

### Comments

Price Target: \$1.20/sh

The Frances Ck iron ore mine ramp-up is ongoing. The slower than expected progress is attributed to the above average rainfall in the Pine Ck region during the wet season. The rain has hampered crushing and screening activity and also haulage operations from the mine to the rail siding. A total of 8 shipments have now been dispatched through the port of Darwin with the 500,000t milestone achieved.

The mine plan will see a significant ramp up hereon in. The Dec H'08 should see the production rate double the June H, achieving an annualised 2.0mtpa rate. Thereafter the company expects to achieve a target of 3mtpa by end CY'09.

Cash costs have been adversely affected by the lower production so far during the June H however these should reduce commensurate with the higher production rates. The company remains confident of the \$50/t cash cost level being achieved in 2009.

Upgrades to crushing facilities enabling wet crushing, an associated tailings dam, increased stockpile storage facilities at Darwin will allow the production rate to be achieved and diminish risk of wet weather affecting operations again next year. An additional mining fleet has also been mobilised.

It is important to note that the port of Darwin, and the connecting railway line, is not constrained by volume unlike virtually all bulk commodity logistics chains in Australia. Both have the capacity to handle more volume. Accordingly users do not incur demurrage at the Darwin Port. Territory is also lobbying for dredging of the Darwin port to allow more cargo onto the vessels. Currently Panamax ships can load to about 70kt with tidal assistance.

Territory has committed \$25m to exploration over the next two years at Frances Ck. The bulk of the expenditure will be around the current operations. This is by far the biggest exploration effort at Frances Ck ever and we expect growth to the resource inventory as a result.

The Mt Bunday and Yarram exploration projects north of Frances Ck also hold good potential to provide satellite ore to the operation over the medium term.

In its quest to build a diversified mining company Territory has built a portfolio of investments in listed companies in other commodities, these are:

|                   | Shares | Ownership | Mkt price  | Value   | Commodity |
|-------------------|--------|-----------|------------|---------|-----------|
| Monarch Gold      | 39.8m  | 19.96%    | \$0.315/sh | \$12.5m | Gold      |
| Northern Mining   | 11.0m  | 15.7%     | \$0.20/sh  | \$2.2m  | Nickel    |
| Olympia Resources | 100.6m | 64.8%     | \$0.075/sh | \$7.5m  | Zircon    |
| Malilda Minerals  | 29.2m  | 34.6%     | \$0.36/sh  | \$10.5m | Zircon    |
| India Resources   | 19.0m  | 10.8%     | \$0.11/sh  | \$2.1m  | Copper    |

The March Q'08 cashflow statement indicated that Territory had invested net \$31m for the ytd in addition to net "loans to other entities" of \$17m. Territory had booked a \$4m profit on the disposal of its Windimurra Vanadium stake.

The strategy is typically to target a meaningful stake in small companies where existing or near term production is at or near breakeven and following a period of incubation future production can be significantly

higher. Coupled with a bright outlook for those commodities a resulting strong contribution to profit should follow. The commodities typically also complement the trading activity of Noble Resources, Territory's major backer. Like Territory we do have a positive view on future gold prices however we struggle to see the fit of Monarch Gold in the portfolio as we see no connection with Noble.

### Investment Case

The slow start to operations at Frances Ck has lead us to lower our expectations for earnings in the June H'08, now forecasting \$7m NPAT.

Earnings growth will be significant in FY'09 as production ramp-up occurs and costs reduce. Territory is priced at 4.5x FY'09 earnings and cheaper again on FY'10 earnings forecasts.

Minelife remains a large unanswered question. Should some exploration success be achieved, Territory will look extremely cheap among the iron ore peer group and it will not continue to trade on these bargain level multiples particularly as minelife gets extended.

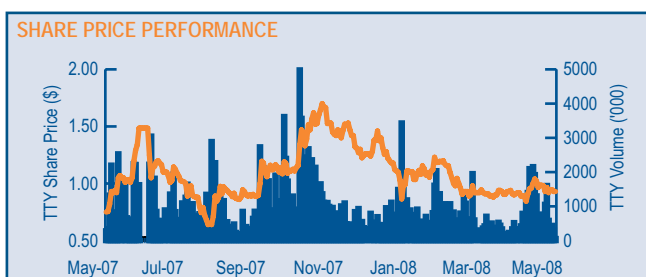
The investment strategy will probably always create "noise" however we are of the view that the performance of Frances Ck will be an overriding driver of the stock.

