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## QUARTERLY REPORT TO 31 DECEMBER 2007

### HIGHLIGHTS

- Construction of the ilmenite roasting section of the 3,000 tpa ERMS SR synrutile Demonstration Plant at Newcastle will be completed by the first week in February 2008, which will allow Plant commissioning to commence on schedule that week.
- Austpac has secured 720 tonnes of ilmenite concentrate from three sources; CRL's mine on Stradbroke Island in Queensland, Bemax's Ginkgo mine in the Murray Basin, and BHP Billiton's Corridor Sands deposit in Mozambique. These samples will be used to commission the Plant, and for the continuous roasting campaign which will be completed in May 2008.
- Construction of the leaching and acid regeneration sections will continue during the ilmenite roasting campaign, ready for commissioning in June 2008 when the roasting program has been completed. The synrutile production campaign will be completed in August 2008, with 300 tonnes of ultra-high grade synrutile and 200 tonnes of Direct Reduced Iron produced for market trials. There is strong commercial interest in these two products.
- In December 2007, Austpac successfully raised \$4,100,000 through a placement of 41 million shares at 10 cents each to professional investors in the UK, Europe, Hong Kong and Australia.
- The program with OneSteel to regenerate acid and to recover iron from steel mill wastes was successfully completed in August 2007 with exceptional results. Significantly, the zinc in the arc furnace dust was recovered separately from the iron, which will add significantly to the commercial value of the process. Commercial trials to recycle mill wastes will commence at the Demonstration Plant during the second half of 2008.
- In January 2008, Austpac signed an agreement with MultiServ Group Limited to evaluate worldwide opportunities for the application of Austpac's processes in the steel industry. MultiServ has operations in 170 mill sites in 35 countries around the world.

## **THE 3,000 TPA ERMS SR SYNROTILE DEMONSTRATION PLANT**

### **Ilmenite Supply**

In December 2007, Austpac secured supplies of ilmenite for the 3,000 tpa ERMS SR synrutile Demonstration Plant which is under construction at the Company's facilities on Kooragang Island, Newcastle. It is planned to process a total of 720 tonnes of ilmenite from three sources and produce around 300 tonnes of high grade synrutile and 200 tonnes of iron pellets for market trials.

- A 150 tonne parcel of "ROM ilmenite" has been purchased from Consolidated Rutile Limited. This is a run-of-mine ilmenite concentrate produced from the heavy mineral mining operations on Stradbroke Island. Previous tests on this type of ilmenite produced a high grade synrutile containing 98% TiO<sub>2</sub>, and this parcel will be used to commission the Newcastle Plant. The consignment has now been delivered and stockpiled at the Plant.
- 500 tonnes of "Mags 1" ilmenite is being purchased from Bemax Resources Limited's Murray Basin operations. This material is the magnetic fraction from the heavy mineral concentrate produced and stockpiled at the Ginkgo mine. Tests by Austpac on a sample of the concentrate produced a high grade synrutile containing 97% TiO<sub>2</sub> and very low levels of chrome and radio-elements. The 500 tonnes will be used for the "production run", a continuous 24 hours per day, 30 day operation.
- A third parcel of 70 tonnes of ilmenite concentrate is being supplied by BHP Billiton, as part of the agreement Austpac and BHP Billiton signed in June 2007 which led to the construction and operation of the Demonstration Plant at Newcastle. This has been produced by a pilot plant at BHP Billiton's Corridor Sands deposit in Mozambique and will be shipped to Newcastle in the first quarter of 2008.

### **Demonstration Plant Progress, Commissioning and Operations**

Construction of Stage One, the roasting and magnetic separation section of the Demonstration Plant, is on budget and on schedule for completion by the first week in February 2008. A series of photographs of construction progress is contained in the ASX announcement dated 24<sup>th</sup> January 2008, which can be accessed through Austpac's website [www.austpacresources.com](http://www.austpacresources.com).

Much of the infrastructure for Stage Two has been installed during construction of Stage One. Nine plant operators commenced training on 14 January 2008 and they have been involved with the development of the plant operating procedures. The operating team will commence cold commissioning of the plant in the first week of February, followed by roaster start-up and hot commissioning by mid February 2008.

