

24 January 2006

No of Pages: 9

Australian Stock Exchange Limited
Company Announcements
Level 10, 20 Bond Street
SYDNEY NSW 2000

December 2006 Quarterly Activities and Cash Flow Report

Please find enclosed the December 2006 Quarterly report for Territory Iron Limited.

A handwritten signature in blue ink, appearing to read "D. Stewart".

Doug Stewart
Managing Director

ACTIVITIES REPORT – December Quarter 06

HIGHLIGHTS

EXPLORATION

- ◆ A total of 1,836.5 metres in 103 RC, aircore and diamond holes were drilled this quarter in the Frances Creek and Mt Bunday project areas for an overall 20,740.5 metres drilled this field season.
- ◆ Probable Reserves have been upgraded by 950,000 tonnes to 4.81 million tonnes at 61.3% Fe and underpins a 3 to 4-year mine life at Frances Creek.
- ◆ Total Inferred and Indicated Resources at Frances Creek now stands at 9.73 million tonnes at 60.7 % Fe following a 324,000 tonnage increase to the resource inventory this quarter.
- ◆ Scout drilling of three aeromagnetic targets at Mt Bunday project area intercepted significant iron mineralisation in three drill holes. Best result was 7 metres grading 62.3% Fe from 3 metres depth.

MINE AND PORT DEVELOPMENT

- ◆ Good progress has been made on preparing the area for camp construction at Pine Creek.
- ◆ Road access has been improved with installation of culverts where appropriate. These improvements will ensure all weather access is better than when the mine was previously operating.
- ◆ The pad for the stockpile area is nearing completion as land is reclaimed by filling in the area licenced to Territory Iron at Darwin's East Arm Wharf.
- ◆ Detailed design is complete for the conveyor system for handling the lump and fines product at the port. Fabrication of the conveyors is well advanced.

EXPLORATION

Resource delineation drilling was concluded at Frances Creek during the quarter with a total of 1,019.5 m drilled in 85 drill holes. A total of 20,740.5m has been drilled since commencement of this year's field season in April.

Geological modelling and resource estimation were undertaken by Snowden Mining Consultants Pty Ltd and pit optimisation and mine design studies, based on the Indicated tonnage, were undertaken by RSG Global.

As a result of this work, Ore Reserves at Frances Creek have been increased by 950,000 tonnes to **4.8 million tonnes at 61.1% Fe**. This is a significant increase on the 3.86 million Reserves tonnes announced in July 2006.

Reserve details are:

| Frances Creek Reserves | | | | |
|-------------------------------|------------------|-------------|-------------|----------|
| | Tonnes | % Fe | % P | Category |
| Helene 6/7 | 1,424,000 | 63.4 | 0.03 | Probable |
| Helene 5 | 585,000 | 59.1 | 0.06 | Probable |
| Helene 2/3 | 300,000 | 64.4 | 0.08 | Probable |
| Thelma Rose | 1,278,00 | 61.1 | 0.19 | Probable |
| Jasmine East | 206,000 | 59.3 | 0.06 | Probable |
| Ochre Hill | 1,012,000 | 59.4 | 0.09 | Probable |
| Totals | 4,805,000 | 61.3 | 0.09 | |

This latest increase in Reserves comes largely from the conversion of a sizeable tonnage of Inferred Resource into Indicated Resource tonnage following infill drilling at Helene 6/7 and from new tonnage at Helene 2/3 deposit.

Total Resources (Inferred+Indicated) at Frances Creek were increased to **9.73 million tonnes at 60.7% Fe** following Snowden's upgrade in December 2007 of resource estimates for Helene 5, Helene 6/7, Thelma Rosemary and Jasmine East.

Frances Creek Resource tonnage now stands at 9.73 million tonnes at 60.7% Fe and comprises:

- Indicated Resource – 7.68 million tonnes at 61.1% Fe and,
- Inferred Resource – 2.05 million tonnes at 59.3% Fe.