Our NPV valuation is \$1.20/sh and this forms our price target.

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 22 MAY 2008 |              |
|---------------------|--|-------------------|--------------|
| Shareholders        | Shares (m)                                       | (%)               |              |
| 1                   | Crawley Resources Limited Level                  | 69.99             | 26.45        |
| 2                   | O M Holdings Limited                             | 29.16             | 11.02        |
| 3                   | DCM Decometal                                    | 28.18             | 10.65        |
| 4                   | Zero Nominees Pty Limited                        | 8.35              | 3.16         |
| 5                   | OCJ Investment (Australia) + Pty Limited         | 3.16              | 1.19         |
| 6                   | HSBC Custody Nominees                            | 2.45              | 0.93         |
| 7                   | ANZ Nominees Limited                             | 2.43              | 0.92         |
| 8                   | National Nominees Limited                        | 2.19              | 0.84         |
| 9                   | UOB Kay Hian Private Limited                     | 1.20              | 0.45         |
| 10                  | Mr K G Bartley + Mr R G Bartley + Mr A J Bartley | 1.18              | 0.45         |
| 11                  | DBS Vickers Securities                           | 1.01              | 0.38         |
| 12                  | Natuka Pty Limited Unit                          | 0.97              | 0.37         |
| 13                  | Fangrove Pty Limited                             | 0.95              | 0.36         |
| 14                  | Mr Keith William Sheppard                        | 0.92              | 0.35         |
| 15                  | Palazzo Nominees Pty Limited                     | 0.85              | 0.32         |
| 16                  | Citicorp Nominees Pty Limited                    | 0.73              | 0.27         |
| 17                  | Gibbins Investments Pty Limited                  | 0.72              | 0.27         |
| 18                  | Mr Peter Gee                                     | 0.62              | 0.23         |
| 19                  | Mrs Deborah Mcfadzean                            | 0.60              | 0.23         |
| 20                  | Pegmont Mines Limited                            | 0.60              | 0.23         |
|                     | <b>TOTAL</b>                                     | <b>156.29</b>     | <b>59.07</b> |

| MARKET STATISTICS       |                | \$0.93 A\$/sh       |               |
|-------------------------|----------------|---------------------|---------------|
| Share Price             |                | Directors           |               |
| Issued Capital          | 264.6 m        | M Kiernan           | Ex Chair      |
| FP Ord                  | 1.4 m          | A Quadrio           | Mg Dir        |
| Opt (@\$0.20/sh)        | 1.0 m          | I McCubbing         | Fin Dir       |
| Opt (@\$0.25/sh)        | 7.0 m          | A Simpson           | Dir/Dep Chair |
| Opt (@\$0.40/sh)        | 2.5 m          | D Humann            | Dir           |
| Opt (@\$0.50/sh)        | 1.3 m          |                     |               |
| Opt (@\$0.60/sh)        |                | <b>Shareholders</b> |               |
| <b>Total Dil. FPOrd</b> | <b>274.0 m</b> | OM Holdings         | 11.0%         |
| Market Capitalisation   | \$247 m        | Crawley Res         | 26.5%         |
| Enterprise Value        | \$224 m        | DECOMetal           | 10.7%         |
| Debt                    | nil            |                     |               |
| Cash                    | \$23 m         |                     |               |



