



FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2005

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TERRITORY IRON LIMITED

DIRECTORS' REPORT

Territory Iron Limited (the Company) is an Australian company listed on the Australian Stock Exchange. The registered office of the Company is located at Suite 4, 111 Colin Street, West Perth, Western Australia 6005.

The Directors of the Company present their report on the Company for the year ended 30 June 2005.

DIRECTORS

The names of the Directors of Territory Iron Limited at the date of this report are:

Malcolm Richmond, BSc. (Hons), B Com, FAusIMM, FAIMM, ATSE. Non-Executive Chairman

Prof Richmond was appointed on 5 February 2005. He is a qualified metallurgist and economist with considerable experience as a senior executive involved with many projects and corporations in Australia and internationally in the resources industry. He is a visiting professor in the Graduate School of Management and School of Engineering at the University of Western Australia and Advisor and Professorial Fellow, Technology Commercialisation at the Curtin University of Technology.

Professor Richmond is a director of Magnesium International Limited (appointed prior to June 2002), a past director of Sons of Gwalia Ltd (appointed August 2000 until August 2004) and past Managing Director of Development at Hamersley Iron Pty Ltd, a subsidiary of the Rio Tinto Group.

Douglas Stewart , BSc. FAusIMM, FAIG. Managing Director

Mr Stewart was appointed on 20 January 2005. He is a qualified geologist with over 33 years world-wide experience covering a broad range of commodities. He is currently a director of Bullion Minerals Ltd. (appointed September 2004).

Trevor Tennant, AWASM, MAusIMM. Non-Executive Director

Mr Tennant was a director during the whole of the financial year and up to the date of this report. He is a qualified mining engineer with over 30 years experience in the mining industry. Mr Tennant is currently an executive director of OM Holdings Limited (appointed November 1997) and Managing Director of Bootu Creek Resources Ltd, a wholly owned subsidiary of OM Holdings Limited. Mr Tennant through his direct and indirect interests is a substantial shareholder of OM Holdings Limited. In addition to Mr Tennant's holding of ordinary shares in this Company, OM Holdings Limited holds 25,000,000 ordinary shares in the Company.

Yeo Wee Kiong, Non-Executive Director

Mr Yeo was appointed on 14 February 2005. He holds bachelor degrees in Mechanical Engineering and Law, and a Master of Business Administration from the National University of Singapore. He is managing director of Yeo Wee Kiong Law Corporation and is currently a director of OM Holdings Ltd (appointed April 2004), Bonvests Holdings Limited (appointed October 1991), ASJ Holdings Limited (appointed January 1997), Ezyhealth Asia Pacific Ltd (appointed September 1999), AEM-Evertch Holdings Ltd (appointed December 2000), ISG Asia Limited (appointed June 2002), PCA Technology Ltd (appointed February 2003) and China Sun Bio-Chem Technology Group Company Ltd (appointed September 2004).

TERRITORY IRON LIMITED

DIRECTORS' REPORT (Continued)

Julie-Anne Wolseley, B.Com, CA, MAICD, Non-Executive Director

Ms Wolseley was appointed on 20 January 2005. She holds a Bachelor of Commerce degree and is a Chartered Accountant. She is the principal of a corporate advisory company. Ms Wolseley is a non-executive director of OM Holdings Ltd. (appointed February 2005) and is joint company secretary of that company.

Mr Anthony James Pearson was a director from the beginning of the financial year until his resignation on 7 February 2005.

Mr Seetoh Kwok Weng was a director from the beginning of the financial year until his resignation on 1 February 2005.

Mr Low Ngee Tong was a director from the beginning of the financial year until his resignation on 12 February 2005.

COMPANY SECRETARY

The company secretary is Mr Peter Rutledge. He was appointed to the position on 15 February 2005. He holds a Bachelor of Science degree and is a Chartered Accountant and an Associate of the Securities Institute of Australia. Mr Rutledge has held the position of company secretary for a number of listed companies over the past twenty years and is currently company secretary for three other listed junior exploration companies.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were iron ore exploration. There has been no significant change in these activities during the year.

RESULTS

The operating loss after tax for the financial year was \$1,066,896 (2004: \$143,851), of which \$897,189 (2004: \$134,913) related to exploration expenditure expensed.

DIVIDENDS

The directors have not paid and do not recommend the payment of a dividend.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR AND LIKELY DEVELOPMENTS

There are no matters or circumstances which have arisen since the end of the financial year that have significantly affected the operations of the Company or the results of those operations or the state of affairs of the Company, nor are there any such matters or circumstances or likely developments which may significantly affect the future operations or the results of those operations or the state of affairs of the Company.

TERRITORY IRON LIMITED

DIRECTORS' REPORT (Continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the operating results, significant changes in the state of affairs of the Company were the converting of the company to a public company, the restructuring of the share capital to subdivide the original 1,100,000 ordinary shares in the Company into 50,000,000 shares followed by an initial public offering of a further 50,000,000 ordinary shares to raise \$10 million and the subsequent admission of the Company to the Official List of the Australian Stock Exchange Limited on 4 March 2005.

REVIEW OF OPERATIONS

The Company's assets are located in the Northern Territory of Australia where four exploration projects are identified. The most advanced project is the Frances Creek project located near Pine Creek village some 150km south of Darwin. This area was mined for iron ore over a 7 year period up to 1974 and supported a townsite and rail spur to carry its product to Darwin.

In 2004 the Company undertook sufficient work on 9 out of 13 mined deposits to show that 3.4 million tonnes of Inferred Resources were in place. This formed the basis for a successful initial public offering of 50 million shares.

The Company is currently exploring to establish high confidence iron ore resources with the intention of determining sufficient economic quantities of material to make a decision to proceed to production. The current budget includes a total of \$3.8 million to be spent in calendar 2005 in drilling, geophysical surveys, tenement maintenance and studies to determine the feasibility of commencing operations.

