

Territory Resources Limited (TTY)

Date: 16 October 2007

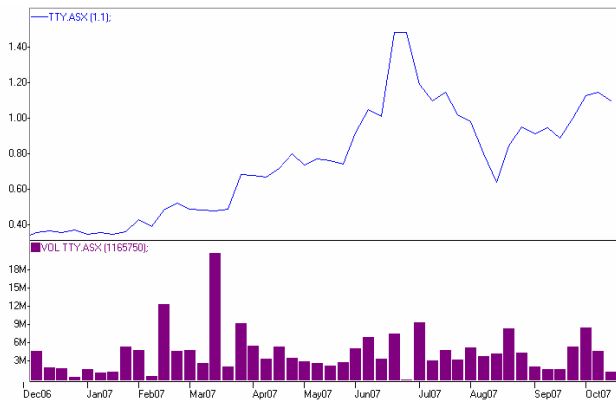
Troy Irvin (08) 9224 6871

| | |
|----------------------------|----------------|
| Current Share Price | A\$1.10 |
| Target Price | A\$1.66 |
| Recommendation | BUY |

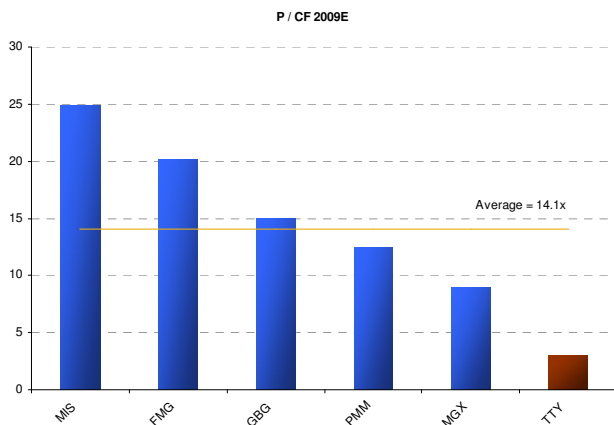
Market statistics

| | |
|--------------------------|-----------|
| ASX Code | TTY |
| Sector | Materials |
| Ordinary Shares on Issue | 199.3m |
| Capitalisation | A\$219.2m |
| Cash (30 June 2007) | A\$19.4m |
| Year High | A\$1.54 |
| Year Low | A\$0.28 |

12 month share price and volume (Source: IRESS)



09F price cash flow ratios (Source: Consensus, Argonaut)



ALL BOXES TICKED

Late last month TTY loaded its first iron ore boat with direct shipping ore (DSO) from the 100% owned Frances Creek mine in the Northern Territory.

With record high iron ore prices TTY is generating significant cash flow. Argonaut anticipates operating margins of >US\$30/t for the first two years.

Argonaut's NPV based valuation is A\$1.25. However we set a target price of A\$1.66 based on a conservative FY09 price cash flow multiple of 4.5x. This multiple is considered appropriate based on:

- Peer analysis - TTY is relatively cheap (refer to PCF chart on the bottom left)
- Successful transition from explorer to producer
- Sales agreement with key shareholder Noble to purchase all Frances Creek production
- Management's track record in the M&A arena - TTY is a likely participant in the ongoing consolidation of the global carbon steel sector
- Exploration upside at Frances Creek (opportunity to extend mine life):
 - × 55 known deposits
 - × 13 have been mined (before Cyclone Tracy destroyed the mine and port infrastructure in 1974)
 - × 9 host the current resource
 - × A\$5m / 40,000m drill budget over next field season

Argonaut has adopted a very simple 'tick the box' style assessment for iron ore stocks (Appendix 1). Although the process is simple, most companies fail. All boxes are ticked for TTY.

BUY

Important Disclosures

Argonaut has acted as Corporate Advisor to Territory and received fees commensurate with this service.

