



Australian Ilmenite Resources Pty Ltd

Exploration Licence 26525

Annual Report

For the period

23-07-2010 to 22-07-2011

By

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BSc (Hons) MSc MAusIMM

GDA94 - Zone 53

Target Commodities: Heavy Minerals, Iron Ore and Uranium

1:250,000 Urapunga, Mount Marumba

1:100,000 Flying Fox, Marumba, Throsby

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SUMMARY

This report covers activities on EL 26525 which was granted to Exploration and Resource Development Pty Ltd (now Australian Ilmenite Resources Pty Limited) on 23/7/2009 for a period of 6 years.

The Project lies in the Urapunga Fault Zone within the Bauhinia Shelf of the Proterozoic McArthur Basin. The area is underlain by sedimentary rocks of the Collara and Maiwok Subgroups of the Mesoproterozoic Roper Group. The Kyalla Formation in the area has been extensively intruded by sills of the Derim Derim Dolerite.

The area has previously been explored for heavy minerals, iron ore, base metals, uranium and diamonds.

Exploration during the current year has included an appraisal of the tenement for oolitic iron ore. Some uranium anomalies were identified for field checking.

INTRODUCTION

Background

The Roper HM Project originally included Exploration Licenses 22478, 23048, 24655, 24986, 26412, 26522, 26523, 26524 and 26525, and covered an area in excess of 10,000 sq km centred on heavy mineral deposits associated with dolerite intrusives of the Roper River region.

The area was originally applied to target insitu and in some instances remobilised heavy minerals shedding from eroding dolerite sills which had been intruded into the Mesoproterozoic Roper Group. The area may also be prospective for oolitic iron ore and uranium.

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Location and Access

The exploration licence is located about 200km northeast of Mataranka in the Roper River region of the Northern Territory.

EL 26525 is located close to the unsealed Central Arnhem Road which provides dry weather access to the tenement, see figure 1. Further internal access within the EL is provided by unsealed station tracks. There are sealed airstrips at Ngukurr to the east and Minyerri to the south providing all weather access to the tenement to support helicopter flying operations.

