

Comments

Price Target: \$1.00/sh

Mining of the Frances Ck iron ore project is due to commence in May '07. Railing of first product is due in July and commencement of shipping is due in August.

The project has significant infrastructure advantages such as being close to rail (15km) and close to port (200km). The Darwin Port Authority is near to completing the multi-user bulk ship loader. The two biggest users of this will be TFE and OMH. The Darwin Port is not volume constrained like many other bulk cargo ports in Australia, such as Newcastle, Dalrymple Bay, Geraldton and Port Hedland.

The injection of \$30m equity at \$0.50/sh from Crawley Resources (Michael Kiernan & Noble Resources) has transformed the outlook for Territory Iron. The deal has the effect of both reducing risk and creating a sense of urgency to pursue growth. Crawley will have a 30.8% stake once the placement is settled following shareholder approval which is set for 30th May 2007.

Territory will embark on an aggressive exploration campaign in 2007 comprising 25,000m of RC drilling on a more expansive basis than earlier exploration had done. Exploration over the last couple of years has been close spaced drilling on known deposits designed to complete the feasibility study. Drilling in 2007 will be more targeted toward identifying new zones of mineralization on wider spaced drilling.

Territory is endeavoring to grow the resources significantly such that the production rate may be doubled to 3.0mtpa and the mine life can be extended to a 10 year life.

Territory Iron has also flagged its intention to grow into being a "diverse carbon steel commodity supplier". Accordingly it is changing its name to Territory Resources.

The assignment of ore marketing rights to Noble gives investors more comfort as Noble is perceived to have greater Iron Ore marketing depth than does OM Holdings. Noble perhaps has a greater ability to market the manganiferous ores at Millers of which >1.0mt of resource is identified but not yet in the mine plan. This is an area of obvious upside.

Investment Case

We have increased our price target to \$1.00/sh. This price target is justified by the exploration potential we believe exists within the Frances Ck project and which will be unlocked during 2007. This leads to significant option value in an expansion scenario which is possible given the low starting base of the planned production rate. Territory is priced at ~7x FY'09 PER, however an expansion scenario would see this fall toward ~3x.

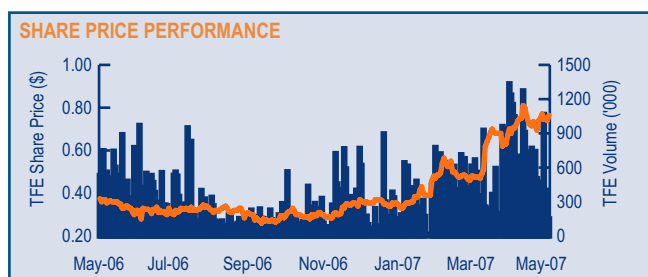
The equity injection enables TFE more flexibility in funding its pursuit of growth, both organically through exploration, and via acquisition. We expect the company to be aggressive in this regard. We also note that the Executive Chairman Michael Kiernan has an excellent track record of growing value for shareholders and pursuing acquisitions.

Disclosure: Euroz Securities declares that it has acted as underwriter to, and/or arranged an equity issue in, and/or provided corporate advice to Territory Iron during the last year. Euroz Securities has received a fee for these services.

This analyst declares that he has a beneficial interest in Territory Iron shares.

TOP 20 SHAREHOLDERS		AS AT 9 MAY 2007	
Shareholders	Shares (m)		(%)
1 Om Holdings Ltd	25.00		16.02
2 Crawley Res Ltd	20.00		12.82
3 Zero Nominees Pty Ltd	14.65		9.39
4 National Nominees Ltd	6.38		4.09
5 J P Morgan Nominees Aust. Ltd	5.51		3.53
6 ANZ Nominee Ltd	5.16		3.31
7 DBS Vickers Securities Singapore	4.13		2.64
8 HSBC Custody Nominees Aust. Ltd	2.63		1.69
9 Dino Co Ltd	1.80		1.16
10 RBC Dexia Investor Services	1.75		1.12
11 Citicorp Nominees Pty Ltd	1.74		1.11
12 HSBC Custody Nominees Aust. Ltd	1.15		0.74
13 Fangrove Pty Ltd	1.13		0.72
14 Bartley KG + RG + AJ	1.06		0.68
15 Wang Yue Chuan	1.00		0.64
16 Aust. Executor Trustees Ltd	0.92		0.59
17 K Biggs Entps Pty Ltd	0.70		0.45
18 Kale Cap Corp Ltd	0.70		0.45
19 Apnea Holdings Pty Ltd	0.60		0.38
20 ADL WA Pty Ltd	0.58		0.37
TOTAL	96.58		61.90