Since drill start-up in June, some 10,405m of drilling in 271 holes was completed to 18th August 2005. It is anticipated that over 23,000 metres will be drilled prior to year end. The intent is to complete drilling in phases which allow for initial wide spaced drilling followed by closer infill drilling. This drilling program is underway at Helene 5, Thelma Rosemary, Rosemary, Saddle, Marion, Jasmine, Millers and Ochre Hill deposits and at Helene 6/7 following dewatering of the old pit. Surface mapping is contemporaneously underway at several locations and a detailed aeromagnetic survey at Mt Bundey and Frances Creek is underway.

The next milestones will include locating additional exploration targets and the numeric modelling of the drilled mineralised bodies.

BUSINESS STRATEGIES AND PROSPECTS

The Company has iron ore production as its foremost strategy. The exploration work at Frances Creek and other prospects is directed to this end. To achieve this, the Company has initiated the relevant regulatory steps by an application for a mineral lease and is in the process of appointing appropriately skilled consultants to manage environmental and cultural issues in a timely manner.

The development strategy is to use current drilling results in studies to determine the feasibility of commencing mining which is not expected before late 2006.

TERRITORY IRON LIMITED

DIRECTORS' REPORT (Continued)

The Board is of the view that it is appropriate to develop operations as soon as is practicable to take advantage of the current high price cycle. During this price cycle the prospects for establishing a very profitable operation are considered excellent. Strong prices are expected to enable the early repayment of any debts incurred through capital investments and allow operations to continue profitably in the event of price retraction.

SHARE OPTIONS

The unissued ordinary shares of the Company under option at the date of this report have not changed since balance date. Details are set out in Note 11 of the financial statements.

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of directors held during the year ended 30 June 2005 and the number of meetings attended by each director:

	Number of Meetings Attended	Number of Meetings Held During Term of the Director
M.R Richmond	7	7
D H Stewart	7	7
T Tennant	6	7
W K Yeo	6	7
J-A Wolseley	7	7
A J Pearson	0	0
S K Weng	0	0
L N Tong	0	0

REMUNERATION REPORT

Board Policy

The objective of the Company's remuneration policy for directors and executives is to ensure reward for performance is competitive and appropriate for the results delivered. The policy is designed to ensure that the following key criteria for good reward governance practices are followed:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

TERRITORY IRON LIMITED

DIRECTORS' REPORT (Continued)

Remuneration Practices

Fees and payments to non-executive directors reflect their levels of responsibility. Subject to the Corporations Act and the Constitution, the Company may pay to the non-executive directors a maximum total amount of directors' fees determined by the Company in general meeting. This amount currently stands at \$300,000 per annum.

Non-executive directors' annual fees, inclusive of superannuation, are currently set as follows:

	\$
M R Richmond	54,500
T Tennant	27,250
W K Yeo	27,250
J-A Wolseley	27,250
	<hr/>
	136,250

A non-executive director may also be paid remuneration as the other directors determine where that non-executive director is called upon to perform extra or special services. Directors may also be paid all travelling and other expenses properly incurred by them in attending, participating in or returning from meetings of directors or general meetings of the Company or otherwise in connection with the business of the Company.

Remuneration and other terms of employment for the Managing Director are formalised in a service agreement. The agreement is for an initial minimum period of 2 years commencing from 4 March 2005. Base salary, inclusive of superannuation, is \$272,500 per annum, to be reviewed annually or as otherwise directed by the parties. In addition, the Managing Director has been issued with 2,000,000 unlisted management options exercisable at 25 cents each on or before 1 March 2009, 50% of which are exercisable only after the completion of 1 year's service and the balance are exercisable after the completion of 2 years' service.

Remuneration and other terms of employment for the operations manager, Mr R M Vivian, are formalised in a service agreement. The agreement is for an initial minimum period of 2 years commencing from 1 April 2005. Base salary, inclusive of superannuation, is \$153,690 per annum, to be reviewed annually or as otherwise directed by the parties. In addition the operations manager has been issued with 500,000 unlisted management options exercisable at 25 cents each on or before 1 March 2009, 50% of which are exercisable only after the completion of 1 year's service and the balance are exercisable after the completion of 2 years' service.

During the initial two year period of service the Company may only terminate the employment of the Managing Director and the operations manager upon limited events akin to misconduct or incapacity. Thereafter either party may additionally terminate the agreements on three months written notice without cause. The Managing Director is entitled to a maximum of nine months compensation of base salary and superannuation upon certain termination events.

Remuneration of the Company Secretary is by way of a contract with a company providing the services of Mr P C Rutledge at an annual fee of \$24,000 plus GST.

TERRITORY IRON LIMITED

DIRECTORS' REPORT (Continued)

Directors' and Executives' Emoluments

Details of Directors' and Executives remuneration are set out in Note 14 to the financial statements.

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS IN THE COMPANY

Directors' interests in shares and options in the Company at the date of this report have not changed since balance date. Details are set out in Note 14 of the financial statements.

AUDIT COMMITTEE

The Company is not of a size nor are its financial affairs of such complexity to justify a separate audit committee of the Board of Directors. All matters that might properly be dealt with by such a committee are the subject of scrutiny at full board meetings.

AUDITOR'S INDEPENDENCE DECLARATION AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration as required by Section 307C of the Corporations Act 2001 is set out on page 43 of the Financial Report.

Details of non-audit services provided by the Company's auditor, Stantons International, or its associated company, Stanton Partners Corporate Pty Ltd are set out below. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence has not been compromised. Stanton Partners Corporate Pty Ltd received the following amount for provision of non audit services:

Preparation of investigating accountant's report for initial public offering \$8,548.

STATEMENT IN TERMS OF AUSTRALIAN STOCK EXCHANGE LISTING RULE 4.10.19

The Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission to the official list of the Australian Stock Exchange in a way consistent with its business objectives.