The 150 tonnes of ilmenite from Stradbroke Island will be used to commission the plant and move it into steady state full time operation (24 hours/7days per week), before commencing the "production run". The production run is scheduled to process 500 tonnes of "Mags1" ilmenite concentrate from Bemax's Ginkgo mine in the Murray Basin. Once this is complete, the plant will process 70 tonnes of ilmenite concentrate from BHP Billiton's Corridor Sands deposit in Mozambique. The Stage 1 ilmenite roasting program is scheduled to be completed by mid-May 2008.

Stage Two construction will be completed while the roasting campaign is underway. This includes the ilmenite leaching/synrutile finishing and the EARS acid regeneration sections. Commissioning of Stage Two will commence in June 2008. Stage Two is designed to have twice the capacity of Stage One to fully test some of the critical process areas. It has a feed rate of 17 tonnes per day and a synrutile production capacity equivalent to 3,000 tonnes per annum. The synrutile commissioning and production runs, which will sequentially process the three roasted ilmenite bulk samples, will take approximately 45 days, and it is anticipated that synrutile testwork will be completed on schedule during August 2008.

The ERMS SR production run will produce around 300 tonnes of high grade synrutile (minimum 97% TiO<sub>2</sub>) and 200 tonnes of iron pellets for market trials. Strong commercial interest is being shown in both products, and this is expected to lead to sales contracts for the output from a commercial ERMS SR plant.

The operations at the Demonstration Plant during the first half of 2008 will provide essential data required for the detailed engineering design and costing study for the proposed 60,000 tpa commercial synrutile plant. The study will form part of the Bankable Feasibility Study (BFS) that will commence later in 2008 once all synrutile testwork is complete. During the first half of 2008, discussions will be progressed with major engineering groups with a view to selecting a study manager, who will observe operations at the Demonstration Plant and conduct an independent BFS into the 60,000 tpa plant.

## **THE APPLICATION OF AUSTPAC'S TECHNOLOGIES IN THE STEEL INDUSTRY**

### **EARS Acid Regeneration Process and OneSteel Testwork**

Under an agreement with OneSteel, during the first half of 2007 Austpac conducted testwork on waste iron chloride liquors ("spent pickle liquor" from the steel pickling process), and waste iron oxides generated by steelmaking, such as mill scale and Electric Arc Furnace dust, ("EAF dust"). This work was completed in August 2008 with exceptional results; we demonstrated that two tonnes of waste oxides (either mill scale or EAF dust) could be mixed with one cubic metre of spent liquor to recover one cubic metre of regenerated hydrochloric acid and 1.6 tonnes of iron metal pellets.

Significantly, the EAF dust contained over 50% zinc oxide, which was separated from the iron and recovered separately. Recovery of zinc from both waste iron oxides and spent liquors generated by zinc galvanising operations will add significantly to the commercial value of the process.

The acid regeneration section of the Demonstration Plant at Newcastle will be capable of processing 15,000 tonnes per year, and will be able to process all the waste chlorides generated in the Newcastle region. It is anticipated this section of the plant will be operated as a commercial undertaking once the synrutile testwork is completed in the second half of 2008.

Austpac's EARS process will thus be proven at sufficient scale for the steel industry, and to overcome barriers to entry, Austpac decided in late 2007 to seek an appropriate partner who would provide worldwide access for the Company into that industry.

## **Agreement with MultiServ**

Austpac has developed a new recycling technique to recover valuable products from Mill Waste (eg. spent pickle liquor, mill scale and electric arc furnace dust) which augments the Company's ERMS Synthetic Rutile process. The Company's dedicated Demonstration Plant will initially be used to prove the ERMS Synthetic Rutile process under the agreement with BHP Billiton. This work will be completed in August 2008. Following this, large scale testing using pickle liquor and iron oxide waste from the OneSteel Limited's Newcastle operations will demonstrate the steel recycling aspects of Austpac's technologies.