Recommendation BUY
Current Price \$1.10
Argonaut Price Target (4.5x 09PCF) \$1.66
All Ords (XAO) 6,752

Sector Metals & Mining
Issued Capital (m) 199.3
Market Cap (m) \$219.3
Date 15-October-2007

| Profit & Loss (\$m) 30 June | 2008E | 2009E | 2010E |
|-----------------------------|--------------|--------------|--------------|
| Sales Revenue | 107.3 | 249.6 | 258.8 |
| Other Income | 1.2 | 3.5 | 6.4 |
| Operating Costs | 64.2 | 137.8 | 160.0 |
| Depn & Amort | 3.7 | 8.3 | 10.0 |
| Exploration Written Off | 1.4 | 1.4 | 1.5 |
| Corporate/Admin | 1.6 | 1.6 | 1.7 |
| Other | 0.0 | 0.0 | 0.0 |
| EBIT | 37.6 | 104.0 | 92.1 |
| Interest Paid | 0.0 | 0.0 | 0.0 |
| Operating Profit | 37.6 | 104.0 | 92.1 |
| Tax expense | 11.4 | 31.2 | 27.6 |
| Minorities | 0.0 | 0.0 | 0.0 |
| NPAT | 26.2 | 72.8 | 64.4 |
| Normalised NPAT | 26.2 | 72.8 | 64.4 |

| Financial Summary | 2008E | 2009E | 2010E |
|----------------------------|-------|-------|--------|
| Reported Earnings | | | |
| Net Profit (\$m) | 26.2 | 72.8 | 64.4 |
| EPS (cents) | 12.8 | 35.5 | 31.5 |
| PER (x) | 8.6 | 3.1 | 3.5 |
| Normalised Earnings | | | |
| Net Profit (\$m) | 26.2 | 72.8 | 64.4 |
| EPS (cents) | 12.8 | 35.5 | 31.5 |
| EPS Growth (%) | | 177.9 | (11.5) |
| PER (x) | 8.6 | 3.1 | 3.5 |
| Cashflow | | | |
| Operating Cashflow (\$m) | 24.3 | 75.4 | 68.6 |
| GCFPS (cents) | 11.9 | 36.8 | 33.5 |
| PCF (x) | 9.3 | 3.0 | 3.3 |
| Dividend | | | |
| Dividend (cents) | 0.0 | 0.0 | 0.0 |
| Yield (%) | 0.0 | 0.0 | 0.0 |
| Franking % | 100 | 100 | 100 |

| Cash Flow (\$m) | 2008E | 2009E | 2010E |
|-----------------------------------|-------------|-------------|-------------|
| Operating Cashflow | 24.3 | 75.4 | 68.6 |
| - Capex | 1.0 | 14.4 | 1.1 |
| - Exploration & Evaluation | 7.0 | 7.2 | 7.3 |
| - Asset purchases (+ asset sales) | 0.0 | 0.0 | 0.0 |
| Free Cashflow | 16.3 | 53.8 | 60.2 |
| - Dividends | 0.0 | 0.0 | 0.0 |
| + Equity raised | 0.0 | 0.0 | 0.0 |
| + Debt drawdown (- repaid) | 0.0 | 0.0 | 0.0 |
| Net Change in Cash | 16.3 | 53.8 | 60.2 |
| Cash at End Period | 42.7 | 103.6 | 171.1 |

| Financial Ratios | 2008E | 2009E | 2010E |
|-----------------------------|-------|-------|-------|
| Balance Sheet Ratios | | | |
| Total Debt / Equity (%) | 0 | 0 | 0 |
| Interest Cover (x) | 0 | 0 | 0 |
| Acid test ratio (x) | 2.0 | 2.1 | 2.9 |
| Profitability Ratios | | | |
| Net Profit Margin (%) | 24.4 | 29.2 | 24.9 |
| Return on Assets (%) | 73.0 | 112.5 | 101.1 |
| Return on Equity (%) | 42.2 | 60.1 | 34.9 |

| Balance Sheet (\$m) | 2008E | 2009E | 2010E |
|---------------------|-------|-------|-------|
| Total Assets | 94.2 | 196.1 | 262.1 |
| Total Debt | 0.0 | 0.0 | 0.0 |
| Total Liabilities | 32.2 | 74.9 | 77.6 |
| Shareholders Funds | 62.0 | 121.2 | 184.5 |