# Territory Resources Limited

Analyst ▶ Greg Chessell

Ph: +61 8 9488 1409 Email: gchessell@euroz.com.au

## EUROZ

SECURITIES LIMITED

AUSTRALIAN RESEARCH

| TERRITORY RESOURCES LIMITED (TTY) |           | YEAR END 30 JUNE |             |            |              |              |
|-----------------------------------|-----------|------------------|-------------|------------|--------------|--------------|
|                                   |           | A\$m             | A\$/sh      |            |              |              |
| <b>ASSET VALUATION</b>            |           |                  |             |            |              |              |
| Frances Creek                     |           | 180              | 0.66        |            |              |              |
| Hedging                           |           | 0                | 0.00        |            |              |              |
| Corporate                         |           | -6               | -0.02       |            |              |              |
| Residual Value                    |           | 5                | 0.02        |            |              |              |
| Frances Ck Expl'n                 |           | 65               | 0.24        |            |              |              |
| Other FeO Projects                |           | 20               | 0.07        |            |              |              |
| Tambao MnO Option                 |           | 0                | 0.00        |            |              |              |
| Investments                       |           | 33               | 0.12        |            |              |              |
| Working Capital                   |           | 5                | 0.02        |            |              |              |
| Unpaid Capital                    |           | 3                | 0.01        |            |              |              |
| Debt                              |           | 0                | 0.00        |            |              |              |
| Cash                              |           | 23               | 0.08        |            |              |              |
| <b>Total @ 10% nom</b>            |           | <b>327</b>       | <b>1.19</b> |            |              |              |
| <b>Total @ 0% nom</b>             |           | <b>385</b>       | <b>1.41</b> |            |              |              |
| <b>Total @ 5% nom</b>             |           | <b>353</b>       | <b>1.29</b> |            |              |              |
| <b>Total @ 15% nom</b>            |           | <b>306</b>       | <b>1.12</b> |            |              |              |
| <b>FORECAST PRODUCTION</b>        |           |                  |             |            |              |              |
|                                   |           | 2007a            | Jun H'08f   | 2008f      | 2009f        | 2010f        |
| <b>Frances Creek (100%)</b>       |           |                  |             |            |              |              |
| Lump Sales                        | kt        | 0                | 269         | 524        | 1,260        | 1,764        |
| Fines Sales                       | kt        | 0                | 168         | 253        | 740          | 1,036        |
| <b>Total Fe Ore Sales</b>         | <b>kt</b> | <b>0</b>         | <b>437</b>  | <b>777</b> | <b>2,000</b> | <b>2,800</b> |
| Total Cash Costs                  | A\$/t     | 38               | 70          | 65         | 58           | 50           |
| Net Lump Rec'd                    | US\$/t    | -                | 105         | 90         | 108          | 108          |
| Net Fines Rec'd                   | US\$/t    | -                | 72          | 66         | 86           | 86           |
| B'mark Lump JFY fob               | US\$/dmtu | -                | 143.8       | 102.7      | 184.8        | 184.8        |
| <b>Foreign Exchange</b>           |           |                  |             |            |              |              |
| Avg Rate Ach'd                    | US\$:A\$  | 0.10             | 0.92        | 0.89       | 0.93         | 0.91         |
| Ass'd Spot Rate                   | US\$:A\$  | 0.78             | 0.92        | 0.89       | 0.94         | 0.91         |
| <b>RATIO ANALYSIS</b>             |           |                  |             |            |              |              |
|                                   |           | 2007a            | Jun H'08f   | 2008f      | 2009f        | 2010f        |
| CF (A\$m)                         |           | (19.6)           | (5.4)       | (17.2)     | 70.4         | 131.4        |
| CF / Sh (Ac/sh)                   |           | (9.7)            | (2.0)       | (6.3)      | 25.7         | 48.0         |
| CF Ratio (x)                      |           | (15.3)           | -           | (14.8)     | 3.6          | 1.9          |
| Earnings (A\$m)                   |           | (6.9)            | 6.9         | 9.0        | 56.1         | 105.1        |
| EPS (Ac/sh)                       |           | (3.4)            | 2.5         | 3.3        | 20.5         | 38.4         |
| EPS Growth (%)                    |           | 45%              | 0%          | -          | 524%         | 87%          |
| Earnings Ratio (x)                |           | -                | -           | 28.4       | 4.5          | 2.4          |
| E'prise Val. (A\$m)               |           | 277              | 191         | 224        | 141          | 53           |
| EV : EBITDA (x)                   |           | (41.2)           | 10.3        | 19.5       | 1.6          | 0.3          |
| EV : EBIT (x)                     |           | (36.4)           | 10.1        | 34.1       | 1.8          | 0.4          |
| Net Debt / ND+Eq (%)              |           | -89%             | -17%        | -17%       | -56%         | 1737%        |
| Interest Cover (x)                |           | 7                | -           | -          | (63)         | (32)         |
| EBIT Margin (%)                   |           | 0%               | 0%          | 9%         | 37%          | 47%          |
| ROE (%)                           |           | -17%             | 5%          | 6%         | 27%          | 69%          |
| ROA (%)                           |           | -15%             | 5%          | 4%         | 33%          | 47%          |
| Div. (Ac/sh)                      |           | -                | -           | -          | 10.0         | 20.0         |
| Div. payout ratio                 |           | 0%               | 0%          | 0%         | 49%          | 52%          |
| Div. Yield                        |           | 0.0%             | 0.0%        | 0.0%       | 10.8%        | 21.5%        |
| Div. Franking                     |           | 0%               | 0%          | 0%         | 0%           | 0%           |

