Title Holder	Territory Resources Limited
Operator	Territory Resources Limited
Tenement Manager / Agent	Australian Mining & Exploration Titles Services
Titles / Tenements	EL22856
Mine / Project Details	Saddles Extended
Reporting Title	EL22856 Saddles Extended Annual Report for the Period 5th February 2010 to 4th February 2011
Personal Authors	David Broomfield
Corporate Authors	Territory Resources Limited
Company Reference Number	
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Report Date	25 February 2011
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100k Mapsheet	Pine Creek 5270 1:100,000 Sheet, McKinley River 5271 1:100,00 Sheet
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TERRITORY RESOURCES LIMITED

A.C.N. 100 552 118

EL22856 SADDLES EXTENDED

ANNUAL REPORT

For the Period

5th February 2010 – 4th February 2011

Pine Creek SD52-08 1:250,000 Sheet
Pine Creek 5270 1:100, 000 Sheet
McKinley River 5271 1:100,000 Sheet

David Broomfield
February 2011

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SUMMARY

Significant work was undertaken for the year ending 4th February 2011 within EL22856 (Saddles Extended tenement) targeting Frances Creek style hydrothermal hematite mineralisation and comprised:

- Seven (7) PQ3-diameter metallurgical diamond drill holes specifically targeting the hematite-goethite iron ore mineralisation of the Saddles Extended deposit, for **273.4** metres;
- Commencement of detailed metallurgical test work on drill core from the above programme at Nagrom Laboratory in Perth (all results pending at reporting year end);
- Completion of 15.3 line km of ground gravity surveying by Haines Surveys Pty Ltd, as part of a larger geophysical programme across exploration tenements north of the Frances Creek Mine;
- Geophysical interpretation, targeting and reporting of this ground gravity data (incorporating all historical data for EL22856) by Hawke Geophysics Pty Ltd;
- Updating of associated Aboriginal Heritage work was conducted over the proposed work areas prior to ground disturbance (holes were all completed on previously disturbed RC drill pads and largely twinned the historical RC holes as a result);
- A review of the previous Mineral Resource model generated in the 2009-10 reporting year was undertaken in-house and this was classified at a pre-JORC confidence level;
- A significant review of historical drilling and geological mapping data was also undertaken and it was determined that the prospective Koolpin Formation had been poorly examined by exploration in the recent past;
- Areas directly north of the low-grade Elisabeth Marion deposit within the highly prospective Wildman Siltstone Formation had received no direct exploration (new geophysical targets are located here); and
- Territory was compiling a large MMP at reporting year's end, which incorporates exploratory drilling and geological reconnaissance works for 2011-12.

Expenditure for the reporting period was **$617,534**.

1. INTRODUCTION

This report is submitted by Territory Iron Ltd to meet statutory reporting commitments on tenement EL22856 for the year ending 4th February 2011. Exploration within the tenement is focussed on iron ore mineralisation, although the manganese potential for the Koolpin Formation on the west of the tenement has yet to be fully reviewed.

EL22856 is located about 1km north west of the old Frances Creek iron ore mining district from which about six million tonnes was produced during the period 1967-74. The mining district lies 23km north of the township of Pine Creek which is located on the Stuart Highway about 220km south of Darwin (Figure 1). Access from Pine Creek is along the sealed Kakadu Highway for 2km and then along the graded Frances Creek Mine road for 23km to the old iron ore mine site.

Access from Frances Creek Mine through to the tenement is generally poor. Presently it is via the Ochre Hill-Millers Road which was re-established by Territory Iron Ltd during 2004-05 to access these prospects. This road runs mainly outside and along the eastern boundary of the tenement. It is not maintained by either leaseholders or the NT authorities and use of 4WD vehicles is advisable at most times. Vehicular access off this road is usually not possible between the December to May tropical monsoon wet season.