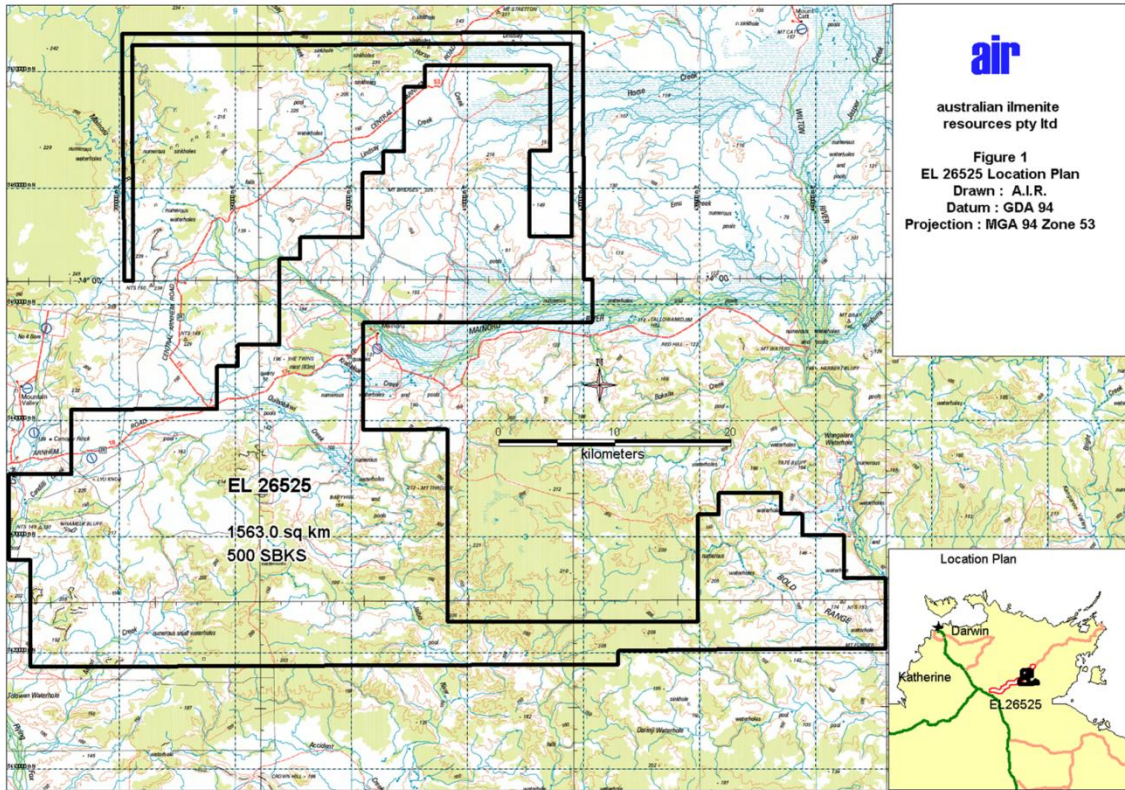


Figure 1: Tenement Location Plan

Climate

The project area has a humid monsoonal climate, with mild dry winters and hot humid summers often with heavy monsoonal rains associated with tropical cyclones. The average annual rainfall is 700 millimetres with most falls between November and April. The wet season renders portions of the area inaccessible for exploration activities.

Topography and Vegetation

The EL is within the Gulf Fall physiographic province where dissected Proterozoic sediments have produced an undulating topography of low hills and rubble covered ridges with broad areas of alluvial and colluvial plains.

Vegetation consists of open savannah Eucalyptus woodland with Spinifex common in sandy and higher ground. The creek beds and water holes of the tributaries of the Mainoru River, Jalboi River and Winton River extend through the area and are associated with paperbark and larger Eucalyptus trees. Dense thickets of lancewood occur in higher ground particularly on the steep slopes adjacent to Cretaceous mesas and sandstone plateaus.

TENURE

Mining/Mineral Rights

Exploration Licence 26525 was granted to Exploration and Resource Development Pty Ltd (now Australian Ilmenite Resources Pty Limited) on 23/7/2009 for a period of 6 years. The tenement covers 500 sub blocks and has not been reduced to date (Figure 2).

Land Tenure

The tenement is located on the following pastoral leases: PPL1167 (Mainoru Station), PPL1168 (Wongalara Station) and PPL1188 (Mountain Valley Station).

Native Title

There are three Native Title claims which affect the EL:

- DC 01/11 Mountain Valley
- DC 01/63 Mountain Valley - Mainoru
- DC 01/67 Wongalara