ENVIRONMENTAL REGULATIONS

The mineral leases and exploration licences granted to the Company pursuant to the Northern Territory Mining Act are granted subject to various conditions which include standard environmental requirements. The Company adheres to these conditions and the Directors are not aware of any contraventions of these requirements.

TERRITORY IRON LIMITED

DIRECTORS' REPORT (Continued)

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not party to any such proceedings during the year.

INSURANCE OF OFFICERS

During the financial year the Company paid a premium of \$38,961 to insure the directors, company secretary, executive officer or employee of the Company.

The liabilities insured are legal costs that may be incurred in defending legal or civil proceedings that may be brought against the officers in their capacity as officers of the company and other payments arising from the liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Signed in accordance with a resolution of Directors:



D H STEWART
MANAGING DIRECTOR

Perth

Date : 23 September 2005

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

Corporate Governance is a matter of high importance in the Company and is undertaken with due regard to all of the Company's stakeholders and its role in the community. The key corporate governance practices of the Company are summarised below.

1. BOARD OF DIRECTORS

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful exploration business, which seeks to optimise medium to long-term financial gains for all shareholders. The Company's objective is to maximise returns to shareholders through the continued exploration and development of current projects and the identification and acquisition of quality mining and/or exploration projects.

The Board is responsible for ensuring that the Company is managed in such a way to best achieve this desired result.

Given the current size and operations of the business, the Board undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Company, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Company.

The Board has sole responsibility for the following:

- Appointing and removing the Managing Director, other executives and the Company Secretary and approving their remuneration;
- Determining the strategic direction of the Company and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and exploration expenditure budgets at the commencement of each financial year and monitoring progress and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Company's financial affairs; and
- Ensuring that policies and compliance systems consistent with the Company's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Company's corporate governance practices are being continually reviewed and improved as the Company's business develops.

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

The Board convenes regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities.

The Board may from time to time, delegate some of its responsibilities listed above to its senior management team.

The Managing Director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his responsibilities the Managing Director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's operational results and financial position.

The role of management is to support the Managing Director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board.

1.2 Composition of the Board and New Appointments

The Company currently has the following Board members:

Mr Malcolm Richmond, Non-Executive Chairman
Mr Doug Stewart, Managing Director
Mr Trevor Tennant, Non Executive Director
Ms Julie Wolseley, Non Executive Director
Mr Yeo Wee Kiong, Non Executive Director

The Company's Constitution provides that the number of directors shall not be less than three and not more than ten.

There is no requirement for any share holding qualification.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of additional independent Non-Executive Directors. The Board believes that the individuals on the Board can and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

The composition of the Board will be reviewed periodically in view of the underlying scale, scope and complexity of the Company's operations. Changes will be made where appropriate. Directors are initially appointed by the full Board subject to election by shareholders at the next general meeting.

Under the Company's Constitution the tenure of directors (other than Managing Director) is subject to reappointment by shareholders not later than the third anniversary following his/her last

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director.

A Managing Director may be appointed for any period and on any terms the Directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

1.3 Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time.

The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The full Board will hold meetings at such times as may be necessary to address any general or specific matters as required.

If the Company's activities increase in size, scope and nature, the appointment of separate or special committee's will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists, the Director concerned will not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

1.6 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

approval for the related party transaction, the Board cannot approve the transaction.

2. ETHICAL STANDARDS

The Board acknowledges the need for continued maintenance of a professional standard of corporate governance practice and ethical conduct by all Directors and employees of the Company.

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the Company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the Company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the Company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.
- A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company.
- A director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A director should not engage in conduct likely to bring discredit upon the Company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

2.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and Directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse Company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the Company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must notify that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach.

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the Directors of the Company.

- 'Inside information' is information that:
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

2.3.1 Overriding policy

Trading by directors and officers in the Company's securities is not permitted:

- 2.3.1 (a) when information which is potentially of a price-sensitive nature is to hand and has not yet been released to the market;
- 2.3.1 (b) in the case of directors and officers other than the Managing Director, without their first obtaining clearance from the Managing Director, thereby ensuring

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

further compliance with Clause 2.3.1 (a) in circumstances where the director or officer concerned may not be aware of the existence of information potentially of a price sensitive nature that is available to the Company's executive staff but has not been released to the market;

- 2.3.1 (c) in the case of the Managing Director, without his first assuring the Chairman to the Chairman's satisfaction that the Company's executive staff are not aware of the existence of information potentially of a price sensitive nature that has not been released to the market.

2.3.2 Specific policy

Trading by Directors and Officers in the Company's securities is permitted only within a one (1) month period commencing three (3) trading days after a significant disclosure to the market by the Company, where a significant disclosure is defined as:

- (a) the regular Quarterly Activities Reports
- (b) the full year Financial Report
- (c) the half year Financial Report and
- (d) any other interim report that contains significant information which could be construed as being of a price sensitive nature.

Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing Rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company. Employees must also give notice to the Chairman prior to trading in the Company's securities.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

3. DISCLOSURE OF INFORMATION

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in his absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information. Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

- a) A reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

- b) The information is confidential; or
- c) One of the following applies
- i. It would breach a law or regulation to disclose the information;
 - ii. The information concerns an incomplete proposal or negotiation;
 - iii. The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
 - iv. The information is generated for internal management purposes;
 - v. The information is a trade secret;
 - vi. It would breach a material term of an agreement, to which the Company is a party, to disclose the information;
 - vii. It would harm the Company's potential application or possible patent application; or
 - viii. The information is scientific data that release of which may benefit the Company's potential competitors.

