

QUARTERLY REPORT TO 31 DECEMBER 1998

HIGHLIGHTS

- A second and separate licence for the use of Austpac's proprietary EARS acid regeneration technology was issued to Iscor of South Africa in November 1998. This is further endorsement of the commercial potential of Austpac's technologies.
- An agreement was signed in October 1998 with Indian Rare Earths (IRE), subject to the outcome of a feasibility study, to construct a 10,000 tpa ERMS synthetic rutile plant in India. It is envisaged that Austpac will have a 74 percent and IRE a 26 percent participating interest in the plant, which will be managed by Austpac.
- The prefeasibility study for the Indian plant was completed in late December 1998. It indicated that the project is economically viable.
- The IRE Board is expected to approve the allocation of funds for their share of the project in the first quarter of 1999. Austpac continued discussions with major investment banks and other groups regarding financing the Indian project.
- A placement of 7 million shares with clients of Shaw Stockbroking to raise \$280,000 for working capital was completed in December 1998.

TITANIUM - ERMS AND EARS TECHNOLOGY - INDIA

In October Austpac announced it had signed an agreement with Indian Rare Earths Limited (IRE), subject to the outcome of a feasibility study, to establish an ERMS synthetic rutile plant in India. The plant will have an annual capacity of 10,000 tonnes of synthetic rutile and will be located within IRE's Orissa Sands Complex (OSCOM) near Chatrapur in Orissa State. The ERMS plant will be supplied with ilmenite, regenerated acid and other raw materials already available at OSCOM, and which, when combined with the existing infrastructure, makes a plant of this size economically attractive. The plant will be the first commercial demonstration of ERMS technology and it will facilitate the design of future large scale integrated ERMS synthetic rutile and EARS acid regeneration plants. The plant will be owned by an Indian joint venture company in which Austpac will have a 74 percent and IRE a 26 percent participating interest. Austpac will manage the operation of the plant.

During the fourth quarter of 1998 confirmatory pilot plant testwork was undertaken on a bulk sample of ilmenite and coal from OSCOM. More detailed design and costing was undertaken for the major equipment items allowing all data to be collated by the end of December 1998 and reported to IRE. It is estimated that the plant will cost US\$5.3 million. The cost of the raw materials, which will be fixed by long term contract, has been provided by IRE allowing the operating costs to

be established. The study concluded that the 10,000 tpy ERMS plant is viable and economically attractive.

The Board of IRE is expected to approve the finance for their share of the project in the first quarter of 1999. A definitive joint venture agreement will be finalised shortly thereafter. Detailed engineering design and costing is expected to take 3-6 months. Provided all necessary approvals and finance is in place, plant construction would commence during the second half of 1999, with the production underway by the end of 2000.

TITANIUM - ERMS AND EARS TECHNOLOGY - SOUTH AFRICA

In November Austpac announced that it had signed a second and separate technology licence with Iscor Limited, South Africa's major steel producer. The licence is further endorsement of the commercial potential for Austpac's technologies by a major international company.

The licence is for the use of Austpac's EARS acid regeneration process. It complements the first licence signed in July with Iscor for the use of other aspects of Austpac's technologies within Iscor's Heavy Mineral Project.

The Heavy Mineral Project is new and will encompass the construction of a mine, mineral separation plant and a 250,000 tpa titania slag smelter complex at Empangini, near Richards Bay in Kwa Zulu - Natal Province, South Africa.

In September 1997, following 18 months prior collaboration, Iscor commissioned a \$670,000 testwork program at Austpac's Newcastle facilities. The program, which included the rebuilding and upgrading of the EARS pilot plant, was followed by negotiations which led to the signing of the two important technology licences. At the request of Iscor, details of both licences remain confidential until construction of the Heavy Mineral Project has commenced.

Austpac's senior technical staff spent December in South Africa assisting Iscor with an internal feasibility study which is due for completion during the first quarter of 1999. Any decision to proceed with the project is not expected before mid 1999.

GOLD - OHUI, NEW ZEALAND

Ohui mapping and sampling in the northern portion of EP 40-292 located strong silicification and hydraulic brecciation in rhyolitic rocks at the McGregors Prospect. Further mapping is planned.

NOTE: This report is based on and accurately reflects information compiled by M.J. Turbott who is a member 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.