MARKET STATISTICS		\$0.74 A\$/sh	
Share Price			
Issued Capital	195.0m	Directors	
FP Ord		M Kiernan	Ex-Chair'n
Opt (@\$0.20/sh)	1.0m	D Stewart	MD
Opt (@\$0.25/sh)	2.5m	D Macoboy	Dir
Opt (@\$0.40/sh)	1.7m	T Tennant	Dir
Opt (@\$0.50/sh)	0.4m	Low Ngee Tong	Dir
Opt (@\$0.60/sh)	0.4m	J Wolseley	Dir
Total Dil. FPOrd	201.0m	Shareholders	
assumes completion of placement to Crawley		OM Holdings	16.1%
Market Capitalisation	\$147m	Crawley Res	12.9%
Enterprise Value	\$117m	Confluence	7.4%
Debt	\$-m		
Cash	\$30m		



Territory Iron

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EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

TERRITORY IRON (TFE)		YEAR END 30 JUNE				
ASSET VALUATION		A\$m				A\$/sh
Frances Creek		58				0.29
Hedging		0				0.00
Corporate		-8				-0.04
Plant Residual Value		2				0.01
Expl'n		30				0.15
Working Capital		0				0.00
Unpaid Capital		1				0.00
Debt		0				0.00
Cash		30				0.15
Total @ 10% nom		113				0.56
Total @ 0% nom		132				0.65
Total @ 5% nom		122				0.60
Total @ 15% nom		106				0.53
FORECAST PRODUCTION		Jun H'07f	2007f	2008f	2009f	2010f
Frances Creek (100%)						
Lump Sales	kt	0	0	706	1,001	963
Fines Sales	kt	0	0	414	539	578
Total Fe Ore Sales	kt	0	0	1,120	1,540	1,540
Total Cash Costs	A\$/t	43	38	55	50	50
Net Lump Rec'd	US\$/t	59	59	65	62	65
Net Fines Rec'd	US\$/t	39	39	44	41	44
B'mark Lump JFY fob	US\$/dmtu	-	93.8	102.7	112.9	112.9
Foreign Exchange						
Avg Rate Ach'd	US\$:A\$	-0.35	0.09	0.82	0.80	0.78
Ass'd Spot Rate	US\$:A\$	0.81	0.79	0.82	0.80	0.78
RATIO ANALYSIS		Jun H'07f	2007f	2008f	2009f	2010f
CF (A\$m)		(22.3)	(27.0)	6.9	33.6	32.7
CF / Sh (Ac/sh)		(11.1)	(13.4)	3.4	16.7	16.3
CF Ratio (x)		-	(5.5)	21.6	4.4	4.6
Earnings (A\$m)		(2.1)	(3.5)	4.0	20.3	21.7
EPS (Ac/sh)		(1.0)	(1.7)	2.0	10.1	10.8
EPS Growth (%)		0%	-25%	-	406%	7%
Earnings Ratio (x)		-	-	37.1	7.3	6.9
E'prise Val. (A\$m)		134	134	131	101	69
EV : EBITDA (x)		(89.4)	(53.6)	11.2	2.8	1.8
EV : EBIT (x)		(59.6)	(33.5)	25.0	3.6	2.4
Net Debt / ND+Eq (%)		-71%	-71%	-113%	-661%	-106%
Interest Cover (x)		-	23	-	(32)	(13)
EBIT Margin (%)		0%	n/a	7%	24%	24%
ROE (%)		-7%	-11%	14%	38%	14%
ROA (%)		-7%	-13%	17%	51%	36%
Div. (Ac/sh)		-	-	-	-	-
Div. payout ratio		0%	0%	0%	0%	0%
Div. Yield		0.0%	0.0%	0.0%	0.0%	0.0%
Div. Franking		0%	0%	0%	0%	0%

