to recover the acid and iron units lost in steel making. This new approach may lead to assistance with funding the EARS section of the ERMS SR Demonstration Plant, and is being actively pursued.

EXPLORATION LICENCE 4521, HORSHAM, VICTORIA

Australian Zircon reported that during the quarter, primary and secondary ilmenite concentrates were produced from a sample of magnetic concentrate produced at Roche MT from WIM 150 heavy mineral concentrate. The material was amenable to standard dry magnetic and high tension roll techniques to derive the ilmenite products. The results of these tests were in line with expectations based on previous testwork including recoveries in excess of 90%.

Additional heavy mineral concentrate for further metallurgical testwork will be obtained later this year.

The Victorian Department of Primary Industry has renewed E.L. 4521, Horsham, for an additional two year term.

GOLD EXPLORATION

In the last Quarterly Report, the Company advised that an offshore gold exploration opportunity had been identified, building on goodwill generated during a property evaluation undertaken some years previously. The prospective areas lie within a gold district in which there have been a number of recent discoveries. It was also emphasized that this new initiative would not detract from Austpac's primary focus; the commercialisation of the ERMS SR process.

During the quarter under review, an initial field evaluation of two projects was undertaken by Austpac personnel. Within each project area, a significant amount of shallow open cut mining has been exploiting gold mineralisation in oxide ore. While the oxide ore is becoming depleted, there is excellent potential for primary sulphide ore at depth, and we are encouraged by the geologic setting and the highly encouraging gold assays obtained from our samples, and further investigation is warranted. Until we have completed securing rights over these areas, a process which will be ongoing through the next quarter, the project locations and further details remain confidential.

NOTE: This report is based on and accurately reflects information compiled by M.J. Turbott who is a fellow of the Australasian Institute of Mining and Metallurgy and a member of the Australian Institute of Geoscientists and is a competent person as defined in the Australian Code for Reporting of Identified Mineral Resources and Ore Reserves.

Austpac Resources N.L. is an Australian listed minerals technology company and emerging synthetic rutile producer. Austpac's processes include technology to transform ilmenite into high grade synthetic rutile, a preferred feedstock for titanium dioxide pigment production. They can also be used to beneficiate a range of heavy minerals, as well as process waste chloride streams from a number of industrial operations.