Some 79% of the total Resource is now in Indicated category, reflecting the highly successful conversion of Inferred into Indicated tonnage following intensive infill drilling during the past 6 months.

TERRITORY IRON Limited

During the 2006 field season, Resource tonnage has increased by 2.9 million tonnes (or 43%) from 6.8 million tonnes at 60.6% Fe to 9.73 million tonnes at 60.7% Fe. Main contributors were Helene 6/7 (+1.94Mt), Thelma Rosemary (+0.28Mt) and new deposit, Helene 2/3 (0.65Mt).

Resource details are given below:

Frances Creek Indicated & Inferred Resource - Jan 2006

| Resource at 55%cut off | Indicated | | | Inferred | | |
|------------------------|------------------|-------------|-------------|------------------|-------------|-------------|
| | tonnes | % Fe | % P | tonnes | % Fe | % P |
| Helene 6/7 | 2,730,000 | 62.0 | 0.04 | 290,000 | 60.6 | 0.06 |
| Helene 5 | 1,190,000 | 59.8 | 0.12 | 200,000 | 59.0 | 0.19 |
| Helene 2/3 | 530,000 | 63.6 | 0.08 | 160,000 | 58.2 | 0.08 |
| Thelma Rose | 1,802,119 | 61.2 | 0.19 | 54,958 | 59.1 | 0.14 |
| Jasmine East | 278,370 | 59.4 | 0.07 | 20,313 | 60.2 | 0.06 |
| Thelma 2 | - | - | - | 194,000 | 63.5 | - |
| Ochre Hill | 1,154,000 | 59.4 | 0.11 | - | - | - |
| Saddle East | - | - | - | 101,000 | 58.7 | 0.08 |
| Millers ⁽¹⁾ | - | - | - | 1,029,000 | 58.5 | 0.09 |
| Totals | 7,684,489 | 61.1 | 0.10 | 2,049,271 | 59.3 | 0.09 |

(1) - calcined Fe

Scout RC drilling (817m in 18 holes) of 3 aeromagnetic targets was completed within the Mt Bunday project area. Better iron mineralised intercepts were:

| Hole | From | To | Interval | % Fe | % P |
|---------|------|----|----------|------|------|
| MBRC006 | 3 | 9 | 6 | 63.5 | 0.03 |
| MBRC007 | 9 | 16 | 7 | 60.6 | 0.08 |
| MBRC008 | 1 | 3 | 2 | 60.7 | 0.02 |

In addition, a number of holes intersected large intervals of anomalous copper values. Best result was 32m of 0.19% Cu from 9m depth in hole MBRC005.

The Resource and Reserves estimates contained herein have been previously reported to the ASX (27 July 2006, 22 November 2006 and 18 January 2007). The information in this Public Report that relates to Mineral Resources and Mineral Reserves is based on, and accurately reflects, information compiled by Mr. Bob Vivian of Territory Iron Limited who is a Member of The Australian Institute of Geoscientist and Mr. Doug Stewart of Territory Iron who is a Fellow of the Australasian Institute of Mining and Metallurgy ("Authors"). The authors have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

The Authors consent to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

TERRITORY IRON LIMITED

ABN

53 100 552 118

Quarter ended ("current quarter")

