



Territory Resources Limited

23 Ventnor Avenue,
West Perth WA 6005
Telephone: +61 8 9483 5100
Facsimile : +61 8 9483 5111

28 February 2011

Manager Announcements
Company Announcements Office
ASX Limited
Level 4
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

Interim Report for the Financial Half-Year Ended 31 December 2010

Attached are copies of:

- a Media Release in regard to the Half-Year Results; and
- the Company's Interim Report for the Financial Half-Year ended 31 December 2010.

Yours sincerely,

Patrick McCole
Company Secretary



An Australian Resources Group

Post Office Box 158, West Perth, Western Australia 6872
admin@territoryresources.com.au www.territoryresources.com.au
A.B.N. 53 100 552 118



Media/ASX Release

28 February 2011

Territory Delivers \$9.9M First Half Net Profit

Strong Spot Prices Help Offset Early Start to Wet Season

HIGHLIGHTS:

- 8% increase in iron ore sales revenue to \$88.5M for the six months to 31 December 2010, despite the early onset of an intense wet season in the Northern Territory
- Total lump & fines production of 860,396 tonnes achieved for the half-year from the Frances Creek operations
- Continued strong focus on debt repayment – debt to Noble Group reduced to US\$20.9 million as at 31 December 2010
- In-principle agreement for proposed US\$20.9M debt conversion and associated capital raisings announced on 17 February 2011, which would leave the Company positioned for growth

Australian iron ore producer Territory Resources Limited (ASX: **TTY** – “Territory” or “the Company”) has delivered a solid first-half earnings performance, today announcing a **\$9.93 million** net profit after tax for the first half despite the impact of a particularly severe wet season in northern Australia on its production.

The result, which compares with the \$13.67 million net profit earned in the previous corresponding period, reflects strong iron ore sales prior to the commencement of the wet season, underpinned by continued buoyant iron ore spot prices.

The first half profit was struck on sales revenue of **\$88.54 million** (1H FY10: \$82.0 million) based on the production of 860,396 tonnes (1H FY 10: 1.066 million tonnes) of high-grade lump and fines ore from Territory’s 100%-owned Frances Creek iron ore operation in the Northern Territory.

Territory completed 12 shipments of iron ore to China during the period and continues to maintain its fully sold position through its strong association with Noble Resources Ltd (“Noble”) in Hong Kong, with ore production sourced from the Thelma Rosemary, Ochre Hill, Jasmine, Helene 6/7 and the newly opened Helene 3 and Helene 5 pits.

The strong cash generation of the operation underpinned a gross profit of \$17.5 million for the first half (1H FY 10: \$11.2 million). The bottom line profit translated to earnings per share of **3.8 cents** (1H FY 10: 5.2 cents).

The net earnings of the Company for the period have been applied to the repayment of the Noble debt, which had been reduced to US\$20.9 million as at 31 December 2010.

Subsequent to the end of the period Territory entered into a non-binding, in-principle agreement with Noble Group for a debt-to-equity conversion of the core debt of US\$20.9 million, at a conversion price of 31.5 cents per share (see below).

Commenting on the interim result, Territory’s Managing Director, Mr Andy Haslam, said the Company’s financial performance was a creditable achievement in what had been an exceptionally rain-affected period.

“This is a very pleasing result, reflecting a nimble operating approach at Frances Creek,” he said. “Territory introduced a modified shipping program in late 2010, including lower-specification shipments, to

*Note: * All Dollars in this release are Australian Dollars unless otherwise specified*



Territory Resources Limited

23 Ventnor Avenue,
West Perth WA 6005
Telephone: +61 8 9483 5100
Facsimile : +61 8 9483 5111

maintain a consistent shipping performance during the start of the wet season and this has enabled us to deliver a solid financial result despite the heavy rains."

"We are pleased we were able to start the first half positively, as this has been a particularly big wet season. The rain that hit Queensland and the Northern Territory generated extremely difficult operating conditions which impacted our production and rail capabilities from late 2010. Consequently, we do not expect the second half results to be as strong as the first half," Mr Haslam continued.

Territory also announced strong growth in financial assets following the recapitalisation and relisting of Blackwood Corporation Limited (formerly Matilda Minerals Limited) on the ASX on 16 December 2010 (ASX Code: BWD). Territory elected to invest a further \$1 million based on the strength of Blackwood's Queensland coal development strategy. Territory now holds approximately 18% of Blackwood's issued capital and, based on the share price of \$0.28 at 31 December 2010, the market value of this holding now totals approximately \$8.4 million.