In January 2008, Austpac signed an agreement with MultiServ Group Limited to identify and evaluate worldwide opportunities for the application of Austpac's processes in the steel industry. Under the agreement, MultiServ will, for a period of nine months, have access to Austpac's facilities and data to enable MultiServ to assess potential applications. Within the nine month evaluation period, MultiServ can opt to negotiate an exclusive agreement with Austpac for joint exploitation of the technology whereby MultiServ procures funding for any plant built to recycle Mill Waste. Any Mill Waste plants in Australia wholly or partly owned by Austpac prior to exercising that option are excluded from the agreement.

- **MultiServ** [[www.multiserv.com](http://www.multiserv.com)] is the world's largest provider of outsourced, on-site mill services to the global steel and metals industries, with over 170 operating sites in 35 countries. The company provides a comprehensive range of on-site services, including processes for slag handling and metal recovery, semi-finished and finished product management, integrated materials handling, specialist transportation, and asphalt and aggregate marketing. MultiServ designs, owns, operates and maintains facilities and infrastructure on site, operating under renewable long-term contracts as an integral partner to the steel mill.
- MultiServ is wholly owned by US-listed **Harsco Corporation** [[www.harsco.com](http://www.harsco.com)] a diversified, worldwide industrial services company, operating in over 40 countries, and employing more than 21,000 people worldwide. Harsco serves some of the world's largest and most essential industries, including non-residential construction, steel and metals, energy and railways. Harsco's 2006 revenues totalled \$3.4 billion, over 60% of which were generated internationally.

## **MURRAY BASIN EXPLORATION LICENCE 4521**

During November 2007, Australian Zircon Limited (AZC) extracted a five tonne bulk sample of ore from the high zircon core of the WIM150 deposit. The sample was collected using NQ aircore drilling equipment. Processing of the sample is underway at Downer EDI Mining (previously Roche Mining) at Carrara, Queensland.

Mineralogical analyses of selected samples from the December 2006 drilling program have been completed using the QEMSCAN technology originally developed by the CSIRO. The results have been compared with earlier mineralogical studies using traditional methods by the CRA subsidiary Wimmera Industrial Minerals Pty. Ltd. and indicate that the early mineralogical assessments can be employed in the compilation of future WIM150 resource models.

AZC has contracted Snowden Mining Consultants to incorporate the 2006 and 2007 drilling results into the WIM150 database with the aim of producing a JORC-compliant resource estimate for the zircon-rich core of the deposit.

AZC has significantly progressed work on the WIM150 Pre-Feasibility Study, with the study team due to report to the AZC board and to Austpac during the first quarter of 2008.

The Victorian Department of Primary Industry granted Austpac renewal of Exploration Licence 4521 for a term of two years from 1 December 2007 to 1 December 2009.

### **CHINA GOLD EXPLORATION**

Austpac has continued negotiations with private companies and individuals involved in gold mine development in the 'Golden Triangle' of China. Current oxide gold mines have potential for significant sulphide-hosted gold mineralisation, which could be determined by exploration drilling beneath existing or old workings. Title verification is an essential step in initiating commercial arrangements. Sampling of exposed sulphide mineralisation at several old mines has given encouraging results. Austpac seeks to earn an interest in such projects by funding drilling operations and feasibility studies through ongoing joint venture arrangements.

### **CAPITAL RAISING – SHARE PLACEMENT**

In December 2007, Austpac successfully raised \$4,100,000 through a placement of 41 million fully paid ordinary shares at 10 cents each. The shares were placed with professional investors from London, Europe, Hong Kong and Australia. These funds are being used to commission and operate the fully integrated 3,000 tpa ERMS SR (synrutile) Demonstration Plant at Newcastle and for working capital.

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*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.*

### **About Austpac Resources N.L. (ASX code: APG)**

Austpac [ [www.austpacresources.com](http://www.austpacresources.com) ] is a minerals technology company focused on the titanium, steel and iron ore industries. It has been listed on the Australian Stock Exchange since 1986. Austpac's key technology transforms ilmenite into high-grade synthetic rutile, a preferred feedstock for titanium dioxide pigment production. The technology can also be used to process waste chloride solutions and iron oxides produced by steel making to recover hydrochloric acid and iron metal pellets. A third process can be used to produce Direct Reduced Iron (DRI) from both hematite and magnetite iron ores.