



# Territory Resources Limited

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2 April 2008

Manager Announcements  
Company Announcements Office  
ASX Limited  
Level 4  
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Dear Sir/Madam

## **Territory slams Olympia's Target Statement**

Attached is a Media Release in regard to the above.

Yours sincerely,

**Patrick McCole**  
Company Secretary

**An Australian Resources Group**

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**ASX/ MEDIA RELEASE**

**2 April 2008**

## **Territory slams Olympia's Target Statement**

Territory Resources (ASX: TTY), following a financial, technical and legal review of Olympia Resources' (ASX: OLY) Target Statement, has today issued its response and comments.

On March 11, Territory announced an unconditional cash bid for all of the shares in Olympia Resources at \$0.10 per share. Territory's current shareholding in Olympia has grown to 40.2% since announcing the Bid.

Mr Kiernan said Olympia Resources had underperformed, and its share price has suffered badly. "Since the appointment of the current Chairman in February 2006 the Olympia share price has declined 69% from 21c to a near all time low of 6.5c the day prior to our bid" he said.

"In the past 12 months Olympia has issued 42.6 million shares at an average price of 10.01c – the value of these shares had reduced by 36% prior to our Offer, meaning Olympia has underperformed the ASX 200 by 26.3%," Mr Kiernan said.

Mr Kiernan said Olympia has also failed to deliver on key operational objectives.

"Since listing, Olympia have failed to bring one significant project into production, and proposed timetables for production have been stretched from 2005, as suggested in their June 2004 prospectus, to 2009 in their recent Target's Statement," Mr Kiernan said.

Mr Kiernan said the Independent Expert's valuation of Olympia of 21 cents to 25 cents per share seemed to accept the timing assumptions included in the cash flow forecasts prepared by Olympia management.

"We believe the Independent Expert has not questioned their ability to achieve these forecasts, has not considered the effect that further delays would have on value, and has not questioned Olympia's ability to raise future capital, marketing and prices assumptions," Mr Kiernan said.

Mr Kiernan said recent corporate activity, including options packages for Directors and Directors share trades, was based on share value at a significant discount to the Independent Experts valuation.

Territory Resources has a clear vision to build an Australian Resources Group and will deliver shareholder value through the consolidation of iron ore, minerals sands and copper assets.

A full response to the Olympia Target's Statement is attached.

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## About Territory Resources

The Company is producing and shipping iron ore from its 100% owned Frances Creek haematite project, located near Pine Creek in the Northern Territory.

The current mine plan is scheduled to produce at an annualized mining rate of 2mtpa by mid 2008, which is expected to increase to 2.5mtpa by the end of 2008 and 3mtpa by June 2009.

The project has significant infrastructure benefits, being located within 15km from the Alice Springs to Darwin rail line and 190km south of the refurbished Darwin Port – Australia's closest to China. Marketing of Territory's ore is being undertaken by the Hong Kong based Noble Group Limited via a life-of-mine marketing agreement.

Territory Resources is building an Australian Resources Group with strategic investments in commodities such as mineral sands and gold, specifically through a 29% stake in Matilda Minerals, a 40% stake in Olympia Resources, and a 10% investment in Monarch Gold Mining Company.

Visit: [www.territoryresources.com.au](http://www.territoryresources.com.au)

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## **A. The Current Board has not Delivered**

### **1. Shareholder value**

- Since his appointment as a Director of Olympia in February 2006, the Chairman has overseen a period of substantial reduction in Olympia's shareholder value. During this time Olympia's share price has declined 69% from 21 cents to a near all time low of 6.5 cents on the day prior to Territory Resources Limited's unconditional cash offer of 10 cents per share.
- Prior to the release of the Independent Expert's valuation of 21 cents to 25 cents per share the Directors proposed issuing 4.5 million share options to the current Board at 15 cents per share (including 1 million options to the Chairman) – a discount of an average of 34% to the Independent Expert's values.
- In the past 12 months Olympia has issued 42.6 million shares at an average price of 10.01 cents per share. The value of these shares had reduced by 36% immediately prior to the Offer. Over the same period the ASX 200 lost 9.7%. Olympia has therefore underperformed the market by 26.3%.
- Olympia shareholders continue to sell their shares in the market despite Directors' recommendations to the contrary. Territory has doubled its initial holding since its bid was announced.
- BDO comments in their report (page 22) "It would appear from the share price of Olympia that shareholders may not place a great deal of confidence in the Board or its likelihood of achieving production from the Keysbrook and the Harts Range Project".