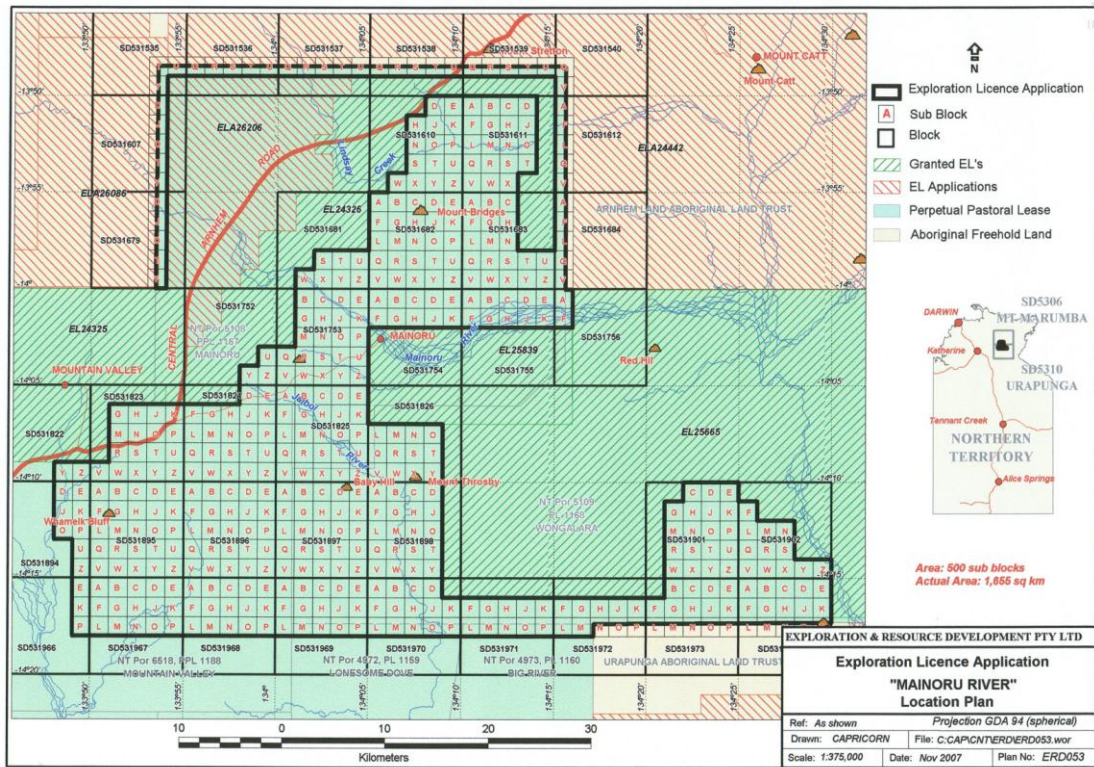


Figure 2: Tenement Block Plan

Aboriginal Sacred Sites

There are no known aboriginal sacred sites within the tenement. No archaeological surveys have been carried out during the current tenure

GEOLOGY

Regional Geology

The Project lies in the Urupunga Fault Zone within the Bauhinia Shelf of the Proterozoic McArthur Basin (see Figure 3). The basin consists of several northerly trending rifts separated by northwest-trending faults and transverse ridges, and was subject to repeated cycles of clastic and marine carbonate sedimentation interspersed with volcanic extrusion and sill emplacement in response to reactivation of older basement structures.