| PROFIT & LOSS (A\$m)                   | 2007a        | Jun H'08f    | 2008f        | 2009f        | 2010f        |              |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Iron Ore Sales Revenue                 | 0.0          | 43.8         | 72.7         | 214.0        | 307.5        |              |
| Forex Hedging Revenue                  | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |              |
| Interest Revenue                       | 0.7          | 0.4          | 0.6          | 1.3          | 4.1          |              |
| Other Revenue                          | -            | -            | -            | -            | -            |              |
| <b>TOTAL REVENUE</b>                   | <b>0.7</b>   | <b>44.3</b>  | <b>73.3</b>  | <b>215.3</b> | <b>311.6</b> |              |
| Operating Costs                        | 0.0          | 30.6         | 46.3         | 115.7        | 140.0        |              |
| Dep/Amort                              | 0.4          | 3.3          | 8.2          | 10.0         | 13.9         |              |
| Corp O/H                               | 6.7          | 4.0          | 14.9         | 8.0          | 6.0          |              |
| Prov/w/off (expl'n)                    | 0.2          | 0.5          | (3.2)        | 1.5          | 1.5          |              |
| EBITDA                                 | (6.7)        | 9.2          | 11.5         | 90.3         | 161.5        |              |
| EBIT                                   | (7.6)        | 9.5          | 6.6          | 78.8         | 146.0        |              |
| Interest Expense                       | 0.0          | -            | 0.2          | -            | -            |              |
| NPBT                                   | (6.9)        | 9.9          | 7.1          | 80.1         | 150.1        |              |
| Tax                                    | -            | 3.0          | (1.9)        | 24.0         | 45.0         |              |
| Minority Interest                      | -            | -            | -            | -            | -            |              |
| <b>NET PROFIT</b>                      | <b>(6.9)</b> | <b>6.9</b>   | <b>9.0</b>   | <b>56.1</b>  | <b>105.1</b> |              |
| Net Abnormal Gain/(Loss)               | -            | -            | -            | -            | -            |              |
| <b>NET PROFIT After Abn'l</b>          | <b>(6.9)</b> | <b>6.9</b>   | <b>9.0</b>   | <b>56.1</b>  | <b>105.1</b> |              |
| <b>CASHFLOW</b>                        |              |              |              |              |              |              |
|  | 2007a        | Jun H'08f    | 2008f        | 2009f        | 2010f        |              |
| Net Profit                             | -6.9         | 6.9          | 9.0          | 56.1         | 105.1        |              |
| + Working Capital Adjustment           | 0.7          | 0.0          | -5.6         | 2.0          | 2.0          |              |
| + Dep/Amort                            | 0.4          | 3.3          | 8.2          | 10.0         | 13.9         |              |
| + Provisions / writeoffs (explor)      | 0.5          | -3.5         | -3.2         | 1.5          | 1.5          |              |
| + Tax Expense                          | 0.0          | 3.0          | -1.9         | 24.0         | 45.0         |              |
| - Tax Paid                             | 0.0          | -4.9         | -4.9         | 11.1         | 36.2         |              |
| <b>Operating Cashflow</b>              | <b>-5.3</b>  | <b>14.6</b>  | <b>11.3</b>  | <b>82.4</b>  | <b>131.4</b> |              |
| -Capex + Development                   | 14.3         | 20.0         | 28.4         | 12.0         | 0.0          |              |
| -Exploration                           | 1.8          | 2.0          | 4.5          | 12.0         | 12.0         |              |
| -Assets Purchased                      | 3.8          | 25.0         | 40.8         | 0.0          | 0.0          |              |
| +Asset Sales                           | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |              |
| <b>Investing Cashflow</b>              | <b>-19.9</b> | <b>-47.0</b> | <b>-73.7</b> | <b>-24.0</b> | <b>-12.0</b> |              |
| + Equity Issues                        | 29.2         | 35.2         | 65.9         | 0.0          | 0.0          |              |
| +Loan Drawdown/Receivable              | 0.0          | 0.0          | 8.0          | 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          | 8.2          | 0.0          | 0.0          |              |
| -Dividends                             | 0.0          | 0.0          | 0.0          | 7.9          | 31.8         |              |
| <b>Financing Cashflow</b>              | <b>29.2</b>  | <b>35.2</b>  | <b>65.7</b>  | <b>-7.9</b>  | <b>-31.8</b> |              |
| <b>Period Sur (Def)</b>                | <b>4.0</b>   | <b>2.8</b>   | <b>3.3</b>   | <b>50.5</b>  | <b>87.6</b>  |              |
| <b>Cash Balance</b>                    | <b>19.3</b>  | <b>22.6</b>  | <b>22.6</b>  | <b>73.1</b>  | <b>160.8</b> |              |
| <b>BALANCE SHEET</b>                   |              |              |              |              |              |              |
|  | 2007a        | Jun H'08f    | 2008f        | 2009f        | 2010f        |              |
| <b>Assets</b>                          |              |              |              |              |              |              |
| Cash                                   | 19.3         | 22.6         | 22.6         | 73.1         | 160.8        |              |
| Current Receivables                    | 2.4          | 30.5         | 30.5         | 30.5         | 30.5         |              |
| Other Current Assets                   | 0.4          | 7.9          | 7.9          | 7.9          | 7.9          |              |
| Non-Current Assets                     | 28.2         | 126.0        | 126.0        | 128.0        | 114.1        |              |
| <b>Total Assets</b>                    | <b>50.3</b>  | <b>186.9</b> | <b>186.9</b> | <b>239.5</b> | <b>313.2</b> |              |
| <b>Liabilities</b>                     |              |              |              |              |              |              |
| Borrowings                             | 0.3          | 0.0          | 0.0          | 0.0          | 0.0          |              |
| Current Accounts Payable               | 8.1          | 31.8         | 31.8         | 31.8         | 31.8         |              |
| Other Liabilities                      | 1.4          | 3.0          | 3.0          | 3.0          | 3.0          |              |
| <b>Total Liabilities</b>               | <b>9.9</b>   | <b>34.8</b>  | <b>34.8</b>  | <b>34.8</b>  | <b>34.8</b>  |              |
| <b>Net Assets</b>                      | <b>40.4</b>  | <b>152.1</b> | <b>152.1</b> | <b>204.6</b> | <b>151.5</b> |              |
| <b>RESERVES AND RESOURCES</b>          |              |              |              |              |              |              |
|  | 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%        |
| Surface Fines                          | 0.21         | 60.0%        | 0.08%        | 0.35         | 53.6%        | 0.13%        |
| Others                                 | -            | -            | -            | 1.32         | 58.7%        | 0.09%        |
| <b>Total</b>                           | <b>5.0</b>   | <b>61.3%</b> | <b>0.09%</b> | <b>10.1</b>  | <b>60.7%</b> | <b>0.10%</b> |

