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<td>Tenement Manager / Agent</td>
<td>Australian Mining &amp; Exploration Titles Services Pty Ltd (AMETS)</td>
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TERRITORY RESOURCES LIMITED
A.C.N. 100 552 118

COMBINED ANNUAL REPORT FOR THE PERIOD

25TH FEBRUARY 2010 TO 24TH FEBRUARY 2011

EXPLORATION TENEMENTS

AN389, EL10137 and EL22270

Pine Creek SD52-08 1:250,000 Sheet
Pine Creek 5270 1:100, 000 Sheet
NORTHERN TERRITORY

A. Burgess
April 2011
SUMMARY

This Annual Report covers tenements AN389, EL10137 and EL22270 for the reporting period from 25th February 2010 to 24th February 2011.

The activities on the tenements consisted of:

- AN389: Geological mapping and target generation of iron and manganese mineralization along the Koolpin Formation by independent geological consultant;
- EL10137 & EL22270: these two tenements were part of a larger geophysical review that re-interpreted all the historical and recent geophysical survey data available in the Frances Creek region over Territory Resource Ltd’s tenement holdings. Geophysical targets for iron mineralization were identified within EL10137 and EL22270.
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APPENDIX


Appendix 1B: Interpretation of Past and Recent Geophysical Surveys in the Frances Creek Region, N.T. Hawke Geophysics Pty Ltd November 2010 (Internal Company Report)
1. INTRODUCTION

This report details exploration activities for iron and manganese mineralisation conducted by Territory Resources Limited during the period 25th February 2010 to 24th February 2011 on tenements AN389, EL10137 and EL22270.

The tenements in the reporting group once formed a contiguous set of tenements. This was later over-pegged by Mining Tenements to facilitate mining of identified ore bodies (Figures 1 and 2).
Figure 1: Tenement locations over aerial photography
Figure 2: Tenement location over geology (geophysical targets shown in EL10137 & EL22270. Tenement AN389 hosts the Koolpin Formation, which was mapped within the reporting period by an independent consultant)
2. TENURE

AN389 was granted to McCleary Exploration and Mining Pty Ltd (MEMPL) on 15th November 1993. In 2001, MEMPL became a wholly owned subsidiary of Arafura Resources NL (Arafura). On the 22nd September 2003, Territory entered into a joint venture agreement with Arafura, whereby Territory was granted the right to explore for and mine iron ore over the tenement area. AN389 now consists of 4 blocks, and was renewed for a 2 year term on 15th November 2008, which expired on the 14th November 2010. A renewal application was submitted on the 3rd August 2010 and is in pending status at the time of this report. The tenement holder is Frances Creek Pty Ltd (a 100% owned subsidiary of Territory).

EL10137 was granted to Arafura Resources NL on 10 July 2002. In July 2007 all mineral rights on this tenement were transferred to Territory Resources Ltd, except for gold rights that are reserved for Arafura Resources NL. The tenement was renewed on 10 July 2008 and was due for expiry on 9 July 2010. A further renewal application was granted and the tenement is now due to expire on 9 July 2012. The tenement covers 26.22 km² or approximately 8 graticular blocks.

EL22270 was granted to Arafura Resources NL on 10th July 2002. On the 22nd September 2003, Territory entered into a joint venture agreement with Arafura, whereby Territory was granted the right to explore for and mine iron ore over the tenement area. The tenement was renewed on 10 July 2008 and was due for expiry on 9 July 2010. A further renewal application was granted and the tenement is now due to expire on 9 July 2012. The tenement covers 3.05km² or approximately 1 block.

In April 2007, Territory Resources Ltd was granted ML24727, ML25396 & ML25152 which partly/wholly lie within the old boundaries of AN389, EL10137, and EL22270.

In January 2008, Territory Resources agreed to buy the tenements off Arafura Resources NL, with Arafura retaining the gold rights on the tenements.

2.1 MINERAL RIGHTS

Territory Resources has mineral rights for all minerals other than gold, which are retained by Arafura Resources NL as part of the purchasing agreement finalized in January 2008.