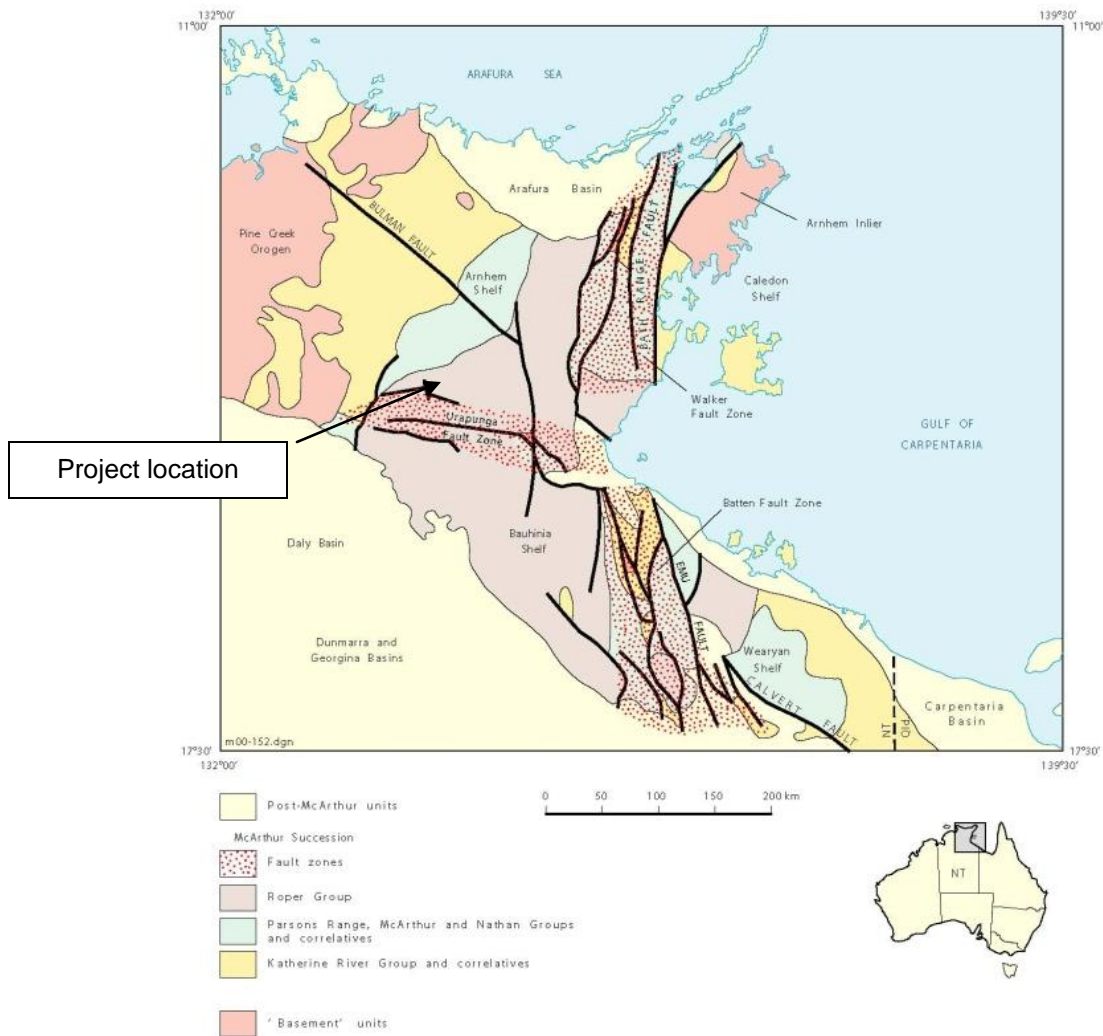


Figure 3: Regional Geological Setting

A later, more passive series of sedimentary cycles in response to western basin subsidence occurred with the deposition of suites of blanket quartz sandstones, micaceous siltstones, black shales and glauconitic sandstones of the Roper Group. Ironstones are prominent on a local stratigraphic level within this succession. Tholeiitic dolerite and gabbro sills were emplaced throughout the Roper Group soon after deposition ceased and before regional deformation.

Local Geology

The tenement is predominantly underlain by rocks of the Mesoproterozoic Roper Group. The oldest rocks in the area are from the Collara Subgroup and consist mainly of sandstones with some mudstone and minor limestone. The Maiwok Subgroup overlies the Collara Subgroup and contains mudstones, siltstones and sandstones. The Sherwin Formation occurs close to the top of this succession and contains oolitic ironstones which are the focus for current exploration for iron ore in the area. Sills of Derrim Derrim Dolerite intrude the upper parts of the Maiwok Subgroup including the Sherwin Formation.

The Sherwin Formation consists of up to four separate layers of hematitic oolitic sandstone (individually up to 4m thick) within a sequence of sandstone, siltstone and mudstone, which is up to 100m in thickness. The unit is underlain by the Moroak Sandstone which usually forms a prominent scarp. The Sherwin Formation is overlain by the Kyalla Formation, a sequence of siltstones and fine sandstones. The strata are generally flat lying although faulting has resulted in steepening of dips and stratigraphic dislocation in places.

The absence of Cambrian flood basalts (Antrim Plateau Volcanics) and only remnant outliers of Cretaceous sandstone suggest that significant uplift and erosion has occurred within the area permitting exposure of the underlying Proterozoic sediments and dolerite sills. Extensive deposits of Quaternary to Recent sediments comprising alluvium, colluvium, unconsolidated gravel and sand overlain by mud-rich soils are mapped in the project area and reflect material derived from prolonged weathering and erosion during the Tertiary. EL 26522 contains significant areas of these recent valley fill / floodplain deposits which are associated with the Flying Fox and Jalboi Creeks and their tributaries.

The Kyalla Formation in the area has been extensively intruded by sills of the Derim Derim Dolerite, which may be up to 100 thick. The dolerite outcrops as low-relief hills strewn with rounded boulders. The dolerites are fine to coarse

grained and composed of plagioclase (40%), clinopyroxene (40%), amphibole (7%), opaques (ilmenite & magnetite 5%) and clay (7%).