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders. The Company's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Company. The strategy provides for the use of systems that ensure a regular and timely release of information about the Company is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Reports;
- Half yearly reports
- Presentations at the Annual General Meeting/General Meetings; and
- Annual reports

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Company's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

4. RISK MANAGEMENT

4.1 Identification of Risk

The Board is responsible for overseeing the Company's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

within the Company with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Company are highlighted in the Business Plan presented to the Board by the Managing Director.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Company.

4.2 Integrity of Financial Reporting

Commencing for the reporting period ending 30 June 2005, the Company's Managing Director and Chief Financial Officer report in writing to the Board that:

- the financial statements of the Company for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. PERFORMANCE REVIEW

The Board has adopted a self-evaluation process to measure its own performance during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the Directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Company's executives include annual performance appraisal meetings with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. REMUNERATION ARRANGEMENTS

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components that reflect the person's responsibilities, duties and personal performance.

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-Executive Directors must not exceed the maximum annual amount approved by the Company's shareholders which is presently \$300,000 per annum.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE AND BEST PRACTICE RECOMMENDATIONS

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve, the Company has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The Company is pleased to advise that its practices are largely consistent with those of the ASX guidelines. Exceptions are listed on pages 17 and 18.

To read the ASX Principles and Recommendations visit

<http://www.shareholder.com/visitors/dynamicdoc/document.cfm?documentid=364&companyid=ASX>

The Company has complied with each of the Ten Essential Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below. Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the practices are appropriate for the Company due to the size of the Company and its current operations.

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

Principle Ref	Recommendation Ref	Notification of Departure from ASX Corporate Governance Guidelines.	Explanation for Departure
2	2.1	The Board considers that a majority of the Board is not independent in accordance with Recommendation 2.1. However the need for independence is to be balanced with the need for skills, commitment and a workable board size.	<p>Given the size and scope of the Company's operations the Board considers that it has recruited members with the skills, experience and character to discharge its duties and that any greater emphasis on independence would be at the expense of the Board's effectiveness.</p> <p>The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of independent Non-Executive Directors.</p>
2	2.4	The Board considers that the Company is not currently of a size to justify the formation of a nomination committee as per Recommendation 2.4.	The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole will undertake the process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors.
4	4.2	The Board acknowledges this does not comply with Recommendation 4.2. with respect to the appointment of an audit committee.	The Board considers that the Company is not of a size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

TERRITORY IRON LIMITED

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (Continued)

Principle Ref	Recommendation Ref	Notification of Departure from ASX Corporate Governance Guidelines.	Explanation for Departure
4	4.3 and 4.4	The Board acknowledges it does not comply with recommendations regarding the structure and operation of an audit committee - see Recommendation 4.2.	
9	9.2	The Board has not established a remuneration committee and acknowledges this does not comply with Recommendation 9.2.	The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

TERRITORY IRON LIMITED

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
Revenue from ordinary activities	2	175,819	2,871
Exploration expenditure	3	(897,189)	(134,913)
Administration expenditure	3	(341,538)	(11,809)
Borrowing costs	3	<u>(3,988)</u>	<u>-</u>
Loss from ordinary activities before income tax expense		(1,066,896)	(143,851)
Income tax expense attributable to ordinary activities	4	<u>-</u>	<u>-</u>
Net loss after income tax attributable to members of the Company	12	<u>(1,066,896)</u>	<u>(143,851)</u>
Total changes in equity attributable to members of the Company other than those resulting from transactions with owners as owners		<u>(1,066,896)</u>	<u>-</u>
Basic loss per share	20	(1.69) cents	(32.14) cents
Diluted loss per share	20	(1.69) cents	(32.14) cents

The above Statement of Financial Performance should be read in conjunction with the accompanying notes.

TERRITORY IRON LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Note	2005 \$	2004 \$
Current Assets			
Cash assets	5	8,684,133	53,557
Receivables	6	<u>130,659</u>	<u>9,696</u>
Total Current Assets		<u>8,814,792</u>	<u>63,253</u>
Non Current Assets			
Exploration expenditure	7	1,010,739	388,552
Receivables	6	55,665	6,400
Plant and equipment	8	<u>65,238</u>	<u>-</u>
Total Non Current Assets		<u>1,131,642</u>	<u>394,952</u>
Total Assets		<u>9,946,434</u>	<u>458,205</u>
Current Liabilities			
Payables	9	834,455	2,056
Provisions	10	<u>7,404</u>	<u>-</u>
Total Current Liabilities		<u>841,859</u>	<u>2,056</u>
Total Liabilities		<u>841,859</u>	<u>2,056</u>
Net Assets		<u>9,104,575</u>	<u>456,149</u>
Equity			
Contributed equity	11	10,315,322	600,000
Accumulated losses	12	<u>(1,210,747)</u>	<u>(143,851)</u>
Total Equity		<u>9,104,575</u>	<u>456,149</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

TERRITORY IRON LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 \$	2004 \$
Cash flows from operating activities			
Payments to suppliers and employees		(361,124)	(24,073)
Payments for exploration expenditure		(432,875)	(510,326)
Interest received		78,826	1,501
Interest paid		(3,988)	-
Security bonds paid		(49,265)	-
Net cash outflow from operating activities	19	<u>(768,426)</u>	<u>(532,898)</u>
Cash flows from investing activities			
Payments for purchases of assets		(69,126)	-
Payment for purchases of tenements		<u>(253,739)</u>	<u>(7,000)</u>
Net cash outflow from investing activities		<u>(322,865)</u>	<u>(7,000)</u>
Cash flows from financing activities			
Proceeds from issue of shares		10,500,000	600,000
Share issue transaction costs		<u>(778,133)</u>	<u>(6,545)</u>
Net cash inflow from financing activities		<u>9,721,867</u>	<u>593,455</u>
Net increase in cash held		8,630,576	53,557
Cash at the beginning of the financial year		<u>53,557</u>	<u>-</u>
Cash at the end of the financial year		<u><u>8,684,133</u></u>	<u><u>53,557</u></u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general-purpose financial report has been prepared in accordance with current Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act (2001).

