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<th><strong>Title Holder</strong></th>
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<td>EL22856 Saddles Extended Annual Report for the Period 5th February 2011 to 4th February 2012</td>
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TERRITORY RESOURCES LIMITED
A.C.N. 100 552 118

EL22856 SADDLES EXTENDED

ANNUAL REPORT

For the Period

5th February 2011 – 4th February 2012

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

Andy Burgess
March 2012
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SUMMARY

Significant work was undertaken for the year ending 4th February 2012 within EL22856 (Saddles Extended tenement) targeting Frances Creek style hydrothermal hematite mineralisation and comprised:

- 125 Air Core (AC) drill holes specifically targeting the hematite-goethite iron ore mineralisation at the Elizabeth-Marion prospect and the area to the north of Saddles Extended, for 8,614 metres;
- Twenty-four (24) Reverse Circulation (RC) drill holes adjacent to the hematite-goethite iron ore mineralisation of the Saddles Extended deposit, for 1,681 metres;
- Detailed geological mapping over the Elizabeth Marion, Saddles Extension and Koolpin Prospect regions by an independent geological consultant;
- Completion of detailed metallurgical test work on drill core from the previous year’s PQ diamond drill programme over the Saddles Extended Deposit;
- Updating of associated Aboriginal Heritage work was conducted over the proposed work areas prior to ground disturbance;
- Territory completed compilation of a large MMP that included EL22856, which incorporated exploratory drilling and geological reconnaissance works for 2011-12.

Expenditure for the reporting period was $769,294.
1. **INTRODUCTION**

This report is submitted by Territory Iron Ltd to meet statutory reporting commitments on tenement EL22856 for the year ending 4th February 2012. 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.

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. A subsequent renewal was applied for on 29 October 2010 for a term of 2 years; this was granted on 9 September 2011. The tenement retained its anniversary date of 5 February, and the current expiry date for the 2 year extension is 4th February 2013.

The tenement covers 56.5 km² or approximately 17 graticular blocks. The covenant for the 2011-12 reporting year was $365,000.

Territory Resources has applied for various Mineral Lease Applications that are located within EL22856. ML27224, ML27807 & ML27808 were granted within the reporting period (shown in Figure 2).
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 1: Frances Creek Project - Location Plan
Figure 2: Saddles Extended (EL22856) Tenement Location Plan (blue). ML27224 was granted on 26 September 2011; ML27807 & ML27808 were recently granted on 9 February 2012 (green hatch).
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 (blue outline) over Pine Creek and McKinley River 250k Geology Maps, overlain by interpreted geology.
4. **MINERALISATION**

Iron occurrences within EL22856 are known north west of Elizabeth 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.

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 2012.

Only one gold occurrence, the Watts Creek alluvial gold prospect (near 805780mE 8499630mN Zone 52), is recorded 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 2011-12**

5.1 **Geological Mapping**

The south-western area of tenement EL22856 that contains the Koolpin Formation stratigraphy has undergone first-pass geological mapping and rock chip sampling to determine potential for iron ore and manganese mineralisation (Figure 4).

The geological mapping of the Koolpin Prospect was carried out over the period 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. The mapping was done by collecting geological data on walking traverses in the field followed by photo-interpretation of the available orthophoto. The report for the mapping is included in Appendix 4.

5.2 **Air Core Drilling**

Aircore (AC) drilling during the reporting year totalled 125 holes for a total of 8,614 metres. AC drilling was conducted at the Elizabeth Marion deposit, the corridor from Saddles East to Saddles West, and the corridor northwards of Saddles north. The drilling was carried out by two separate companies during the reporting period: AMWD drilling and Drillwest. A drillhole location plan is presented in Figure 4.

5.3 **Reverse Circulation Drilling**

Reverse Circulation (RC) drilling during the reporting year totalled 24 holes for a total of 1,681 metres. RC drilling was conducted at the Saddles Extended deposit. The drilling was carried out by two separate companies during the reporting period: Cheyne drilling and Drillwest. A drillhole location plan is presented in Figure 4.

5.4 **Metallurgical Test Work**

Seven (7) PQ3-diameter (i.e. triple tube) diamond drill holes were completed at Saddles Extended for a total of 273.4 metres in the 2010-2011 reporting period. 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 determine the physical properties of the ore, and also to improve resource confidence for mine planning and mineral extraction purposes.
The report for the metallurgical testwork was completed by Nagrom, in Perth, during the 2011-2012 reporting period and is included in Appendix 3.

Figure 5: Rockchip sampling locations within EL22856 Saddles Extended
Figure 5: Drill type and location within EL22856 Saddles Extended
6. **EXPENDITURE DURING REPORTING PERIOD**

Total Expenditure on the tenement during the reporting period was **$769,294**. The principal costs were associated with the RC, Diamond, and Air Core drilling.

7. **PROPOSED 2012-13 PROGRAMME & EXPENDITURE**

Regionally, the ground gravity survey conducted in 2010 has outlined numerous geophysical targets for follow up work, which include potential “buried” targets which are located along the prospective strike horizon in the Wildman Siltstone Formation north west of Saddles Extended. Drilling of these targets with RAB/Aircore is planned for the next reporting period. If prospective, deeper RC and perhaps diamond drilling will be undertaken.

Targets also exist in EL22856 to the direct north west of the existing Elizabeth Marion Prospect area in ML24727. This area will also be targeted with first pass RAB/Aircore drilling in 2012.

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 continue with geological regional mapping and sampling on the Koolpin “Trend” for iron ore and manganese potential during 2012.

The proposed expenditure for the 2012 – 20013 reporting period is $50,000. This is considerably reduced compared to previous years, due to ML27808, ML27807 and ML27224 all being granted within the current reporting period. The majority of exploration has occurred within these areas.
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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Broomfield, D. 2011. Annual Report EL22856 Saddles Extended for the period 5\textsuperscript{th} February 2010 to 4\textsuperscript{th} February 2011. *(Annual Report for Northern Territory Government).*
APPENDIX 1
EXPENDITURE STATEMENT
APPENDIX 2

NT DOR TEXT FILES (includes verification list)
APPENDIX 3
METALLURGICAL REPORT – SADDLES EXTENDED
APPENDIX 4

GEOLOGICAL MAPPING REPORTS