As a result of the Blackwood investment, total short term realisable financial assets totalled \$11.0 million at 31 December 2010 (1H FY10: \$243,000).

Market Update & Growth Strategy

Iron ore prices remained strong during the first half, with spot prices remaining above US\$100/tonne even for lower specification shipments. However, the strength of the Australian Dollar, which consistently reached parity with the US Dollar during the period, did offset some of the benefits received from the strong spot iron ore prices.

"The continued strength in the spot iron ore market has enabled us to realise substantial cash margins on our production," Mr Haslam said. "Our strategy has been to utilise this strong cash generation to reduce our corporate debt and deliver ongoing growth through exploration and acquisition."

On 17 February 2011, Territory announced a proposed US\$20.9M debt conversion with its major shareholder, Noble Group, and also announced plans to undertake additional capital raisings to underpin growth.

Upon successful completion of the combined capital raisings and debt conversion, Territory will be left with a strong balance sheet and robust cash flows to support ongoing exploration and resource development through product beneficiation and acquisition programs.

- ENDS -

Released by:
Nicholas Read
Read Corporate
Telephone: +61-8 9388 1474
Mobile: 0419 929 046

On behalf of:
Andy Haslam
Managing Director
Territory Resources Ltd
Telephone: +61-8 9483 5100

Forward-Looking Statements

This release may include forward-looking statements. These forward-looking statements are based on management's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of Territory Resources Limited, that could cause actual results to differ materially from such statements. Territory Resources Limited makes no undertaking to subsequently update or revise the forward-looking statements made in this release to reflect events or circumstances after the date of this release.

Territory Resources Limited

ABN 53 100 552 118

and its controlled entities

**Interim report
31 December 2010**

Territory Resources Limited ABN 53 100 552 118
Interim report - 31 December 2010

Contents

	Page No.
Corporate Directory	1
Directors' report	2
Auditor's Independence Declaration	4
Interim financial report	
Consolidated statement of comprehensive income	5
Consolidated balance sheet	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	8
Notes to the consolidated financial statements	9
Directors' declaration	15
Independent auditor's review report to the members	16

Corporate Directory

Directors

Andrew Simpson
Non-Executive Chairman

Andrew Haslam
Managing Director

Giuseppe Ariti
Non-Executive Director

Michael Donaldson
Non-Executive Director

Fiona Harris
Non-Executive Director

Ian McCubbing
Non-Executive Director

Company secretary

Patrick McCole

Registered office

Ground Floor, 23 Ventnor Avenue
West Perth Western Australia 6005
Tel: 08 9483 5000 Fax: 08 9483 5111

Website address

www.territoryresources.com.au

Email

admin@territoryresources.com.au

Auditor

PricewaterhouseCoopers
250 St Georges Terrace
Perth Western Australia 6000

Solicitors

Norton Rose Australia
Level 39, Bankwest Tower
108 St Georges Terrace
Perth Western Australia 6000

Cridlands mb Lawyers
GPO Box 1302
Darwin Northern Territory 0801

Share registry

Computershare Services Pty Limited
Level 2, 45 St Georges Terrace
Perth Western Australia 6000
Tel: 08 9323 2000 Fax: 08 9323 2033

Stock exchange

Territory Resources Limited shares are listed on the Australian Securities Exchange (ASX)

ASX code

TTY

Directors' report

Your directors present their report on the consolidated entity consisting of Territory Resources Limited and the entities it controlled ("Territory" or "Company" or "Group") at the end of, or during, the half-year ended 31 December 2010.

Directors

The following persons were directors of Territory at any time during the period and up to the date of this report:

Andrew Simpson
Andrew Haslam
Giuseppe Ariti
Michael Donaldson
Fiona Harris
Ian McCubbing

Review and results of operations

Territory achieved solid iron ore sales for the period of \$88.540 million (2009 \$82.024 million), which were underpinned by strong iron ore spot prices, despite lower than budgeted production from the Frances Creek operations in the Northern Territory due to the early wet season.

After the recognition of deferred taxation, that resulted in a deferred income tax expense of \$5.377 million (Dec 2009: benefit of \$0.400 million), Territory's profit after income tax for the period was \$9.926 million (Dec 2009: \$13.669 million).