It is prepared on the accruals basis and in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the Company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to Australian equivalents to IFRS is being managed, and the key differences in accounting policies that are expected to arise, are set out in note 22.

(a) Income tax

The Company adopts the liability method of tax effect accounting procedures whereby the income tax expense in the statement of financial performance is matched with the accounting profit (after allowing for permanent differences). The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(b) Revenue

Interest is brought to account as income over the term of each financial instrument on an accrual accounting basis.

Other revenue is recognised as it accrues.

(c) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

(d) Depreciation

Depreciation is calculated on a diminishing value basis so as to write off the net cost of each item of plant and equipment over its expected useful life. The depreciation rates used vary from 7.5% to 37.5% on a diminishing value basis.

(e) Cash assets

For the purpose of the statement of cash flows, cash includes deposits at call with financial institutions with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

(f) Exploration and evaluation

All exploration and evaluation costs are expensed as incurred. When a reasonable assessment of the existence of economically recoverable reserves leads to the decision to develop and exploit an area of interest, further exploration and evaluation costs will be capitalised. The recoverability of acquisition costs capitalised is dependent upon the successful commercialisation of the relevant mineral projects. In the event of the failure to commercialise the projects (by development or sale), the acquisition costs, prepaid royalties and prepaid iron ore payments pertaining to the projects will need to be written off.

(g) Valuation of non-current assets other than exploration and evaluation

The carrying amounts of all non-current assets other than exploration and evaluation expenditure are reviewed at least annually to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds the recoverable amount the asset is written down to the lower value. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

(h) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is determined by dividing the operating result after income tax by the weighted average number of ordinary shares outstanding during the financial year.

(ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

(i) Trade and other creditors

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of recognition.

(j) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year are measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Company to employee superannuation funds and are charged as expenses when incurred.

(k) Adoption of Australian equivalents to International Financial Reporting Standards

The Australian Accounting Standards Board ("AASB") is adopting International Financial Reporting Standards ("IFRS") for application to reporting periods beginning on or after 1 January 2005. The AASB has issued AASB equivalents to IFRS, and Urgent Issues Group Abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be known as Australian equivalents to IFRS. The adoption of Australian equivalents to IFRS will be first reflected in the financial statements of the Company for the half-year ending 31 December 2005 and the year ending 30 June 2006.

The Company is managing the transition to the new Standards by reviewing the pending standards and Urgent Issues Group Abstracts to identify key differences in accounting policies that are expected to arise on the adoption of Australian equivalents to IFRS.

Equity-based payments

Following a preliminary review of the Australian equivalents to IFRS the Company considers that the management options issued to a director and an executive will need to be recognised as an expense. This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation. The Company also considers that the options issued to the underwriter of the initial public offering prospectus will need to be recognised as a share issue cost. Apart from this the Company considers that there does not appear to be any significant changes in accounting policies required on adoption of Australian equivalents to IFRS, and that adoption of the standards reviewed will not materially affect the carrying value of assets and liabilities and the recording of the transactions of the Company.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

Impairment of assets

The Company determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the assets use and subsequent disposal. In terms of AASB 136: Impairment of Assets, the recoverable amount of an asset will be determined as the higher of fair value less costs to sell and value in use.

Exploration and Evaluation

The Company considers that the existing accounting policy on exploration and evaluation is reasonable and complies with the requirements of AASB 6, resulting in information that is relevant to the economic decision-making needs of users and so does not propose any change to this policy.

	2005	2004
	\$	\$

NOTE 2 – REVENUE

Revenue from operating activities

Interest revenue from other persons	175,819	2,871
Total revenue from ordinary activities	175,819	2,871

NOTE 3 – LOSS FROM ORDINARY ACTIVITIES

Loss from ordinary activities before income tax expense includes the following specific expenses:

Exploration expenditure	897,189	134,913
Administration expenditure		
Consulting	25,380	-
Employment related costs	218,281	-
Rental	22,311	-
Depreciation	3,888	-
Other	71,678	11,809
Total administration expenditure	341,538	11,809
Borrowing costs expense		
Interest – other persons	147	-
Interest – related parties	3,841	-
Total	3,988	-

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

NOTE 4 – INCOME TAX

	2005 \$	2004 \$
(a) Reconciliation of income tax to operating losses		
<p>The aggregate amount of income tax attributable to the financial year differs by more than 15% from the amount calculated on the operating loss, and is reconciled as follows:</p>		
Operating loss before income tax	(1,066,896)	(143,851)
Income tax credit calculated at 30% (2004:30%)	(320,069)	(43,155)
Tax effect of permanent differences:		
Non-deductible expenditure	216	2,059
Capital raising costs	(13,422)	(515)
Tax losses not brought to account	(333,275)	(41,611)
Income tax attributable to operating profit	<u>-</u>	<u>-</u>
(b) Future income tax benefits not brought to account		

The Directors estimate that the potential future income tax benefit in respect of income tax losses and exploration expenditure carried forward but not brought to account at year-end at a tax rate of 30% is:

Income tax losses	(374,886)	(41,611)
Timing differences	(29,905)	-
Net future income tax benefits not brought to account	<u>(404,791)</u>	<u>(41,611)</u>

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

These benefits will only be obtained if:

- (i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefits from the deductions for the losses to be realised,
- (ii) the Company continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deduction for the losses.

The income tax rate applied to the losses as at 30 June 2005 is 30%.

	2005	2004
	\$	\$
NOTE 5 – CASH ASSETS		
Cash at bank and on hand	100,596	53,557
Term deposits	8,583,537	-
	<u>8,684,133</u>	<u>53,557</u>

Cash at bank has been subject to floating interest rates during the year of between 0% and 4% (2004: 0% and 2.25%).