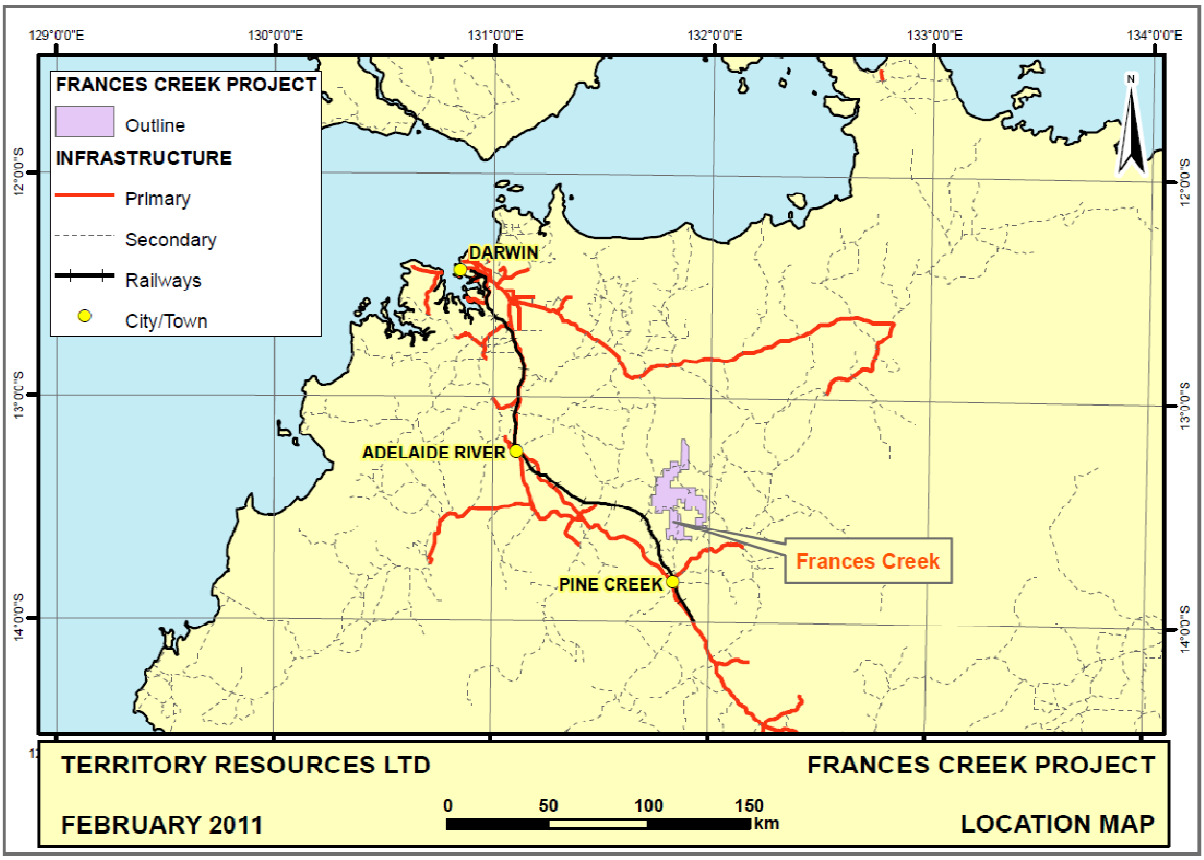

Figure 1: ***Frances Creek Project - Location Plan***

2. TENURE

2.1 Mineral Rights

EL22856 was granted to Territory Iron Limited on 5 February 2003. The original 6 year term of the tenement expired on 4 February 2009. Renewal was applied for on 20 October 2008 for a term of 2 years, and this was subsequently granted on the 26 November 2008. The tenement retained its anniversary date of 5 February, and the current expiry date for the 2 year extension is 4th February 2011 (another renewal for a further 2 years is currently pending).

The tenement covers 56.5 km^2 or approximately 17 graticular blocks. The covenant for the 2010-11 reporting year was $242,500 (which was easily exceeded by Territory).

2.2 Land Tenure

The tenement includes parts of the following land tenure:

- Ban Ban Springs Pastoral Lease

2.3 Aboriginal Sacred Site Clearance & Native Title

- A search of the Aboriginal Areas Protection Authority's sacred site digital register carried out prior to the commencement of drilling indicated no Registered or Recorded sites within the tenement area;

- Prior to ground-disturbance an archaeological team was deployed over the area to identify artefact scatter sites that were duly avoided, with access tracks relocated and drill hole locations moved away from identified sites;

- A Registered native title claim DC01/21 Ban Ban Springs, lodged on 13 March 2001, covers the tenement area.