PROFIT & LOSS	Jun H'07f	2007f	2008f	2009f	2010f	
Iron Ore Sales Revenue	0.0	0.0	76.4	116.2	116.6	
Forex Hedging Revenue	0.0	0.0	0.0	0.0	0.0	
Interest Revenue	0.2	0.5	0.5	1.1	2.5	
Other Revenue	-	-	-	-	-	
TOTAL REVENUE	0.2	0.5	76.8	117.3	119.1	
Operating Costs	0.0	0.0	61.6	77.0	77.0	
Dep/Amort	0.0	0.0	5.0	6.8	7.6	
Corp O/H	1.5	2.5	3.0	3.0	2.0	
Prov/w off (expl'n)	0.8	0.8	1.5	1.5	1.5	
EBITDA	(1.5)	(2.5)	11.8	36.2	37.6	
EBIT	(2.2)	(4.0)	5.2	27.9	28.5	
Interest Expense	-	-	-	-	-	
NPBT	(2.1)	(3.5)	5.7	28.9	31.0	
Tax	-	-	1.7	8.7	9.3	
Minority Interest	-	-	-	-	-	
NET PROFIT	(2.1)	(3.5)	4.0	20.3	21.7	
Net Abnormal Gain/(Loss)	-	-	-	-	-	
NET PROFIT After Abn'l	(2.1)	(3.5)	4.0	20.3	21.7	
CASHFLOW		Jun H'07f	2007f	2008f	2009f	2010f
Net Profit	-2.1	-3.5	4.0	20.3	21.7	
+ Working Capital Adjustment	-10.0	-10.0	-4.0	2.0	2.0	
+ Dep/Amort	0.0	0.0	5.0	6.8	7.6	
+ Provisions / writeoffs (explor)	0.8	1.5	1.5	1.5	1.5	
+ Tax Expense	0.0	0.0	1.7	8.7	9.3	
- Tax Paid	0.0	0.0	0.3	5.7	9.4	
Operating Cashflow	-11.3	-12.0	7.9	33.6	32.7	
-Capex + Development	11.0	15.0	1.0	0.0	0.0	
-Exploration	1.5	4.1	4.0	3.0	1.0	
-Assets Purchased	0.0	0.0	0.0	0.0	0.0	
+Asset Sales	0.0	0.0	0.0	0.0	0.0	
Investing Cashflow	-12.5	-19.1	-5.0	-3.0	-1.0	
+ Equity Issues	28.5	28.5	0.0	0.0	0.0	
+Loan Drawdown/Receivable	0.0	0.0	0.0	0.0	0.0	
+Loans repaid from/(to) other entities	0.0	0.0	0.0	0.0	0.0	
-Loan Repayment	0.0	0.0	0.0	0.0	0.0	
-Dividends	0.0	0.0	0.0	0.0	0.0	
Financing Cashflow	28.5	28.5	0.0	0.0	0.0	
Period Sur (Def)	4.7	-2.6	2.9	30.6	31.7	
Cash Balance	12.8	12.8	15.7	46.3	77.9	
BALANCE SHEET		Jun H'07f	2007f	2008f	2009f	2010f
Assets						
Cash	12.8	12.8	15.7	46.3	77.9	
Current Receivables	0.2	0.2	0.2	0.2	0.2	
Other Current Assets	0.0	0.0	0.0	0.0	0.0	
Non-Current Assets	18.7	18.7	14.7	7.8	0.3	
Total Assets	31.6	31.6	30.5	54.3	78.4	
Liabilities						
Borrowings	0.0	0.0	0.0	0.0	0.0	
Current Accounts Payable	1.0	1.0	1.0	1.0	1.0	
Other Liabilities	0.0	0.0	0.0	0.0	0.0	
Total Liabilities	1.0	1.0	1.0	1.0	1.0	
Net Assets	30.6	30.6	29.5	53.3	151.5	
RESERVES AND RESOURCES						
		Reserves			Resources	
	mt	Fe%	P%	mt	Fe%	P%
Helene 6/7	1.42	63.4%	0.03%	3.02	61.9%	0.04%
Helene 5	0.59	59.1%	0.06%	1.39	59.7%	0.13%
Helene 2/3	0.30	64.4%	0.08%	0.69	62.4%	0.08%
Thelma/Rosemary	1.28	61.1%	0.19%	1.86	61.1%	0.19%
Jasmine East	0.21	59.3%	0.06%	0.30	59.4%	0.07%
Ochre Hill	1.01	59.5%	0.09%	1.15	59.4%	0.11%
Others				1.32	58.7%	0.09%
Total	4.8	61.3%	0.09%	9.7	60.7%	0.10%

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