Term deposits have been subject to fixed interest rates during the year of between 5.55% and 6.00% and terms of between 1 month and 12 months. They are readily convertible to cash on hand at the investor's option and are subject to insignificant risk of changes in value.

	2005	2004
	\$	\$
NOTE 6 - RECEIVABLES		
CURRENT		
Interest accrued on term deposits	96,993	-
Other	33,666	9,696
	<u>130,659</u>	<u>9,696</u>
NON CURRENT		
Security deposits	<u>55,665</u>	<u>6,400</u>

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

	2005 \$	2004 \$
NOTE 7 – EXPLORATION EXPENDITURE		
Capitalised acquisition costs	110,739	13,545
Capitalised royalty payments	750,000	375,007
Prepaid iron ore payments	150,000	-
	<u>1,010,739</u>	<u>388,552</u>

NOTE 8 – PLANT AND EQUIPMENT

Office plant and equipment – at cost	69,126	-
Accumulated depreciation	(3,888)	-
Total office plant and equipment	<u>65,238</u>	<u>-</u>

A reconciliation of the carrying amounts of each class of plant and equipment at the beginning and end of the current financial year is set out below.

	Office Plant and Equipment \$	Total \$
Carrying amount at 1 July 2004	-	-
Additions	69,126	69,126
Depreciation expenses	(3,888)	(3,888)
Carrying amount at 30 June 2005	<u>65,238</u>	<u>65,238</u>
	2005 \$	2004 \$

NOTE 9 – PAYABLES

Trade creditors	336,352	28
Advanced royalty payable	375,000	-
Other creditors	123,103	2,028
	<u>834,455</u>	<u>2,056</u>

NOTE 10 – PROVISIONS

CURRENT:

Employee entitlements	<u>7,404</u>	<u>-</u>
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The Company employed four employees at year end.
There were no employees prior to 1 March 2005.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

	2005 \$	2004 \$
NOTE 11 – CONTRIBUTED EQUITY		
Paid up capital		
100,000,000 ordinary fully paid shares (2004: 600,000 ordinary fully paid shares)	11,100,000	600,000
Less: Share issue transaction costs	(784,678)	-
	<u>10,315,322</u>	<u>600,000</u>

Rights attaching to ordinary shares

Ordinary shares entitle the holder to participate in dividends and in the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll each share is entitled to one vote.

Of the 100,000,000 ordinary fully paid shares issued, 56,696,941 carry no trading restrictions, 1,004,784 shares are restricted for 12 months from the date of issue being 17 August 2004 (restrictions on these shares have subsequently been lifted on 17 August 2005) and 42,298,275 shares are restricted for 24 months from the date of initial quotation being 11 March 2005.

(a) Movements in ordinary share capital during the past two years:

Fully Paid Shares

Date	Details	Number of Shares	Issue Price \$	Amount \$
14/05/02	Incorporation	2	1.00	2
01/10/03	Share allotment	299,999	1.00	299,999
01/10/03	Allotment to acquire tenement interest	30,000	-	-
01/10/03	Share allotment	269,999	1.111	299,999
17/08/04	Share allotment	475,000	1.052	500,000
17/08/04	Allotment to acquire tenement interest	25,000	-	-
		<u>1,100,000</u>		<u>1,100,000</u>
02/02/05	Reconstruction of shares	50,000,000	-	1,100,000
10/03/05	Initial public offer of shares	50,000,000	0.20	10,000,000
31/03/05	Share issue transaction costs	-		(784,678)
		<u>100,000,000</u>		<u>10,315,322</u>

1,100,000 shares on issue at 2 February 2005 were converted to 50,000,000 shares on that date following shareholder approval.

(b) Options

3,500,000 unlisted options to take up fully paid ordinary shares in the Company were on issue at balance date as follows:

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

Date	Details	Number of Options	Exercise Price \$	Expiry Date
14/02/05	Management options (see note 14(f))	2,500,000	0.25	01/03/09
03/03/05	Underwriter options	1,000,000	0.20	11/09/07
		<u>3,500,000</u>		

Each option entitles the holder to take up one fully paid ordinary share in the Company before the Expiry Date. Upon exercise of an option, the resulting ordinary share has the same rights as other ordinary shares. Options do not entitle their holders to receive dividends, participate in entitlement issues or vote at general meetings of shareholders.

The Management options may only be exercised in the event that the executive with the entitlement to the options is an employee of the Company for a minimum period after the date of commencement of his employment as follows:

50% after 12 months of employment;

50% after 24 months of employment.

The options on issue are subject to restriction agreements in terms of Chapter 9 of the Australian Stock Exchange Listing Rules as follows:

Type of Option	No of Options	Issued in respect of	Restricted to
Management	2,000,000	Managing Director	11/03/07
Management	500,000	Operations Manager	14/02/06
Underwriter	1,000,000	Underwriter	11/03/07

2005
\$

2004
\$

NOTE 12 – ACCUMULATED LOSSES

Accumulated losses at the beginning of financial year	(143,851)	-
Loss for the year	(1,066,896)	(143,851)
Accumulated losses at the end of financial year	<u>(1,210,747)</u>	<u>(143,851)</u>

NOTE 13 - FINANCIAL INSTRUMENTS

(a) Credit Risk Exposures

The credit risk on financial assets of the Company that have been recognised on the statement of financial position is generally the carrying amount of those assets.

(b) Interest Rate Risk Exposures

The Company's exposure to interest rate risk is comprised of:

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

- (i) the floating interest rates applying to cash at bank as set out in Note 5.
- (ii) the fixed interest rates applying to term deposits as set out in Note 5.

Exposures arise predominantly from assets bearing floating interest rates as the Company intends to hold fixed rate assets to maturity.

Other financial assets and liabilities, being receivables and trade and other creditors, are not interest bearing.