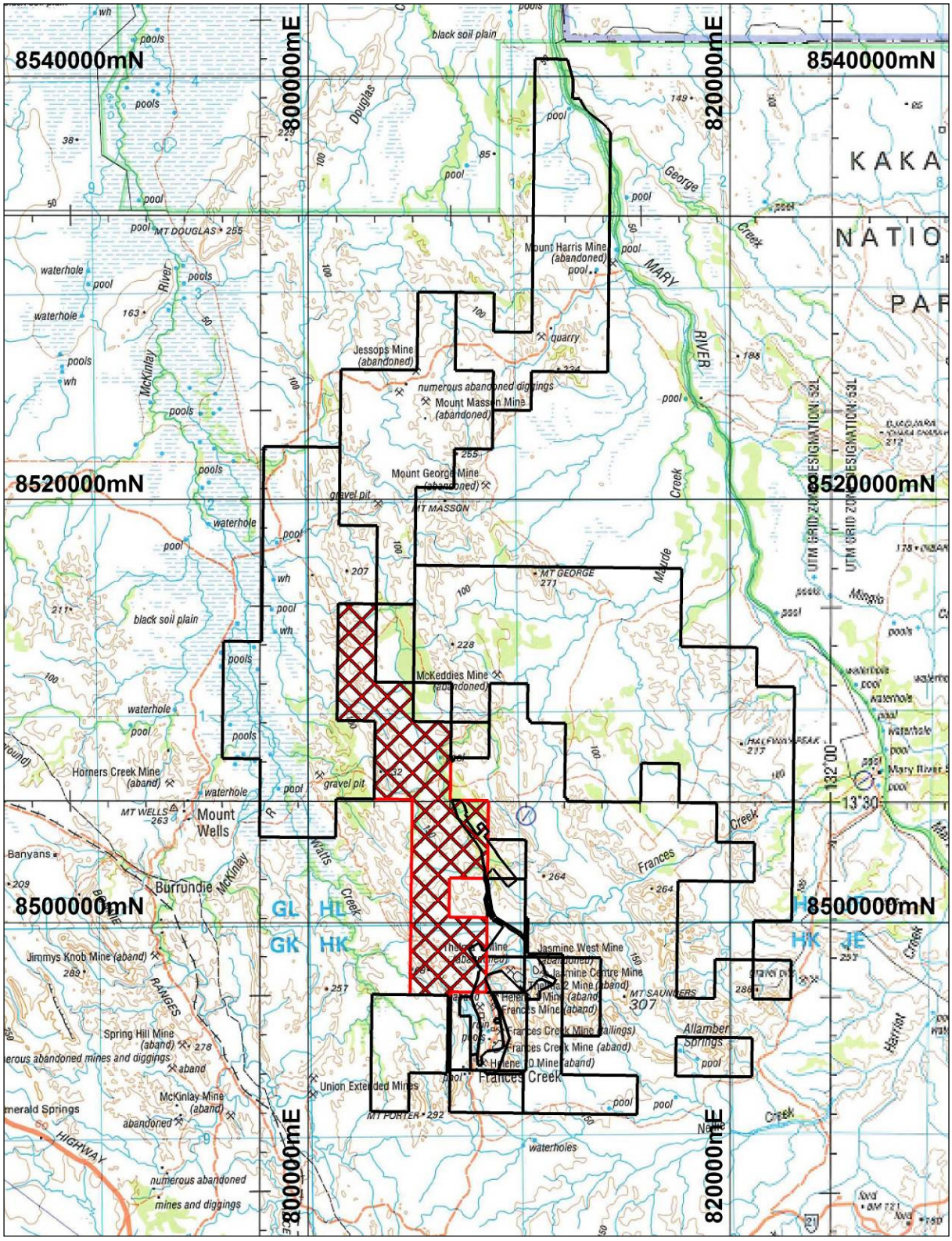

Figure 2: Saddles Extended (EL22856) Tenement Location Plan (hatched)

3. LOCAL GEOLOGY

Palaeoproterozoic sediments of the Mt Partridge and the overlying South Alligator Groups occur within the tenement area. The Wildman Siltstone Formation of the Mt Partridge Group predominates while rock units of the Koolpin Formation and Gerowie Tuff occur along the western boundary of the tenement.

The Wildman Siltstone comprises two informal sequences. The lower sequence consists of carbonaceous phyllite, hematite breccias, siltstone and phyllite, which at depth is reported to be pyritic and carbonaceous. The upper sequence consists of similar rock units, but also contains minor sandstone and rare dolarenite. Ironstone, and hence the development of iron occurrences, is absent from this sequence.

The Koolpin Formation consists of carbonaceous pelites, carbonates and iron formation, and is subdivided into three informal members. The Lower Member comprises carbonaceous mudstone, mudstone, siltstone and limestone. The Middle Member is characterised by the first appearance of banded iron formation. The Upper Member comprises thinly laminated carbonaceous shale and mudstone with abundant fine pyrite and pyrrhotite and shows up prominently on aeromagnetic imagery.

The Gerowie Tuff is composed of siltstone, phyllite, tuff and minor chert nodules.

Numerous conformable sills of pre-orogenic Zamu Dolerite have preferentially intruded the pelitic units of the Gerowie Tuff, Koolpin Formation and the underlying Wildman Siltstone.

These sediments, volcanics and dolerite sills have been moderately to tightly folded about NNW trending axes into a series of synforms-antiforms with vertical dips or steep dips to either side of vertical. On a regional scale, these structures form an anticlinorium with a dominant westerly dip within the tenement area.

Regional lower greenschist grade metamorphism accompanied the folding event during a major deformation period between 1870-1810 Ma.