Territory had \$2.608 million (Dec 2009: \$4.662 million) in foreign exchange gains during the period.

Noble debt reduction

During the period Territory repaid USD \$11.640 million in debt to the Noble Group, reducing the amount owed at 31 December 2010 to USD \$20.889 million (Dec 2009: USD \$32.529 million).

Blackwood Corporation

Blackwood Corporation Limited ("Blackwood") (formerly Matilda Minerals Limited) completed a recapitalisation and relisted on the ASX on 16 December 2010 under the new name Blackwood (ASX code: BWD). Territory held a 27% interest in Blackwood when it was placed into administration in October 2008.

Territory completed due diligence on Blackwood in the lead up to its re-listing, with Territory investing a further \$1 million in Blackwood based on the strength of its Queensland coal development strategy. The Group now holds approximately 18% of Blackwood's issued capital and based on the share price at 31 December 2010 of \$0.28 the market value of the holding is approximately \$8.4 million.

Gains in the fair value of available for sale financial assets of \$9.612 million (Dec 2009: \$0.06 million) in other comprehensive income for the period were driven in most part by Territory's investment in Blackwood Corporation which recapitalised and relisted on the ASX in December 2010.

As required by Territory's accounting policies, prior impairment losses recognised in profit and loss on equity instruments classified as available-for-sale are not reversed through profit and loss. Thus, the gains from Blackwoods re-listing will only be recognised in profit and loss on their sale.

Performance rights granted to directors

Performance rights over ordinary shares of Territory that have been granted during or since the end of the period to certain directors and performance rights that were exercised into ordinary shares are detailed in note 12 of this financial report.

Matters subsequent to the end of the financial half-year

Details of events occurring after the reporting period are disclosed in note 13 of the financial report.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out in page 4 of this financial report.

Rounding of amounts

The company is a company of the kind referred to in ASIC class order 98/0100, dated 10 July 1998, and in accordance with that class order amounts in the director's report and the half year financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of directors.



Giuseppe Ariti
Non-Executive Director

Perth
28 February 2011



Auditor's Independence Declaration

As lead auditor for the review of Territory Resources Ltd for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Territory Resources Ltd and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Nick Henry'.

Nick Henry
Partner
PricewaterhouseCoopers

Perth
28 February 2011

Territory Resources Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2010

		Half-year	
	Notes	2010 \$'000	2009 \$'000
Revenue from continuing operations			
Revenue from sale of goods	3	88,540	82,024
Cost of goods sold		<u>(71,023)</u>	<u>(70,858)</u>
Gross profit		<u>17,517</u>	<u>11,166</u>
Other revenue	3	669	587
Other income	3	2,608	4,662
Expenses			
Corporate	4	(4,104)	(4,093)
Other	4	(352)	(555)
Reversal of impairment of assets	4	75	3,795
Finance expenses	4	<u>(1,110)</u>	<u>(2,293)</u>
Profit before income tax for the period		<u>15,303</u>	<u>13,269</u>
Income tax (expense)/benefit		<u>(5,377)</u>	<u>400</u>
Profit after income tax		<u>9,926</u>	<u>13,669</u>
Other comprehensive income			
Changes in the fair value of available-for-sale financial assets		9,612	60
Changes in the fair value of cash flow hedges		<u>-</u>	<u>1,615</u>
Other comprehensive income for the period		<u>9,612</u>	<u>1,675</u>
Total comprehensive income for the period		<u>19,538</u>	<u>15,344</u>
Profit is attributable to:			
Owners of Territory Resources Limited		<u>9,926</u>	<u>13,669</u>
		<u>9,926</u>	<u>13,669</u>
Total comprehensive income is attributable to:			
Owners of Territory Resources Limited		<u>19,538</u>	<u>15,344</u>
		<u>19,538</u>	<u>15,344</u>
		Cents	Cents
Earnings per share attributable to the ordinary equity holders of the parent entity:			
Basic earnings per share		3.8	5.2

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Territory Resources Limited
Consolidated balance sheet
As at 31 December 2010