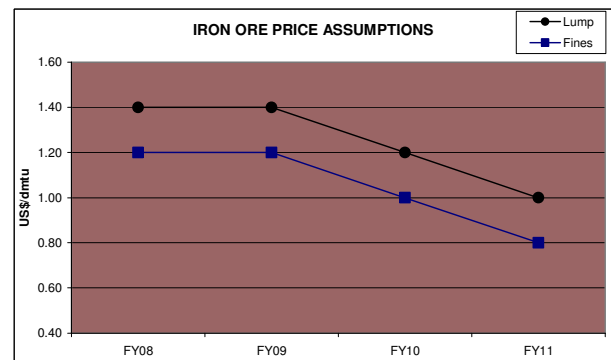
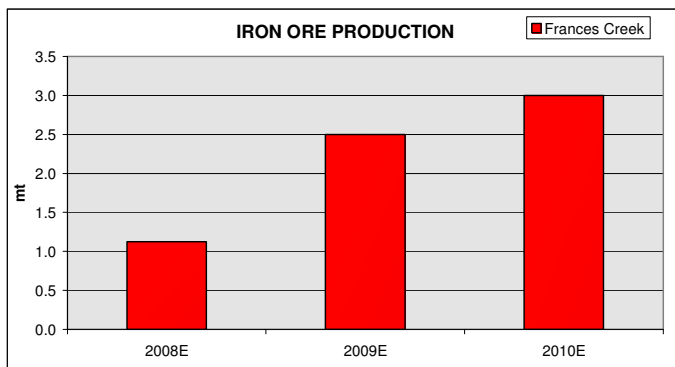
| Valuation Summary | A\$m | A\$/sh |
|----------------------------------|------------|-------------|
| Frances Creek | 162.4 | 0.81 |
| Tambao Manganese | 5.0 | 0.03 |
| Corporate | -3.2 | -0.02 |
| Exploration | 60.0 | 0.30 |
| Unpaid Capital | 3.0 | 0.01 |
| Cash (30 June 2007) | 19.4 | 0.10 |
| Debt | 0.0 | 0.00 |
| Listed Investments | 2.8 | 0.01 |
| Total @ 10% discount rate | 247 | 1.25 |

| Production Summary | 2008E | 2009E | 2010E |
|-------------------------------------|------------|------------|------------|
| Frances Creek (kt) | 1.1 | 2.5 | 3.0 |
| Total | 1.1 | 2.5 | 3.0 |
| Iron Ore Cash Cost (US\$/t) | 48 | 45 | 42 |
| Iron Ore Price Realised (US\$/t) | 79 | 81 | 69 |
| Exchange Rate Assumptions (USD:AUD) | 0.85 | 0.81 | 0.80 |

| Directors | Name | Position |
|-----------|--------------------|------------------------|
| | Michael Kiernan | Chairman |
| | Allan Quadrio | Managing Director |
| | Bruce McFadzean | Executive Director |
| | Julie-Ann Wolseley | Non-Executive Director |
| | Trevor Tennant | Non-Executive Director |
| | Andrew Simpson | Non-Executive Director |

| Reserves & Resources (February 2007) | Reserves | | | Resources | | |
|--------------------------------------|----------|------|------|-----------|------|------|
| | mt | % Fe | % P | mt | % Fe | % P |
| Frances Creek | 4.8 | 61.3 | 0.09 | 9.7 | 60.7 | 0.10 |

| Substantial Shareholders | % |
|--------------------------|-------|
| Crawley Resources | 30.5% |
| OM Holdings | 12.7% |
| Westoz Investment | 5.1% |



APPENDIX A – IRON ORE CHECKLIST

| Check | TTY | Comments |
|---|-----|--|
| Producing / short lead time to production | ✓ | Producing |
| Good quality hematite ore | ✓ | 61% Fe direct shipping ore with low contaminant levels |
| Close to infrastructure | ✓ | Excellent - 15km to established rail line, 300km to new A\$400m Darwin port, 28km north of the regional town of Pine Creek |
| Production expertise | ✓ | Proven miners led by Michael Kiernan |
| Sales and marketing capability | ✓ | Access to Asian steel mills via relationship with Noble (70% owner of key shareholder Crawley Resources) |
| Value | ✓ | Cheap compared to peers |

Source: Argonaut

Disclosures & Disclaimer

Argonaut has acted as Corporate Advisor to Territory and received fees commensurate with this service.

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This report was produced by Troy Irvin, an employee of Argonaut Securities Pty Limited. Troy Irvin has tertiary qualifications in mining engineering and finance.

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