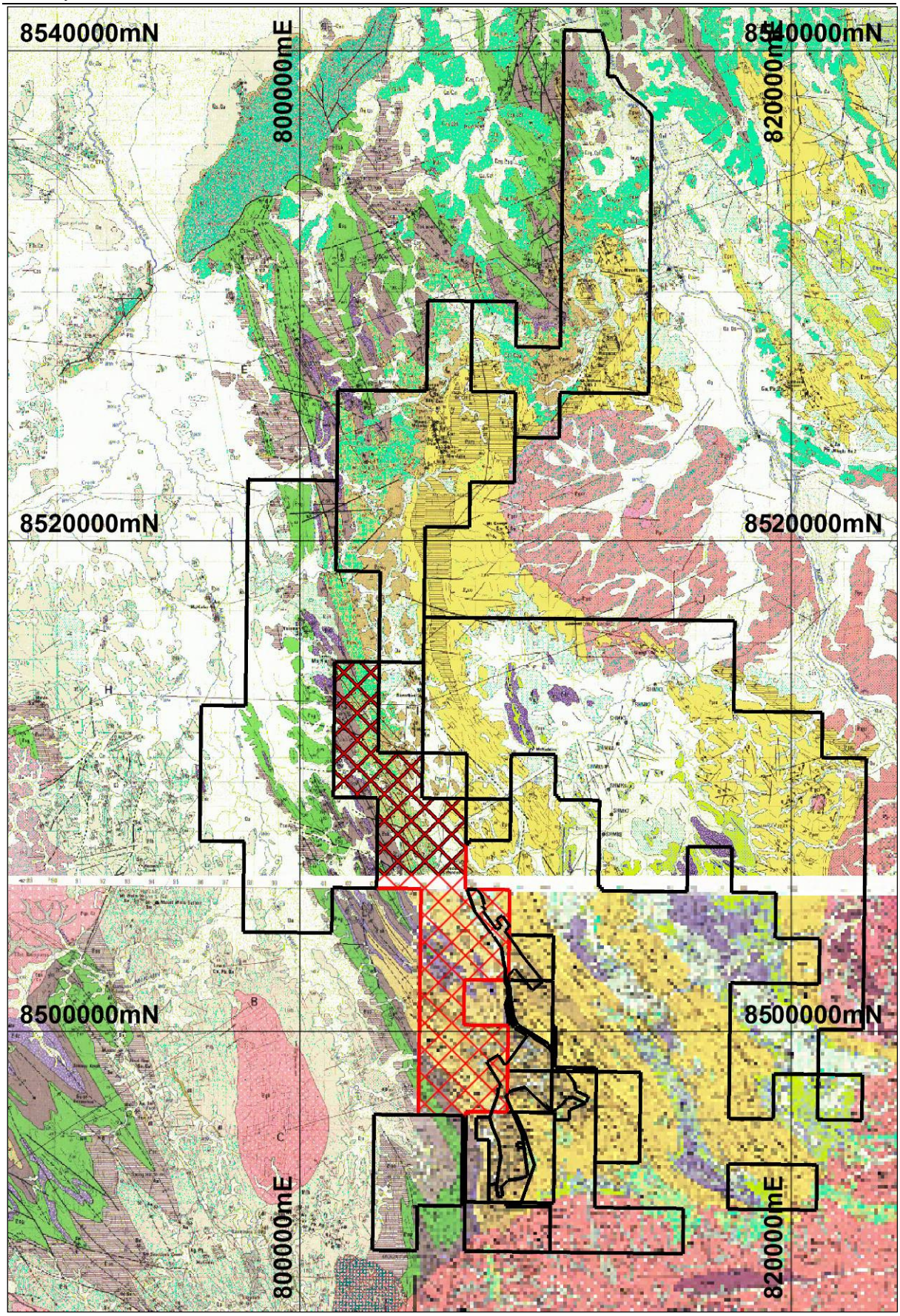

Figure 3: Saddles Extended (EL22856) Tenement (red hatch) over Geology Map

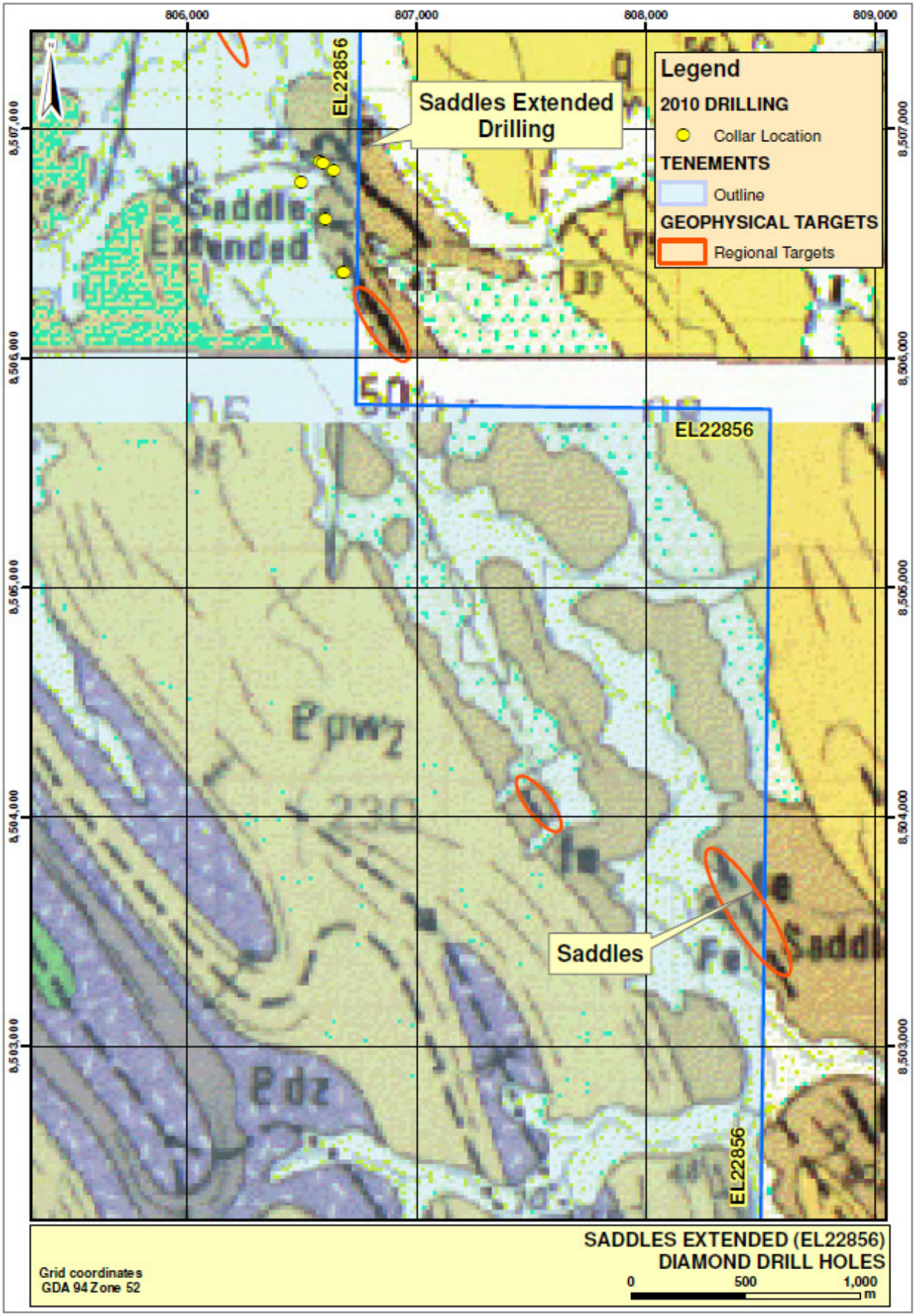

Figure 4: Diamond Drill Holes - Saddles Extended (EL22856)

4. MINERALISATION

Iron occurrences within EL22856 are known north west of Elisabeth Marion and Saddles Extended. Saddles Extended is the only occurrence that could be considered of sufficient size and quality (at present) to potentially represent an economically viable iron ore resource.

During 2010, large diameter diamond drilling was completed at Saddles Extended, to obtain metallurgical samples for physical properties analysis, and also to improve resource confidence for mine planning and mineral extraction purposes (see Figures 4-5 for drill hole locations). This test was ongoing at Nagrom, Perth at the date of this report.

At Frances Creek, iron ore mineralisation occurs mainly in the lower Wildman Siltstone Formation as haematite or hematite-goethite-manganese mineralisation. Hematite deposits are believed to have formed by low temperature hydrothermal replacement of brecciated Wildman Siltstone. Breccia zones, and hence usually hematite mineralisation are frequently stratiform, with their distribution controlled by D3 folds and associated axial planar faults. Hematite-goethite-manganese deposits possibly have a similar hydrothermal origin but may have undergone extensive weathering related hydration, or may have had a sulphide rich parent rock (probably the abundant black shale units known from the region).

While the Koolpin Formation is not reported to host iron occurrences within the tenement area, Ahmad et al (1993) describe the banded iron formation of the Middle Member as forming near surface gossanous, haematite-limonite bodies which give way at depth to ferro-actinolite, Fe-rich chlorite, garnet, siderite, quartz, carbonates and sulphides. Small iron and manganese ore occurrences occur in the Koolpin Formation within EL22856. These will be examined in far greater detail during geological reconnaissance programmes planned for 2011.

Only one gold occurrence, the Watts Creek alluvial gold prospect (near 805780mE 8499630mN Zone 52), is recoded within EL22856. Gold mineralisation is known on a regional scale to occur in: the Wildman Siltstone, the middle and upper Koolpin Formation, the Gerowie Tuff and Mount Bonnie Formation, and in sills of the Zamu Dolerite which intrude the Koolpin Formation and Gerowie Tuff. Gold mineralisation within the Pine Creek Inlier is probably associated with intrusion of the syn-orogenic granites (e.g. Cullen Batholith). It is certainly feasible that the bulk of the anticline-associated vein-type deposits relate to structural re-activation of regional fold structures during intrusive events.