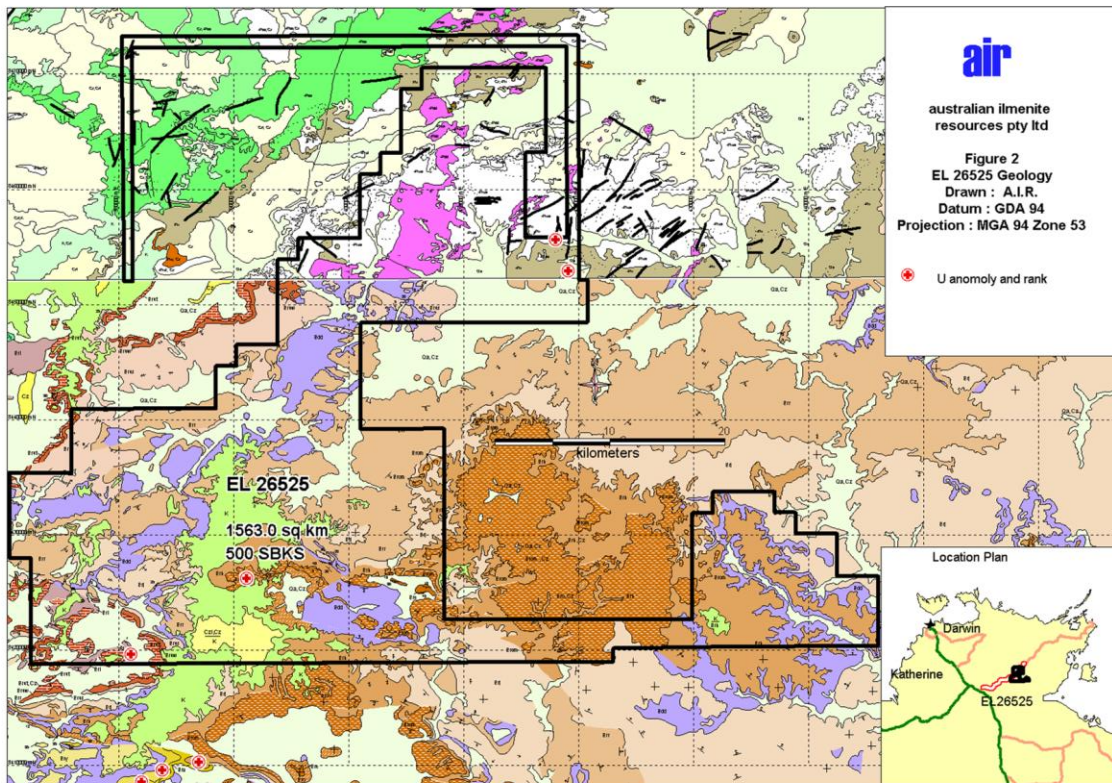


Figure 4: Local Geology

The dolerite is generally deeply weathered and forms soils which are deep red-brown in colour, clay-rich and contains abundant liberated ilmenite, titanomagnetite, magnetite and haematite grains. The heavy mineral deposits present in the residual soils and in associated coluvial and alluvial concentrations form the primary exploration target in the area.

PREVIOUS EXPLORATION

Mining History

There has been no mining carried out in the region.

Exploration by Previous Companies

The project area has attracted companies in exploration campaigns for iron ore, base metals, diamonds and uranium.

Evaluation of the oolitic ironstones of the Sherwin Formation by BHP in the 1950's identified potential for large tonnage (>400Mt) low to moderate grade (30%-60% Fe) iron deposits largely to the south and southeast of the Project Area. Recently further exploration has been undertaken by Sherwin Iron Ltd.

Exploration of the area for uranium was undertaken by Kratos Uranium NL in the early 1970's with little success.

Normandy/Poseidon explored the area for base metals (Pb, Zn and Cu) culminating in the discovery of a number of small low grade deposits of sandstone-hosted base metals (disseminated galena in Roper Group arenites at Galena Cliffs and Wongalara Prospects).

Intensive diamond exploration occurred in the 1980's with large scale stream sediment sampling, loam sampling, airborne magnetic surveys and drilling programs conducted by Stockdale Prospecting and Ashton Mining. While a few kimberlitic indicator minerals including micro and macro diamonds were reported, most could not be traced to a source with the exception of two thin (<2m) steeply dipping kimberlitic dykes (Packsaddle and Blackjack 1) located by Stockdale south of the Project area.