2.2 LAND TENURE

Land tenure under the title includes parts of:

Mary River West Pastoral Lease, PPL 815- NT portion 1630, owned by Adicrest Pty Ltd, as trustee for Geschwenter Family Trust Number Two, PO Box 7207, St Kilda Road, Melbourne, Vic 8004.

Ban Ban Springs Pastoral Lease, PPL 1111 – NT Portion 695, owned by Ban Ban Springs Station Pty Ltd, PO Box 7207, St Kilda Road, Melbourne, Vic 8004.
Mary River East Pastoral Lease, PPL 1134 - NT portion 1631, owned by Mary River Wildlife Ranch Pty Ltd, PO Box 137, Pine Creek, NT 0847.

2.3 ABORIGINAL HERITAGE SURVEY AND NATIVE TITLE

Registered native title claims are in place over the three pastoral leases:

- DC00/18 (Northern Land Council) – PPL 1134
- DC01/21(Paddy Huddleston & Ors) – PPL 815
- DC01/06 (Gabriel Hazelbain & Ors) – PPL 1111

AAPA provided Territory Iron with an Authority Certificate (C2006/095) in reference to ML24727 on 14 September 2006 which covers all areas of EL22270 where exploration activities were undertaken.

An Indigenous Land Use Agreement (ILUA) was signed with the Northern Land Council (NLC) and traditional owners on 23 February 2007. This agreement covers mining and transportation of ore at Frances Creek and facilitates Aboriginal training and employment.
3. DISTRICT GEOLOGY & MINERALISATION

The Frances Creek tenement group provides a cross section of the Early Proterozoic sedimentary stratigraphy of the Pine Creek Geosyncline. The eastern most tenements cover sedimentary rocks of the Namooana and Mt Partridge Groups; the central tenements cover sedimentary rocks of the South Alligator and Mt Partridge Groups, including the iron-prospective Lower Wildman Siltstone, whilst the western tenements cover sediments of the Finnis River and South Alligator Groups. The sediments are complexly folded in a NNW trend. Conformable sills of Early Proterozoic Zamu dolerite are folded with the sediments. Cretaceous quartz-pebble conglomeritic sandstone forms remnant plateaus over the central tenement area.

The South Alligator Group covers the western tenements, hosting the iron-rich Koolpin Formation. The Koolpin Formation is represented by a series of narrow mineralized brecciated siltstone units located in a north-south trending valley located about 2km due west of the present mine workings at Frances Creek. The mineralisation is primarily iron with secondary manganese. The mineralisation can be recognized in the majority of outcrops by a conspicuous dark knobbly siltstone breccia. Occasionally, the iron is a replacement mineral in non-brecciated siltstone. Outcrops containing the manganese mineralisation are less continuous and are more likely to be displaced by faulting.

The Koolpin Formation unconformably overlies the Wildman Siltstone and is conformably overlain by the Gerowie Tuff. In places, sills of Zamu Dolerite have intruded along the upper and lower contacts and within the sequence.

The Frances Creek Iron deposits are hosted by the lower Wildman Siltstone, which is predominantly composed of Lower Proterozoic carbonaceous shales and siltstone. The iron mineralisation on a broad scale is stratiform as it follows the trace of a regional NNW trending shallowly plunging non-cylindrical anti-form and its subordinate parasitic folds. The iron deposits generally have moderate to steep dips on the fold limbs and appear to attain best grades and thicknesses within smaller parasitic drag folds, flexures and associated fold/fault breccias. The major folds reportedly formed as a result of ENE-WSW shortening during regional deformation event D3 (NTGS, 1993). However, the iron mineralisation itself appears to post-date the D3 folding event.