Possible gold mineralisation styles and targets related to these rocks are according to Goulevitch (1980): sheeted and stock-work quartz-sulphide veins systems with mineralisation preferentially associated with a strong carbonaceous and/or sulphide in the host sequence (e.g. Woolwonga, Moline) or with competency contrasts between greywacke and shale (e.g. Union Reef, Spring Hill); sediment-hosted stratiform mineralisation and quartz-sulphide vein-hosted stratabound mineralisation associated with chert iron formation and carbonaceous mudstone mainly in the Koolpin Formation (e.g. Mount Porter); stratiform, massive to banded, sulphide-silicate-carbonate mineralisation in the Mount Bonnie Formation (e.g. Mt Bonnie, Moline).

Whilst Territory holds all the gold rights to EL22586, the focus in the coming year will be on exploration for, and the proving up of the tenement's DSO iron ore and manganese potential.

5. WORK COMPLETED FOR 2010-11

5.1 Ground Gravity Geophysical Survey

During July-August 2010, Territory Resources Ltd undertook a significant ground gravity geophysical survey programme in granted exploration tenure, north of the Frances Creek Mine. A total of 15.3 line kilometres of surveying took place within EL22856 on 200m spaced lines with 50m stations. Haines Surveys Pty Ltd completed the survey work and all data was then passed onto Hawke Geophysics Pty Ltd for analysis and interpretation.

Hawke Geophysics was also supplied with all historical geophysical data collected from the Frances Creek Project during the last five years. The intention was to identify specific characteristics of the near mine geophysical responses and extrapolate these to the under-explored regional tenement package.

Hawke identified six (6) geophysical targets for follow up within the EL22856 tenement (details in Appendix 2). The areas were located directly north west of the Elisabeth Marion Prospect (within an anticlinal closure) and north west of the Saddles Extended deposit on the strike of the Wildman Siltstone strata.

The latter targets represent "blind" iron ore targets in regions of no outcrop (or poor outcrop) and alluvial cover. The targets all lie near the interpreted position of the black shale marker unit, which sits as the footwall to the main Frances Creek Mine iron ore mineralisation near the Mundogie Sandstone Formation-Wildman Siltstone Formation contact. This area consistently showed a distinctive gravity response, between lighter footwall stratigraphy and heavier hanging wall or target iron ore stratigraphy. These interpreted contacts will be tested very thoroughly by RAB/Aircore drilling programmes during the dry season of 2011. Prospective intersections will then be tested to depth with RC and/or diamond drilling.

Additionally, western areas of tenement EL22856 that contain the Koolpin Formation stratigraphy will undergo first-pass geological mapping and rock chip sampling to determine potential for iron ore and manganese mineralisation.

5.2 Drill-pad and access preparation

Drill rig access was re-established to various drill hole locations at Saddles Extended by lightly grading previously formed tracks and enlarging RC pads very slightly so twinned diamond drill holes could be completed. Sumps were established within existing pads for re-circulation and capture of drilling fluids for the diamond drilling programme.

5.3 Diamond Drilling

Seven (7) PQ3-diameter (i.e. triple tube) diamond drill holes were completed at Saddles Extended for a total of **273.4** metres. Hole numbers were **SEDD001→SEDD007**. As mentioned, these drill holes effectively twinned higher-grade intersections in historical RC drill holes in order to supply enough volume of drill core for metallurgical test work to be undertaken.

The drilling was undertaken by H2O Drilling Pty Ltd using a Mole Pioneer Investigator diamond drilling rig. Drill core (triple tube) was collected at the drill site an immediately

placed into suitable size core trays. Core was marked in metre intervals; however, drill core was not required to be orientated owing to the fact that the core was going to be used for metallurgical test work and hence was going to undergo destruction.

All relevant digital data is included in Appendix 3. All diamond drill core photography is attached in Appendix 4.

5.4 Metallurgical Test Work

As detailed above, diamond drill core for metallurgical test work has been sent to Nagrom, Perth. The test work is ongoing at reporting year end and all results will be reported next year.

Should beneficiation results of the test work prove positive for the Saddles Extended goethite-hematite deposit, Territory will commit to a more detailed drilling programme for Mineral Resource definition at the Prospect during 2011.