Resources Quarterly ▶ May 2008

## Copyright & Distribution

The material in this communication (and all attachments) is prepared for the exclusive use of clients of Euroz Securities Ltd (ACN 089 314 983) only. Euroz Securities is a licensed securities dealer and participating organisation of the Australian Stock Exchange Limited.

The information contained herein is confidential and may be legally privileged. If you are not the intended recipient no confidentiality is lost nor privilege waived by your receipt of it. Please delete and destroy all copies, and contact Euroz Securities on (+618) 9488 1400. You should not use, copy, disclose or distribute this information without the written authority of Euroz Securities.

## Disclaimer & Disclosure

Euroz Securities and its associates declare that they deal in securities as part of their securities business and consequently may have a relevant interest in the securities recommended herein (if any). This may include providing equity capital market services to their issuing company, hold a position in the securities, acting as principal or agent, or make a market therein and as such may effect transactions not consistent with the recommendation (if any) in this report.

Euroz Securities declares that it may have acted as an underwriter, arranger, co-arranger or advisor in equity capital raisings, and will have received a fee for its services, for any company mentioned within this report during the last three years.

You should not act on any recommendation issued by Euroz Securities without first consulting your investment advisor in order to ascertain whether the recommendation (if any) is appropriate, having regard to your investment objectives, financial situation and particular needs. Nothing in this report shall be construed as a solicitation to buy or sell a security, or to engage in or refrain from engaging in any transaction.

Euroz Securities believes that the information and advice contained herein is correct at the time of compilation, however we make no representation or warranty that it is accurate, complete, reliable or up to date, nor do we accept any obligation to correct or update the opinions in it. The opinions expressed are subject to change without notice. No member of Euroz Securities accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this material. We cannot guarantee that the integrity of this communication has been maintained, is free from errors, virus interception or interference.