Undeformed breccia textures and textures indicative of high level open-space deposition (euhedral hematite and quartz, crystal lined voids, colloform banding) are ubiquitous within the deposits. The ore bodies were probably formed by low temperature hydrothermal (probably supergene) hematite (+euhedral quartz+kaolin) deposition within pre-existing breccias, which were formed by both high level folding in the siltstone host and within breccias possibly formed by the dissolution collapse and replacement of specific carbonate and/or sulphide beds within the Wildman Siltstone. Dolomitic carbonate and major cavities intersected in drilling directly below the Helene 6/7 and Helene 11 deposits support the role of carbonates in breccia formation (these may also host economic manganese mineralization). The fold breccias are frequently associated with F3 axial planar faults and folds or Post-D3 faults. Evidence of deformation subsequent to the formation of the iron mineralization is scarce and is restricted to brittle faulting and jointing.

Dykes of Early Proterozoic Zamu dolerite are intimately associated with the iron deposits. They appear to predate iron deposition, and are mostly conformable sills that have undergone
the same folding and brecciation events as the host sediments. The dolerites may also in part be replaced by hematite. The apparent close relationship of dolerites and iron mineralisation is probably due to increased brecciation around the margins of the dolerites due to pre-existing weaknesses caused by their intrusion, associated hornfelsing of sediments and the resulting rheological contrasts between dolerite and the host meta-sediments. There is no evidence to suggest that the dolerites were a source of the hydrothermal iron bearing fluids. None of the weathered dolerites seen at Frances Creek appear depleted in iron.

Bleaching of siltstones in the hanging wall sequence has been postulated as an indicator of hydrothermal fluid flow. However, drill core frequently shows no or little bleaching of the carbonaceous shale footwall even where extensive areas of hematite breccia are present. Bleaching of the hanging wall is therefore more likely to be due to weathering. Typically, the footwall contact is a sharply defined redox boundary between the fully oxidised hanging wall and the relatively unaltered, weakly sulphidic carbonaceous shale footwall, with the iron ore bodies possibly formed in a redox front.

Distribution of goethite and phosphorus within the deposits is not well understood. Goethite probably formed due to late hydrological processes specific to each deposit. At Helene 5, goethite-phosphorus is restricted to a discrete zone at depth and is not a continuous feature over the deposit, and may be due to late faulting. At Thelma Rosemary, a zone of stratiform >0.5% P iron ore within the orebody may be either fault related or may reflect a natural sedimentary variation in the protolith.
4. EXPLORATION ACTIVITIES – REPORTING YEAR

4.1 Geological Mapping of Koolpin Formation

Tenement AN389 overlies the iron-rich Koolpin Formation (to the west) and the unmineralised Mundogie Formation to the east (see Figure 2) and the prospective westerly portion of AN389 was mapped by an independent geological consultant during the reporting period.

Mapping of the Luke’s Find Prospect (on the Koolpin Formation) was carried out over the period 17th to 21st December 2010 and 8th to 19th February 2011. The prospect is located in a 7km long strike-parallel valley that lies about 2km to the west of the main Frances Creek mine workings. The mineralisation occurs in a series of narrow brecciated siltstone horizons in the Koolpin Formation and includes both iron and manganese accumulations. Stratigraphically, this target horizon is not the same as the main mineralisation at the mine site, which is hosted in the Wildman Formation. An unconformity separates the Wildman Formation from the Koolpin Formation.

The mapping was done by collecting geological data on walking traverses in the field followed by photo-interpretation of the available orthophotographic data. The maps are at a scale of 1:2,500. Rock chip samples were taken from mineralized outcrops. The report is located in Appendix 1A on the attached disc.

4.2 Geophysical targeting

An independent report by Hawke Geophysics Pty Ltd was submitted to Territory Resources in November 2010. The report discusses the interpretation and target generation for hematite mineralisation from all currently available geophysical and geological data over the Frances Creek Project area. The main objective of the study was to map stratigraphy to identify prospective target horizons as well as identify direct targets for iron mineralisation.

Geophysical survey coverage within the project area includes:

- Regional government magnetic surveying at 400m line spacing.
- Detailed magnetic and radiometric survey covering the prospective Wildman Formation at a 50m line spacing and 25m flying height.
- Limited airborne EM coverage covering the historic mining area only.
- Several phases of gravity surveying, with station spacings varying from 50 x 250m down to 10 x 20m for individual surveys.