		31 December	30 June
		2010	2010
	Notes	\$'000	\$'000
ASSETS			
Current assets			
Cash and cash equivalents		1,367	1,474
Trade and other receivables	5	10,945	21,379
Inventories		21,942	24,166
Available-for-sale financial assets	6	11,074	-
Other current assets		<u>48</u>	<u>59</u>
Total current assets		<u>45,376</u>	<u>47,078</u>
Non-current assets			
Receivables		4,685	2,875
Available-for-sale financial assets	7	-	243
Property, plant and equipment		46,407	44,037
Deferred tax assets		-	5,262
Exploration and evaluation		<u>9,028</u>	<u>8,045</u>
Total non-current assets		<u>60,120</u>	<u>60,462</u>
Total assets		<u>105,496</u>	<u>107,540</u>
LIABILITIES			
Current liabilities			
Trade and other payables		15,826	20,851
Borrowings	8	21,126	6,399
Provisions		<u>748</u>	<u>359</u>
Total current liabilities		<u>37,700</u>	<u>27,609</u>
Non-current liabilities			
Borrowings	9	5,074	37,684
Deferred tax liabilities		115	-
Provisions		<u>4,748</u>	<u>4,293</u>
Total non-current liabilities		<u>9,937</u>	<u>41,977</u>
Total liabilities		<u>47,637</u>	<u>69,586</u>
Net assets		<u>57,859</u>	<u>37,954</u>
EQUITY			
Contributed equity	10	118,284	118,284
Reserves		14,210	4,233
Accumulated losses		<u>(74,635)</u>	<u>(84,563)</u>
Attributable to equity holders of the company		57,859	37,954
Total equity		<u>57,859</u>	<u>37,954</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Territory Resources Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2010

Consolidated	Notes	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total \$'000	Minority interest \$'000	Total equity \$'000
Balance at 1 July 2009		<u>118,284</u>	<u>3,394</u>	<u>(126,445)</u>	<u>(4,767)</u>	<u>630</u>	<u>(4,137)</u>
Profit for the half-year		-	-	13,669	13,669	-	13,669
Available for sale financial assets, net of tax	10	-	60	-	60	-	60
Changes in fair value of derivative financial instruments, net of tax		<u>-</u>	<u>1,615</u>	<u>-</u>	<u>1,615</u>	<u>-</u>	<u>1,615</u>
Total comprehensive income for the period		<u>-</u>	<u>1,675</u>	<u>13,669</u>	<u>15,344</u>	<u>-</u>	<u>15,344</u>
Transactions with owners in their capacity as owners:							
Employee share options - value of employee services		-	222	-	222	-	222
Transfer to reserves		-	(620)	620	-	-	-
Sale of subsidiary		-	-	-	-	(630)	(630)
Balance at 31 December 2009		<u>118,284</u>	<u>4,671</u>	<u>(112,156)</u>	<u>10,799</u>	<u>-</u>	<u>10,799</u>
Balance at 1 July 2010		<u>118,284</u>	<u>4,231</u>	<u>(84,561)</u>	<u>37,954</u>	<u>-</u>	<u>37,954</u>
Profit for the half-year		-	-	9,926	9,926	-	9,926
Available for sale financial assets, net of tax	10	<u>-</u>	<u>9,612</u>	<u>-</u>	<u>9,612</u>	<u>-</u>	<u>9,612</u>
Total comprehensive income for the period		<u>-</u>	<u>9,612</u>	<u>9,926</u>	<u>19,538</u>	<u>-</u>	<u>19,538</u>
Transactions with owners in their capacity as owners:							
Employee share rights - value of employee services		-	367	-	367	-	367
Balance at 31 December 2010		<u>118,284</u>	<u>14,210</u>	<u>(74,635)</u>	<u>57,859</u>	<u>-</u>	<u>57,859</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Territory Resources Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2010