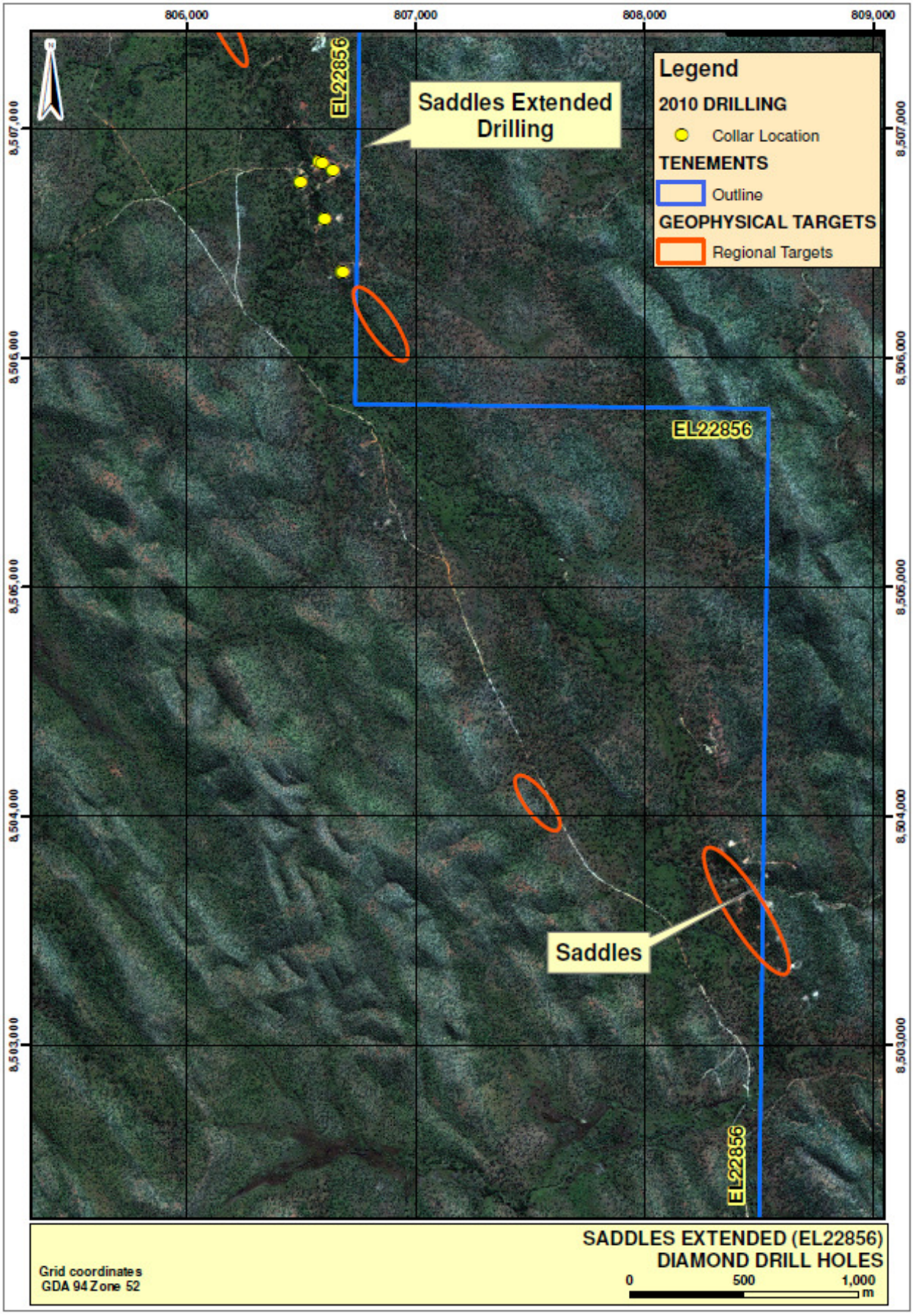

Figure 5: Diamond Drill Holes - Saddles Extended (EL22856)

5.5 Resource Modelling

During 2009, historical and recent drill hole data were used to generate a non-JORC compliant Mineral Resource model and resource report for further resource development and infill drilling work. A geological model was constructed that was then filled by inverse distance interpolated grades for iron, silica, alumina, phosphorus, manganese, and loss-on-ignition (see Hassall, 2010).

As a guide, a preliminary resource has been quoted from the model, and is shown below (Table 1).

Class	Volume	Tonnes	Fe	SiO2	Al2O3	P	Mn	LOI
Pre-JORC	897,563	2,917,078	57.65	5.15	1.52	0.37	0.59	8.64

Table 1: Saddles Extended Mineral Resource Estimate*

Not JORC-compliant

The resource consists of a number of separate, discontinuous lenses, and is essentially high phosphorus supergene goethite mineralisation.

During the current reporting year, the Resource model was re-examined for validation purposes and it became clear that the top third of the deposit (near surface 0-22m) had slightly lower phosphorus content (~0.30% P) than the overall deposit.

Pending metallurgical test work, it would appear that Saddles Extended would only become economic for Territory to mine, if suitable low phosphorus, high grade iron can be blended with it.