CRA Exploration undertook a reconnaissance evaluation of the heavy mineral content of the extensive dolerite sill (and lateritic soil) horizons. Eight hand-held auger holes were completed to test the upper soil profile at scattered localities. A

best assay of 1.0m grading 3.0% ilmenite was reported and the tenements were subsequently surrendered in 1996.

Exploration and Resource Development Pty Ltd (now Australian Ilmenite Resources Pty Limited) explored the area between 2001 and 2004 for heavy minerals associated with the Derim Derim dolerite.

A comprehensive summary of all past exploration can be found in the Explanatory Notes for the Roper Region: Urapunga and Roper River Special Sheet (Abbott, S.T., et al. 2001).

EXPLORATION COMPLETED BY AIR

Previous Years

In year 1 (2008-2009), geophysical data sets were acquired and a consultant geophysicist (GeoDiscovery Group) undertook an assessment of the uranium potential of the area. A number of anomalies were identified. An assessment of the area for diamonds was also undertaken and concluded that there was no potential.

In year 2 (2009-2010), further assessment of the uranium potential was undertaken and an airborne survey was planned. Negotiations took place with another company for a joint venture to explore for uranium in the tenement.

Current Year

An appraisal was carried out on the tenement for iron ore and a number of uranium anomalies were identified for ground follow-up.

1. Iron Ore Appraisal

A report commissioned by AIR (Fabray, 2011) outlined a number of areas with medium to low iron ore prospectivity which required ground follow-up (Figure 6).