	Half-year	
	2010 \$'000	2009 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	93,001	80,219
Payments to suppliers and employees (inclusive of goods and services tax)	<u>(73,993)</u>	<u>(65,930)</u>
	19,008	14,289
Payments on settlement of derivative financial instruments	-	(1,796)
Interest received and other items of a similar nature received	31	-
Interest and other costs of finance paid	(1,063)	(1,143)
Payments for exploration expense	<u>(352)</u>	<u>(101)</u>
Net cash inflow from operating activities	<u>17,624</u>	<u>11,249</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(3,851)	(1,682)
Payments for equity investments	(1,000)	-
Payments for bonds	(1,817)	(641)
Loans to related parties	-	-
Proceeds from sale of equity investments	-	213
Proceeds from sale of property, plant and equipment	-	650
Proceeds from sale of subsidiary	-	1,750
Proceeds from loan funds repaid by other entities	-	2,961
Interest received and other items of a similar nature received	-	62
Payments for exploration capitalised	<u>(2,215)</u>	<u>(1,782)</u>
Net cash (outflow) inflow from investing activities	<u>(8,883)</u>	<u>1,531</u>
Cash flows from financing activities		
Proceeds from advances on sales	-	65,051
Repayment of advances on sales	-	(76,504)
Proceeds from borrowings	559	2,348
Loan funds repaid by other entities	3,825	-
Repayment of borrowings	<u>(13,232)</u>	<u>(4,136)</u>
Net cash outflow from financing activities	<u>(8,848)</u>	<u>(13,241)</u>
Net decrease in cash and cash equivalents	(107)	(461)
Cash and cash equivalents at the beginning of the half-year	<u>1,474</u>	<u>1,183</u>
Cash and cash equivalents at end of the half-year	<u>1,367</u>	<u>722</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Basis of preparation of half-year report

This general purpose interim financial report for the half-year reporting period ended 31 December 2010 has been prepared in accordance with the *Corporations Act 2001* and accounting standard *AASB 134 Interim Financial Reporting*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Territory during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These financial statements have been prepared under the historical cost convention. All amounts are presented in Australian dollars, unless otherwise stated.

The accounting policies and methods of computation adopted are consistent with those adopted and disclosed in the company's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below.

Territory has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and effective for the current reporting period. Initial adoption of these Standards and Interpretations did not have a material impact on Territory's accounting policies and have no effect on the amounts reported for the current or prior periods.

a) Impact of standards issued but not yet applied by the entity

In December 2009, the AASB issued AASB 9 Financial Instruments which addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. However, initial indications are that it may affect the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised \$9.612 million of such gains in other comprehensive income. The group has not yet decided when to adopt AASB 9.

2 Segment information

Territory determines and presents operating segments based on the information that internally is provided to Territory's chief operating decision maker. The chief operating decision maker that makes the strategic decisions has been identified as the Board of Directors. The Board of Directors considers the business from both a product and a geographic perspective and has identified one reportable segment.

Territory operates in predominantly one industry in which the principle activities are iron ore production and exploration.

3 Revenue and other income

	Half-year	
	2010 \$'000	2009 \$'000
Sales revenue		
Sale of iron ore	88,540	84,038
Hedge losses on exchange contracts brought to account	-	(2,014)
	<u>88,540</u>	<u>82,024</u>
Other revenue		
Rents and sub-lease rentals	321	300
Interest revenue	41	62
Despatch and demurrage on iron ore shipments (net)	307	225
	<u>669</u>	<u>587</u>
Other income		
Foreign exchange gains (net)	<u>2,608</u>	<u>4,662</u>

4 Expenses

Profit before income tax includes the following specific expenses:

Finance expenses

Interest and finance charges paid/payable for financial liabilities not at fair value through profit or loss	(1,091)	(2,150)
Provisions: unwinding of discount	(19)	(143)
	<u>(1,110)</u>	<u>(2,293)</u>

Corporate

Occupancy	(155)	(114)
Administration	(3,949)	(3,979)
	<u>(4,104)</u>	<u>(4,093)</u>

Other

Exploration expenditure	(352)	(101)
Net loss on sale of assets	-	(454)
	<u>(352)</u>	<u>(555)</u>

Reversal of impairment of assets

Loan to Swan Gold Mining Ltd (see note 5)	<u>75</u>	<u>3,795</u>
---	-----------	--------------

5 Current assets - Trade and other receivables

	31 December 2010 \$'000	30 June 2010 \$'000
Trade receivables		
Iron ore sales	<u>8,838</u>	<u>15,560</u>
Other receivables		
Other receivables	2,107	3,339
Provision for impairment	<u>-</u>	<u>(770)</u>
	<u>2,107</u>	<u>2,569</u>
Due from Swan Gold Mining Ltd		
Loan	12,405	15,730
Other	1,090	1,090
Provision for impairment	<u>(13,495)</u>	<u>(13,570)</u>
	<u>-</u>	<u>3,250</u>
	<u>10,945</u>	<u>21,379</u>

Nature of impaired receivables

The amount outstanding is applicable to Swan Gold Mining Limited ("Swan"), which is secured over certain assets of the Swan Group.