A total of 45 targets for iron mineralisation were identified using the following criteria:

- Presence of (untested) outcropping iron ore mineralisation
- Strike extensions of known mineralisation
- Gravity high (due to mineralisation) adjacent to gravity low (due to carbonaceous shale)
- Subtle magnetic trend (secondary criteria)
This study included tenements EL22270 and EL10137. Two iron mineralisation targets were identified within EL10137, and one target partially overlies E22270 (see Figure 2). The full report and associated GIS data collated is located in Appendix 1B on the attached disc.
5. PROPOSED EXPLORATION ACTIVITIES – NEXT REPORTING YEAR

AN389

Exploration was completed during the reporting period within tenement AN389 and included geological mapping and target generation of iron and manganese mineralization along the Koolpin Formation by an independent geological consultant.

The reconnaissance mapping within this tenement has identified 3.4 kilometres of strike that hosts multiple lenticular zones of hematite enrichment that assays up to 66.8% Fe in rock chips. Territory Resources has proposed to conduct the following phased drilling programmes in the Mining Management Plan (MMP) for the period 23 February 2011 – 22 February 2012 (submitted to the NT DOR in early March 2011) and is shown diagrammatically in Figure 3:

- Phase I - broad spaced RAB drilling on 200 metre spaced lines with 40 metre centres (50 holes, 2,500 metres).
- Phase II - Infill RAB drilling of significant hematite mineralisation intersected in Phase I drilling to a 100 metre by 20 – 40 metre spacing (40 holes, 2,000 metres).
- Phase III – Targeted RC holes of hematite mineralisation defined by Phase I and II RAB drilling on an 80 metre by 40 metre spacing (30 holes, 3,000 metres).
- Geotechnical and metallurgical diamond drilling (5 holes, 250 metres).

More detailed geological mapping and rock-chip sampling is also proposed. Little work will be undertaken on the eastern section of AN389, because it covers unfavorable stratigraphy for iron ore and manganese accumulation.

EL22270

Work planned on EL22270 will consist of acquisition of Quickbird satellite imagery and generation of topographic contours. A small geophysical target in EL22270 will be ground truthed (see Figure 2 for locality), but it is rated as low priority in Hawke’s geophysical report.

EL10137

Beryl – Ochre Hill Trend

Based on the geophysical targets defined in the reporting year in tenement EL10137, Territory Resources plans to conduct geological mapping and rock chip sampling over Wildman Formation on the Beryl – Ochre Hill Trend and the southern extension to Ochre Hill. Territory Resources also proposes to conduct the following phased drilling programmes based on results of geological mapping on the Beryl – Ochre Hill Trend:

- Phase I - broad spaced RAB drilling on 200 metre spaced lines with 40 metre centres (20 holes, 1,000 metres).
- Phase II - Infill RAB drilling of significant hematite mineralisation intersected in Phase I drilling to a 100 metre by 20 – 40 metre spacing (10 holes, 500 metres).
• Phase III – Targeted RC holes of hematite mineralisation defined by Phase I and II RAB drilling on an 80 metre by 40 metre spacing (10 holes, 800 metres).

This is shown on Figure 4.
 Territory Resources plans to conduct geological mapping and rock-chip sampling over the Wildman Formation on possible strike extensions of the Jasmine and Rosemary Trends. Based on positive results from this work, planning for drilling for the 2012 dry season will commence. A plan displaying the location of proposed geological mapping is shown Figure 5. A large portion of the southern part of this Block in EL10137 lies over the intrusive Cullen granite batholith and hence is not prospective for iron ore or manganese mineralization.
Figure 5: Proposed geological mapping of possible strike extension of Jasmine and Rosemary on EL10137.
APPENDIX 1A
GEOLOGICAL MAPPING OF THE KOOILPIN PROSPECTS, FRANCES CREEK, N.T.
R. Russell, February 2011
APPENDIX 1B

INTERPRETATION OF PAST AND RECENT GEOPHYSICAL SURVEYS IN THE FRANCES CREEK REGION, N.T.

Hawke Geophysics Pty Ltd, November 2010