### **2. Projects**

- Since listing in August 2004, Olympia has not brought a significant project into operation. By contrast, Territory has brought a significant new Iron Ore project into being in less than half that time.
- In Olympia's June 2004 prospectus it stated:
  - i. Keysbrook production planned to commence late 2005. The Target's Statement has now indicated a start date of 2009.
  - ii. Harts Range production planned to commence in 2005. The Target's Statement has now indicated a start date of 2008 with no funding in place.
- The commencement of production from Keysbrook in 2009 is dependent on the finalisation of the appeals process and a statement from the Minister for Environment. BDO has accepted that "the Directors of Olympia are confident that they can meet these conditions".
- The Harts Range Project is seeking to produce and sell 100,000 tonnes per year of garnet. Current world production is estimated at 500,000 tonnes per year (BDO Report page 10). This equates to 20% of world supplies and commercially would appear to be an unrealistic expectation and thereby affecting the project value.
- BDO does not provide information regarding the price assumption for garnet of \$202 - \$251 per tonne. It is not demonstrated whether BDO has sufficient industry knowledge to consider if these prices are achievable or reasonable.

- It is apparent that Olympia has historically not been able to deliver on the timing expectations it has created. BDO has, however, accepted the timing assumptions included in the cash flow forecasts prepared by Olympia management and has not questioned their achievability or considered the effect that further delays would have on value.
- Timing delays are likely to have a significant negative effect on the discounted cash flow valuation, given the high discount rate and the high proportion of value in the early cash flows (BDO comment on page 16). BDO has however not considered timing delays or provided any sensitivity analysis based on timing delays.

## **B. Future Funding Implications**

### **1. Funding Requirements**

- In its Target's Statement Olympia has indicated it must raise further capital in order to facilitate the development of its Keysbrook and Harts Range projects. The BDO Report (page 14) indicates their financial model assumes that \$27 million of debt funding will be required and also assumes equity capital of \$12m will be raised. This totals \$39m for a company capitalized at approximately \$10m the day prior to the Territory Offer.
- Olympia must also refinance its \$2 million loan with Territory by 27 June 2008.
- Olympia had less than \$0.5 million in treasury at 31 December 2007. Olympia has averaged cash outflow of \$4.45 million per year over the past 3 years.
- Territory notes with interest an article in last weekend's Financial Review (page 14)

“There are a host of small companies that did not get a capital raising away that will have to find some cash in the next 6 months and they won't be able to”.

- Mark Barnaba, Managing Director of Merchant Bank Azure Capital.

“Businesses that need cash in the next few months could encounter great difficulty”.

- Charles Fear, Executive Chairman of Investment Bank and Fund Manager Argonaut Capital

- BDO in their report (page 23) state “We have noted in Section 9.1 that Olympia plans to develop its project from an exploration stage to a production stage. This development is dependent on sufficient funding being sourced through equity or debt mechanisms available to the Company to progress its projects to a production stage. If the Company is unable to obtain sufficient funding, Olympia may not be able to realise the values we have noted in Section 9”.

### **2. Shareholder Dilution**

- In addition to the need to refinance the Territory loan and address short term funding requirements the Independent Expert has indicated \$12 million is required from the issue of new equity to assist to develop Olympia's projects. BDO have assumed an issue price of 10 cents per share which implies an additional 120 million shares will be issued, equivalent to approximately 77% of Olympia's current shareholding. Given the share trading range prior to the Territory offer was well below 10c, this is not a likely scenario and a lower issue price may well need to be considered.