During the period, Territory received \$3.825 million in loan repayments from Swan and India Resources Limited and reversed \$75,000 (Dec 2009: \$3.795 million) in impairment on amounts due from Swan (see note 4).

In November 2010, following successful contract negotiations for the renewal of the rail freight contract, Territory agreed to release the counterparty from an existing receivable of \$770,000, which had been impaired in prior years.

6 Current assets - Available-for-sale financial assets

	31 December 2010 \$'000	30 June 2010 \$'000
Listed share investments at market value	<u>11,074</u>	<u>-</u>

Blackwood recapitalisation

During the period, Blackwood Corporation Limited ("Blackwood") (formerly Matilda Minerals Limited) completed a recapitalisation and relisted on the Australian Securities Exchange on 16 December 2010 under the new name Blackwood (ASX code: BWD). Territory's 27% interest in Blackwood's issued capital was fully impaired in prior years when it was placed into administration in October 2008.

The Blackwood recapitalisation, amongst other available-for-sale marketable equity investments, has resulted in a significant fair value revaluation of \$9.612 million (Dec 2010: \$60,000) for the period. This revaluation has been taken to reserves (see note 10)

Territory now holds approximately 18% of Blackwood's issued capital, and based on the share price at 31 December 2010 of \$0.28 the market value of the holding is approximately \$8.4 million.

7 Non-current assets - Available-for-sale financial assets

	31 December 2010 \$'000	30 June 2010 \$'000
Listed share investments at market value	-	243

At 31 December 2010, Territory considers it more appropriate to classify available-for-sale financial assets as current, as a result these marketable equity investments have been reclassified to current assets (see note 6).

8 Current liabilities - Borrowings

	31 December 2010 \$'000	30 June 2010 \$'000
Secured		
Loans from related party (a)	20,554	657
Lease liabilities (b)	572	742
Loans from unrelated party (c)	-	5,000
Total current borrowings	<u>21,126</u>	<u>6,399</u>

Nature of secured liabilities and assets pledged as security

(a) Noble Resources Limited ('Noble'), a substantial shareholder in Territory, holds a fixed and floating charge over the Group's assets, a mortgage over shares in key subsidiaries and a mining tenement mortgage over the Frances Creek mining leases to secure the funding provided. The repayment date of these debts owed to Noble is 31 October 2011 or such later date as agreed.

(b) Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor on default.

(c) The loan from a financial institution of \$5 million is secured by a first ranking mortgage over Territory's freehold land and buildings. During the period, this loan was refinanced with another financial institution under similar terms and conditions and was reclassified to non-current borrowings.

Further information relating to loans from related parties is set out in note 12.

9 Non-current liabilities - Borrowings

	31 December 2010 \$'000	30 June 2010 \$'000
Secured		
Lease liabilities (see note 8b)	74	175
Loans from related party (see note 8a)	-	37,509
Loans from unrelated party (see note 8c)	5,000	-
Total non-current borrowings	<u>5,074</u>	<u>37,684</u>

The loan from the related party has been reclassified to current as it is due to be repaid in full by 31 October 2011 or such later date as agreed. For more information see notes 8 and 13.

10 Contributed equity and reserves

Performance rights issuance and conversion

During the period the Territory issued 514,753 fully vested performance rights to Directors over ordinary shares under its performance share rights plan, as approved by shareholders at the General Meeting dated 13 October 2010. These performance rights had a fair value at grant date of \$0.35 per performance right, resulting in a share based payment of \$180,164. For further information see note 12.

These performance rights were exercised on 9 December 2010, as a result 514,753 ordinary shares were issued during the period.

At 31 December 2010, Territory had 265,121,141 (Jun 2010: 264,606,388) fully paid ordinary shares on issue.

Available for sale asset revaluation reserve

During the period this reserve had a revaluation movement of \$9.612 million (Dec 2009: \$60,000) as a result of a revaluation of marketable equity investments (see note 6).

At 31 December 2010 this reserve balance was \$9.220 million (June 2010: (\$391,000)).

11 Commitments and contingencies

At 31 December 2010, there were no material changes to commitments and contingencies to those disclosed in the most recent Annual Report.