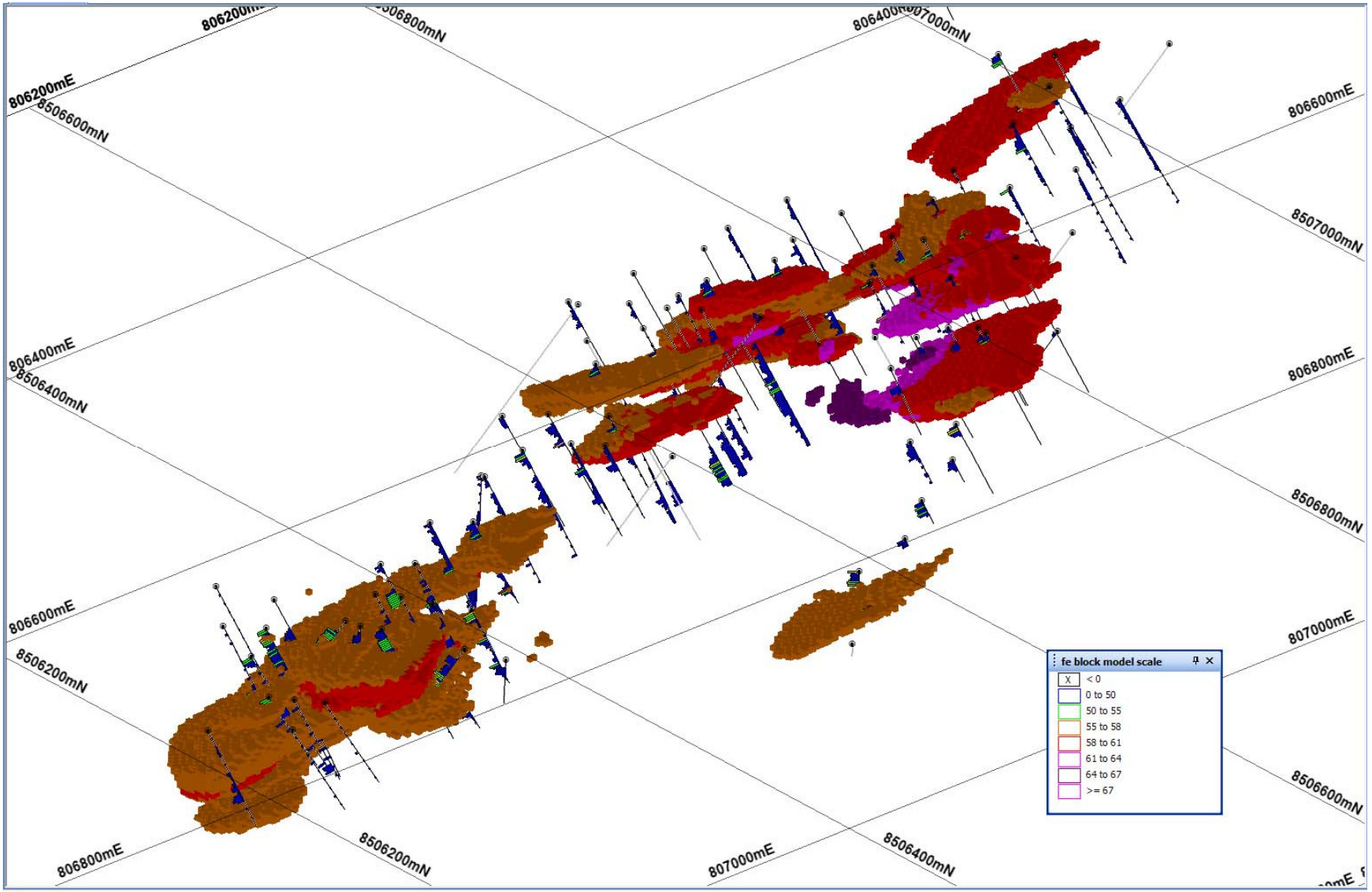

Figure 6: Saddles Extended Mineral Resource Model 2009

6. EXPENDITURE DURING REPORTING PERIOD

Total Expenditure on the tenement during the reporting period was **$617,534**. The principal costs were associated with the diamond drilling

7. PROPOSED 2011-12 PROGRAMME & EXPENDITURE

The proposed work program for 2011-12 will consist of additional reverse circulation drilling and diamond core drilling at Saddles Extended Resource, should metallurgical test work currently underway prove positive. The results of the metallurgical test work should allow mine engineering and product quality assessment for the deposit to be undertaken.

A ground gravity survey conducted in 2010, has outlined numerous geophysical targets for follow up work in EL22856.

Three significant new "buried" targets are located along the prospective strike horizon in the Wildman Siltstone Formation north west of Saddles Extended. It is planned to test these targets with RAB/Aircore and if prospective, deeper RC and perhaps diamond drilling will be undertaken. This work is included in the MMP being compiled for the Frances Creek Iron Ore Project for 2011-12.

Additionally, targets exist in EL22856 to the direct north west of the existing Elisabeth Marion Prospect area in ML24727. This area will also be targeted with first pass RAB/Aircore drilling in 2011. This programme is also being included for the MMP, presently being compiled by Territory.

The Koolpin Formation stratigraphy outcrops in the far west of EL22856 and has had little attention from Exploration programmes in the past. Territory plan to conduct significant geological regional mapping and sampling on the Koolpin "Trend" for iron ore and manganese potential during 2011.

8. REFERENCES

Ahmad, M. et al, 1993. Explanatory Notes and Mineral Deposit Data Sheets. *Pine Creek SD52-8 1:250,000 Metallogenic Map Series*

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Hassall, I. 2010. Annual Report EL22856 Saddles Extended for the period 5th February 2009 to 4th February 2010. *(Annual Report for Northern Territory Government).*