(c) Net Fair Value of Financial Assets and Liabilities

The net fair value of the financial assets and financial liabilities approximates their carrying value.

NOTE 14 - REMUNERATION OF DIRECTORS AND EXECUTIVES AND RELATED PARTY TRANSACTIONS

(a) Names of directors

The names of persons who were directors of the Company at any time during the financial year and the positions they held are as follows:

D H Stewart	Managing Director (appointed 20/01/05)
M R Richmond	Chairman (appointed 5/02/05)
J-A Wolseley	Director (appointed 20/01/05)
T Tennant	Director (and Company Secretary to 15/02/05)
W K Yeo	Director (appointed 14/02/05)
A J Pearson	Director (resigned 7/02/05)
S K Weng	Director (resigned 1/02/05)
L N Tong	Director (resigned 12/01/05)

(b) Names of executives (other than directors)

R M Vivian	Operations Manager (Appointed 1/04/05)
P C Rutledge	Company Secretary (Appointed 15/02/05)

(c) Directors' and executives' remuneration

2005	Fees paid to associated entity (excluding GST)	Primary Salary	Superannuation contributions	Non-cash benefits	Equity Options	Total
	\$	\$	\$	\$	\$	\$
Directors						
D H Stewart	5,060	77,512	6,976	-	21,280	110,828
M R Richmond	-	20,833	1,875	-	-	22,708
J-A Wolseley	11,354	-	-	-	-	11,354
T Tennant	-	10,417	938	-	-	11,355
W K Yeo	11,354	-	-	-	-	11,354
	<u>27,768</u>	<u>108,762</u>	<u>9,789</u>	<u>-</u>	<u>21,280</u>	<u>167,599</u>

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

2005	Fees paid to associated entity (excluding GST)	Primary Salary	Superannuation contributions	Non-cash benefits	Equity Options	Total
	\$	\$	\$	\$	\$	\$
Executives						
R M Vivian	114,825	35,250	3,172	-	5,320	158,567
P C Rutledge	13,420	-	-	-	-	13,420
	<u>128,245</u>	<u>35,250</u>	<u>3,172</u>	<u>-</u>	<u>5,320</u>	<u>161,987</u>

Amounts shown above include all Mr Stewart's remuneration during the reporting period, whether as a director or as a consultant. Amounts totaling \$5,060 received in his position as a consultant were paid to an associated entity.

2004

In the year ended 30 June 2004 no remuneration was paid to the directors and an amount of \$19,300 was paid to an associated entity of Mr Vivian.

(d) Management options issued to Directors and Executives

Mr Stewart's nominee was issued with 2,000,000 management options on 14 February 2005 and Mr Vivian was issued with 500,000 management options on the same date.

These 2,500,000 options are exercisable at 25 cents each and expire on 1 March 2009. 50% of the options are exercisable after 12 months employment and the remaining 50% are exercisable after 24 months employment with the Company. The value of the options issued has been assessed at \$95,187, of which \$76,150 is attributable to Mr Stewart's options and \$19,037 is attributable to Mr Vivian's options. The Black-Scholes option valuation methodology was used to value the options on the date of their issue based on the following assumptions: a market price of Territory Iron shares of 20 cents per share, a volatility factor of 50%, a risk free interest rate of 5.4% per annum and a four year term. The resulting value was further discounted by 50% on account of the options not being tradeable, not being listed on the ASX and having 12 and 24 month vesting periods. Since none of the options had vested by 30 June 2005 only a proportion of the value of the options has been recognised at that date determined by the vesting period that has elapsed relative to the total vesting period. This portion has been assessed at \$26,600 of which \$21,280 is attributable to Mr Stewart's options and \$5,320 is attributable to Mr Vivian's options.

(e) Directors' shareholdings

The number of fully paid shares held by the Directors and their nominees, showing the movement during the year, are set out below:

	Balance 1/07/2004	Received as remuneration	Options exercised	Net changes other	Balance 30/06/2005
T Tennant	3,409,091	-	-	3,340,909	6,750,000
M R Richmond	-	-	-	520,000	520,000
W K Yeo	-	-	-	300,000	300,000
J-A Wolseley	-	-	-	250,000	250,000
	<u>3,409,091</u>	<u>-</u>	<u>-</u>	<u>4,410,909</u>	<u>7,820,000</u>

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

The opening balance on T Tennant's shares at 1 July 2004 and the subsequent movement are shown on a post reconstruction basis – refer note 14(a).

5,802,630 of Mr Tennant's shares are restricted for 24 months to 11 March 2007.

(f) Option holdings

The number of options held by the Directors and Executives and their nominees, showing the movement during the year, are set out below:

	Balance 1/07/2004	Received as remuneration	Options exercised	Net changes other	Balance 30/06/2005
Director					
D H Stewart	-	2,000,000	-	-	2,000,000
Executive					
R W Vivian	-	500,000	-	-	500,000

Mr Stewarts' options are restricted for 24 months to 11 March 2007 and Mr Vivian's options are restricted for 12 months to 14 February 2006.

(g) Remuneration practices

Fees and payments to non-executive directors reflect their levels of responsibility. Subject to the Corporations Act and the Constitution, the Company may pay to the non-executive directors a maximum total amount of directors' fees determined by the Company in general meeting. This amount currently stands at \$300,000 per annum.

Non-executive annual fees, inclusive of superannuation, are currently set as follows:

	\$
M R Richmond	54,500
T Tennant	27,250
W K Yeo	27,250
J-A Wolseley	27,250
	<u>136,250</u>

A non-executive director may also be paid remuneration as the other directors determine where that non-executive director is called upon to perform extra or special services. Directors may also be paid all travelling and other expenses properly incurred by them in attending, participating in or returning from meetings of directors or general meetings of the Company or otherwise in connection with the business of the Company.