12 Related party transactions

The following transactions occurred with related parties during the period:

Noble Group

Noble holds 28.96% of the issued shares of Territory and currently provides funding for Territory under conditions detailed in note 8 of this financial report and further disclosed in the most recent Annual Report. During the period, Territory repaid USD \$11.640 million (Dec 2009: USD \$66.81 million, including advances) of debt to Noble. Interest expense incurred and paid on the loan to Noble was USD \$0.70 million (Dec 2009: USD \$0.21 million) during the period.

Territory also accrued or paid \$3.21 million (Dec 2009: \$2.87 million) to Noble during the period in marketing services in relation to the sale of iron ore under a life-of-mine Marketing and Offtake agreement.

At 31 December 2010, total debt outstanding was USD \$20.889 million (June 2010: USD 32.529 million).

Resources & Technology Marketing Services

Mr Andrew Simpson is a director of Resources & Technology Marketing Services which during the period provided certain marketing services to Territory to the value of \$60,000 (Dec 2009: \$60,000). The services are provided on normal commercial terms.

Barrington Consulting Group Pty Ltd

Ms Fiona Harris is the Chairman and 100% shareholder of Barrington Consulting Group which, during the period provided certain risk and strategy services to Territory to the value of \$26,030 (Dec 2009: \$0). The services were provided on normal commercial terms.

Blackwood Corporation

Mr Andrew Simpson is a director of Blackwood Corporation, which during the period completed a recapitalisation and relisting on the Australian Securities Exchange. As part of the recapitalisation, Territory elected to invest \$1 million dollars (5,000,000 shares at \$0.20 cents each) in Blackwood. For further information see note 6.

Director Performance Rights

During the period, Mr Andrew Simpson was granted 171,585 fully vested performance rights over ordinary shares of Territory, while Mr Giuseppe Ariti, Mr Michael Donaldson, Ms Fiona Harris and Mr Ian McCubbing were each granted 85,792 fully vested performance rights over ordinary shares of Territory. For further information see note 10.

13 Events occurring after the reporting period

Loan due from Swan Gold

Swan Gold has entered into a sale process for certain assets it holds to a counterparty, which includes the assets that are secured by Territory's fully impaired \$13.495 million loan to Swan Gold as detailed in note 5 of this financial report.

If the sale proceeds, Territory will fully recover the \$13.495 million loan due from Swan Gold in two tranches. \$6.5 million will be received on settlement date of the sale, with the remaining balance paid on 26 February 2012.

The sale of the assets to the counterparty is subject to certain conditions precedent being fulfilled by both Swan Gold and the counterparty, including relevant shareholder approvals prior to sale occurring.

Noble debt conversion and additional capital raising

Territory announced to the ASX on 17 February 2011, that it has entered into a non-binding in-principle agreement with its major shareholder, Noble, for a debt-to-equity conversion for the entire remaining core debt owing under its secured debt facilities with Noble (refer to note 8). It is proposed that 66.7 million ordinary shares with the subscription price of \$0.315 per share be issued.

In addition, Territory has resolved to offer:

- a \$2.5 million share placement to one of its other major shareholders, DCM Decometal GMBH ("DCM"), at the same price as the proposed Debt Conversion (no agreement has been reached to date with DCM), and
- a share purchase plan under which all shareholders will have the opportunity to subscribe for up to \$10,000 worth of new fully paid ordinary Territory shares at 30 cents per share, conditional on completion of the Debt Conversion.

The proposed Debt Conversion is subject to binding definitive agreements being reached with Noble, and will be conditional on shareholder approval. If binding definitive agreements are not concluded, or shareholder approval is not obtained, the debt conversion will not proceed.

The financial effects of the above events have not been brought to account at 31 December 2010.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 5 to 14 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Giuseppe Ariti
Non-Executive Director

Perth
28 February 2011



Independent auditor's review report to the members of Territory Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Territory Resources Limited, which comprises the balance sheet as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for the Territory Resources Limited Group (the consolidated entity). The consolidated entity comprises both Territory Resources Limited (the company) and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Territory Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers, ABN 52 780 433 757

QV1,250 St Georges Terrace, PERTH WA 6000, GPO BOX D198, PERTH WA 6840

DX 77 Perth, Australia

T +61 8 9238 3000, F +61 8 9238 3999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Independent auditor's review report to the members of Territory Resources Limited (continued)

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Territory Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Henry'.

Nick Henry
Partner

Perth
28 February 2011