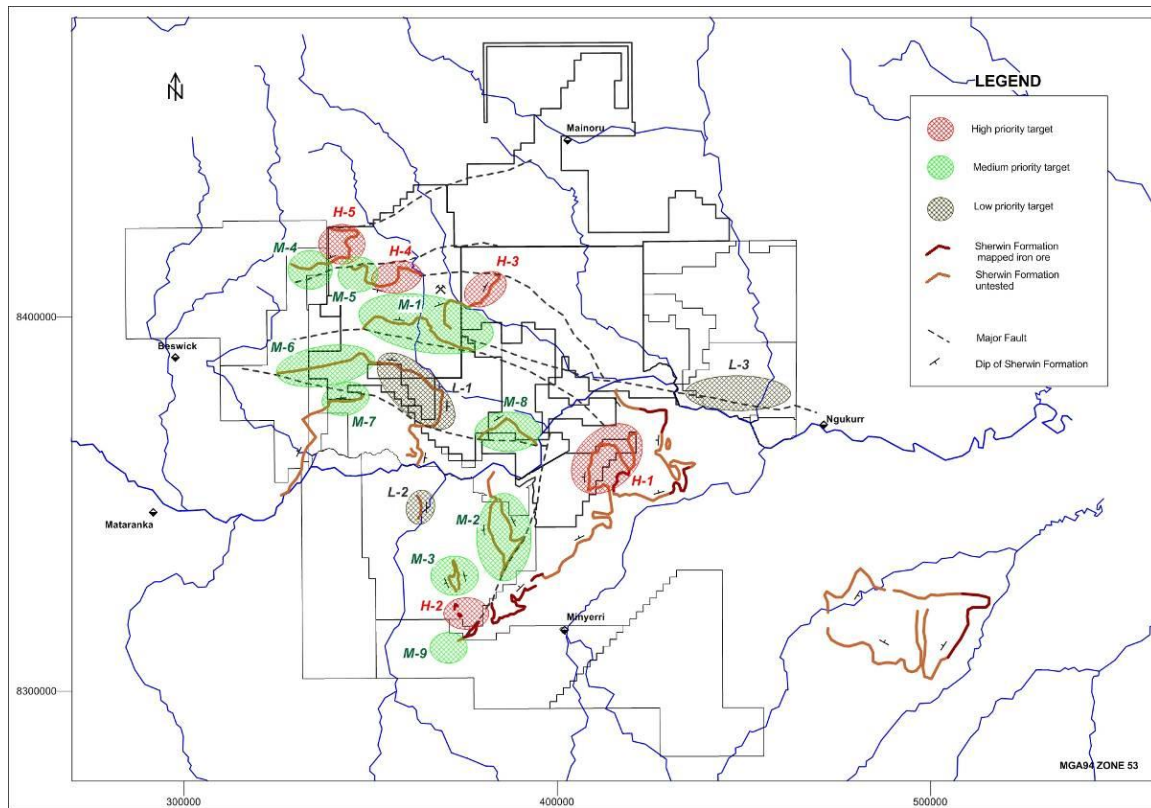


Figure 6: Iron ore prospectivity of AIR tenements

The Sherwin Formation does not occur within the tenement which therefore has low prospectivity for oolitic iron ore.

2. Ground checking of Uranium anomalies

There were four uranium anomalies identified for ground checking within EL 26525 (Figure 7). This work was not completed during the current year.

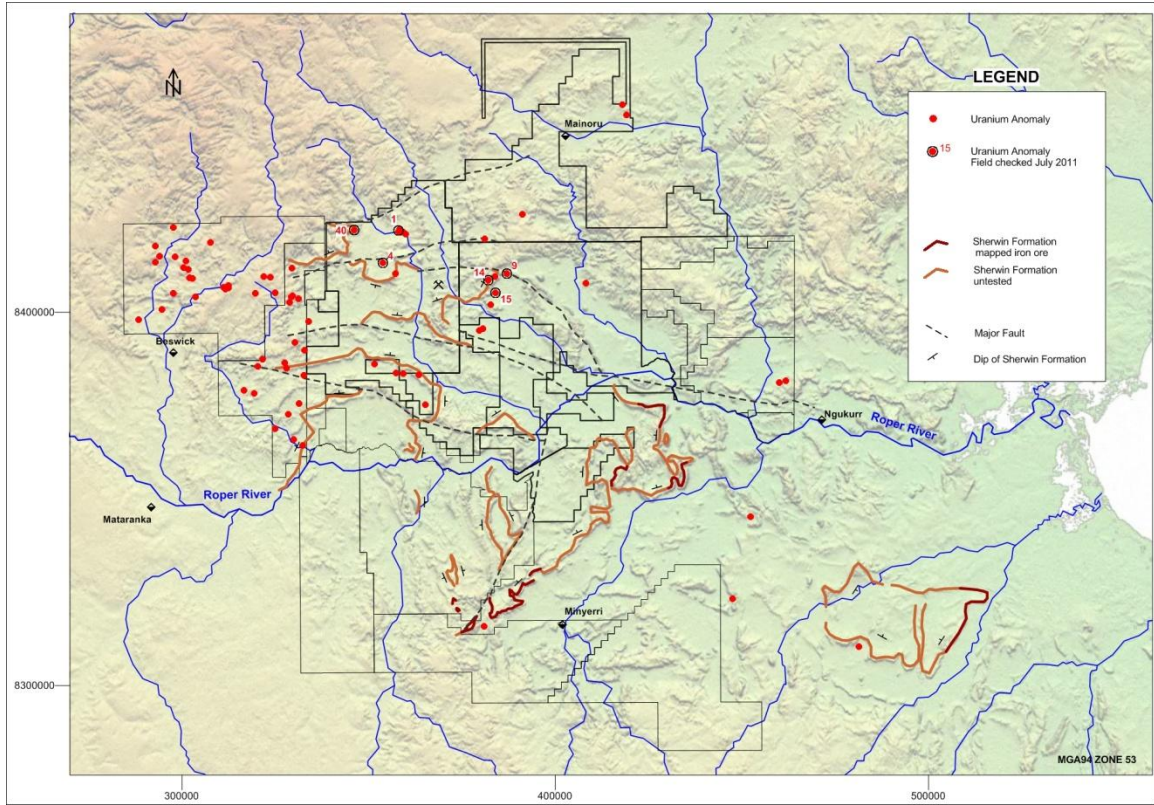


Figure 7: AIR tenements and uranium anomalies

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