- BDO assumes that Olympia will raise the additional equity capital at 10c per share, which indicatively values the shares at a significantly lower price than BDO'S assessment of the fair value of the shares. This disconnect is not explained or rationalised in any way.

### **3. Options**

- The Notice of General Meeting sent to Olympia's shareholders on 20 February 2008 did not detail how the 15c option exercise price was determined.
- If the BDO fair market value of the Olympia shares of 21c to 25c was reflective of the market value of the shares, the issue of options at 15c would have a dilutive effect on shareholders value.
- Options are well out of the money and we believe have been incorrectly valued by Olympia using the post bid share price. To value correctly you should either adopt the pre-bid share price (6.5 cents) with the pre-bid volatility (60%) or the post-bid share price (10 cents) with the post-bid volatility (<5%). Applying the correct methodology the options are valued between 7 cents and 1 cent each.

## **C. Independent Expert's Report**

### **1. Technical Expertise**

- In undertaking its valuation of Olympia, BDO has relied on cash flow forecast models prepared by the management of Olympia. BDO did not appoint any technical experts to assist it in evaluating the reasonableness of the technical (geological, mining and engineering) assumptions used in the cash flow forecasts and appears to cite lack of time as the reason for this.
- There is no evidence in the Independent Expert Report that the BDO staff involved in the preparation of their report have the requisite technical knowledge and expertise to assess the reasonableness of the technical assumptions.
- ASIC's Regulatory Guide 111 states that "for technical matters beyond the expert's expertise, an expert should retain a specialist to advise them (e.g. a geologist to provide an opinion on recoverable ore the subject of mining tenements)".
- In the absence of in-house expertise, it is normal practice for an Independent Expert to appoint technical experts to assist with the evaluation of technical assumptions, which in this case would include resources, life of mine, grade, throughput, construction cost, mining and processing costs and the likely timing of construction.
- BDO states that they were "advised that the resource identified on the Keysbrook Project was overstated at the time of original measurement". They do not state who provided this advice, what action Olympia has taken to rectify the overstatement and what risk there may be that there could be further downgrades to the current assumptions.
- Given how critical the technical assumptions are to the share valuation (as evidenced by the sensitivity analysis provided by BDO), it is highly unusual to form a view on their reasonableness without the input of requisite technical skills and it is hard to see how BDO has satisfied ASIC's requirements in this regard.

## **D. Share Trading**

### **1. Recent history**

- BDO considers that the shares in Olympia are not liquid enough to provide confidence in the share trading valuation methodology and hence BDO dismisses the quoted market price range of 6c to 9c as not reflecting the true underlying value of the shares of Olympia. However, the annualised 6 and 12 month trading volumes of 71% and 66% respectively do indicate reasonable liquidity and hence the methodology should not be dismissed so easily.
- In November 2007 Alan Lockett, a founding director of Olympia, disposed of 5.6 million Olympia shares at a price of 10c. As Mr Lockett is a director of Olympia one would assume that he had an informed view of the underlying value of Olympia projects. BDO mentions this sale but does not fully consider the implication of a founding director selling a significant stake at 10c.

## **E. General**

### **1. Other matters worth considering**

- The Directors acknowledge there are no alternative transactions.
- Olympia's current share price is underpinned by the Territory bid.
- BDO in their report (page 23) state ...." Olympia's share price may fall back to the level prior to the announcement of the takeover from Territory being approximately 6.5c a share".
- The performance of the ASX and the outlook for global economies has remained volatile since the Offer was announced.
- The cost of Olympia's second zircon plant in Indonesia appears to have not been included and as such indicates more additional funding would be required.
- We do not believe that a real valuation model can be properly used when inflation rates in the short to medium term are expected to be higher than the longer term average. The effect of using a real model in this case is likely to overstate the value of the shares.
- The Independent Directors who make the recommendation to reject the Territory offer hold 1.67% of the shares in Olympia.