31 DECEMBER 2006

Consolidated statement of cash flows

| Cash flows related to operating activities | Current quarter \$A'000 | Year to date (..6... months) \$A'000 |
|---|----------------------------|--|
| 1.1 Receipts from product sales and related debtors | - | - |
| 1.2 Payments for | | |
| (a)exploration and evaluation | (423) | (1,711) |
| (b)development | - | - |
| (c)production | - | - |
| (d)administration | (395) | (869) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 188 | 418 |
| 1.5 Interest and other costs of finance paid | (4) | (4) |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (provide details if material) | - | - |
| Net Operating Cash Flows | (634) | (2,166) |
| Cash flows related to investing activities | | |
| 1.8 Payment for purchases of: | | |
| (a)prospects | - | (2) |
| (b)equity investments | - | - |
| (c) other fixed assets | (2,773) | (3,625) |
| 1.9 Proceeds from sale of: | | |
| (a)prospects | - | - |
| (b)equity investments | - | - |
| (c)other fixed assets | - | - |
| 1.10 Loans to other entities | - | - |
| 1.11 Loans repaid by other entities | - | - |
| 1.12 Other (provide details if material) | - | - |
| Net investing cash flows | (2,773) | (3,627) |
| 1.13 Total operating and investing cash flows (carried forward) | (3,407) | (5,793) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|---------|---------|
| 1.13 | Total operating and investing cash flows (brought forward) | (3,407) | (5,793) |
| | Cash flows related to financing activities | | |
| 1.14 | Proceeds from issues of shares, options, etc. | - | - |
| 1.15 | Proceeds from sale of forfeited shares | - | - |
| 1.16 | Proceeds from borrowings | - | - |
| 1.17 | Repayment of borrowings | (46) | (46) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | - | - |
| | Net financing cash flows | (46) | (46) |
| | Net increase (decrease) in cash held | (3,453) | (5,839) |
| 1.20 | Cash at beginning of quarter/year to date | 12,942 | 15,328 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | - |
| 1.22 | Cash at end of quarter | 9,489 | 9,489 |

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

| | | Current quarter \$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 115 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10 | - |

1.25 Explanation necessary for an understanding of the transactions

Nil

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Nil

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

| | | Amount available \$A'000 | Amount used \$A'000 |
|-----|-----------------------------|-----------------------------|------------------------|
| 3.1 | Loan facilities | - | - |
| 3.2 | Credit standby arrangements | - | - |

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

| | | \$A'000 |
|--------------|----------------------------|--------------|
| 4.1 | Exploration and evaluation | 250 |
| 4.2 | Development/Capital | 7,000 |
| Total | | 7,250 |

Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter \$A'000 | Previous quarter \$A'000 |
|---|----------------------------|----------------------------|-----------------------------|
| 5.1 | Cash on hand and at bank | 168 | 621 |
| 5.2 | Deposits at call | - | - |
| 5.3 | Bank overdraft | - | - |
| 5.4 | Other (Bank Term Deposits) | 9,321 | 12,321 |
| Total: cash at end of quarter (item 1.22) | | 9,489 | 12,942 |

Changes in interests in mining tenements

| | Tenement reference | Nature of interest (note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|-----|---|-------------------------------|----------------------------------|----------------------------|
| 6.1 | Interests in mining tenements relinquished, reduced or lapsed | Nil | | |
| 6.2 | Interests in mining tenements acquired or increased | EL25204 | - | 100% |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

| | Total number | Number quoted | Issue price per security (see note 3) (cents) | Amount paid up per security (see note 3) (cents) |
|--|---|-----------------------|--|--|
| 7.1 Preference + securities <i>(description)</i> | | | | |
| 7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions | | | | |
| 7.3 + Ordinary securities | 135,000,000 | 92,701,725 | - | Fully Paid |
| 7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | | | | |
| 7.5 + Convertible debt securities <i>(description)</i> | | | | |
| 7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted | | | | |
| 7.7 Options <i>(description and conversion factor)</i> | 2,500,000 1,000,000 1,600,000 450,000 450,000 | - - - - - | <i>Exercise price</i> 25 c 20 c 40.15 c 50 c 60 c | <i>Expiry date</i> 1 March 2009 11 Sept 2007 20 June 2009 20 June 2009 20 June 2009 |
| 7.8 Issued during quarter | 420,000 70,000 60,000 | - - - | 40.15c 50c 60c | 13 Oct 2009 13 Oct 2009 13 Oct 2009 |
| 7.9 Exercised during quarter | | | | |
| 7.10 Expired during quarter | | | | |
| 7.11 Debentures <i>(totals only)</i> | | | | |
| 7.12 Unsecured notes <i>(totals only)</i> | | | | |

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here: Date: January 2007
(Company secretary)

Print name: .Peter Rutledge

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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