Remuneration and other terms of employment for the Managing Director are formalised in a service agreement. The agreement is for an initial minimum period of 2 years commencing from 4 March 2005. Base salary, inclusive of superannuation, is \$272,500 per annum, to be reviewed annually or as otherwise directed by the parties.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

Remuneration and other terms of employment for the operations manager, Mr R W Vivian, are formalised in a service agreement. The agreement is for an initial minimum period of 2 years commencing from 1 April 2005. Base salary, inclusive of superannuation, is \$153,690 per annum, to be reviewed annually or as otherwise directed by the parties.

(h) Other related party transactions

During the year, prior to the Company's admission to the official list of the Australian Stock Exchange, certain shareholders deemed to be related parties advanced short term loans to the Company. These loans were repaid together with interest at a rate of 5% per annum subsequent to the successful conclusion of the Company's initial public offering of shares.

Details of loans and interest paid are set out below:

Shareholder deemed to be related party	Amount loaned to the company and repaid	Interest Paid
	\$	\$
T Tennant	43,750	521
J Pearson	35,000	417
KW Seetoh	41,994	492
OM Holdings Limited	175,000	2,021
KM Thang	10,492	116
Dino Corporation	26,244	274
Total	<u>332,480</u>	<u>3,841</u>
	2005	2004
	\$	\$

NOTE 15 – REMUNERATION OF AUDITORS

Amounts received, or due and receivable, by auditors for:

Auditing or reviewing the accounts	6,000	-
Other services	8,548	-
	<u>13,548</u>	<u>-</u>

NOTE 16 - COMMITMENTS FOR EXPENDITURE

In order to maintain the mineral covenants in which the Company and other parties are involved, the Company is committed to fulfil the minimum annual expenditure conditions under which the covenants are granted.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

	2005 \$	2004 \$
Mineral covenant commitments	622,036	-
Other exploration commitments	383,648	-
	<u>1,005,684</u>	<u>-</u>

These requirements are expected to be fulfilled in the normal course of operations and may be varied from time to time subject to approval by the grantor of titles. The estimated expenditure represents potential expenditure which may be avoided by relinquishment of tenure. Exploration expenditure commitments beyond twelve months cannot be reliably determined.

The minimum estimated expenditure in accordance with the requirements of the Northern Territory Department of Business Industry and Resources for the next financial year is shown as mineral covenant commitments.

Other exploration commitments include initial exploration commitments outlined in various acquisition agreements.

Operating Leases

Commitment for minimum lease payments in relation to a non-cancellable operating lease are payable as follows:

	2005 \$	2004 \$
Within one year	30,225	-
Longer than one year, not longer than five years	20,150	-
	<u>50,375</u>	<u>-</u>

The above commitments relate to an operating lease in respect of the Company's premises.

NOTE 17 - EVENTS OCCURRING AFTER BALANCE DATE

There have been no material items, transactions or events subsequent to 30 June 2005 which relate to conditions existing at that date and which require comment or adjustment to the figures dealt with in this report.

To the best of the Directors' knowledge and belief there have been no material items, transactions or events subsequent to 30 June 2005 which, although they do not relate to conditions existing at that date, have not been dealt with in this report and which would cause reliance on the information shown in this report to be misleading.

NOTE 18 - SEGMENT INFORMATION

The Company operates predominantly in one industry. The principal activities are iron ore exploration and prospecting. The Company currently operates only in Australia which is a single geographic segment.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

	2005	2004
	\$	\$
NOTE 19 - RECONCILIATION OF LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Loss from ordinary activities after income tax	(1,066,896)	(143,851)
Depreciation	3,888	-
Increase in provisions	7,404	-
Exploration expenditure capitalised / (written off)	7	(375,007)
Change in operating assets and liabilities:		
(Increase)/Decrease in debtors	(170,228)	(14,068)
(Decrease)/Increase in creditors	457,399	28
Net cash outflow from operating activities	<u>(768,426)</u>	<u>(532,898)</u>

The Company has no credit standby arrangements

NOTE 20 - EARNINGS PER SHARE

	2005	2004
	Cents	Cents
Basic loss per share	<u>(1.69)</u>	<u>(32.14)</u>
Diluted loss per share	<u>(1.69)</u>	<u>(32.14)</u>
	\$	\$
Reconciliation of loss		
Loss used in calculating earnings per share – basic and diluted	(1,066,896)	(143,851)
Net loss for the reporting period	<u>(1,066,896)</u>	<u>(143,851)</u>

	Number of	Number of
	Shares	Shares
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share	<u>63,312,578</u>	<u>447,541</u>

The weighted average number of ordinary shares used in calculating basic and diluted earnings per share is derived from the fully paid ordinary shares on issue.

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

NOTE 21- CONTINGENT LIABILITIES

Various covenants may be subject to native title claims which are not quantifiable until the commitment to go into production is made.

Royalties that are payable on production from various covenant areas are not quantifiable until the commitment to go into production is made.

The Company has rehabilitation and environmental obligations in respect of the Warrego tenement acquisition agreement. The Company has paid an environmental bond of \$20,000 and does not anticipate expenditure in excess of this amount.

The Directors are not aware of any other contingent liabilities at 30 June 2005.

NOTE 22 – IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (“AASB”) is adopting International Financial Reporting Standards (“IFRS”) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued AASB equivalents to IFRS, and Urgent Issues Group Abstracts (“UIG”) corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements are known as Australian equivalents to IFRS (“AIFRS”). The adoption of AIFRS will be first reflected in the financial statements of the Company for the half-year ending 31 December 2005 and the year ending 30 June 2006.

The Company is managing the transition to the new standards by reviewing the revised standards and UIG to identify key differences in accounting policies that are expected to arise on the adoption of AIFRS.

Equity-based payments

The requirement under AIFRS to expense share option plans will mean that options issued to a director and an executive during the year would need to be recognised as an expense. This would result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation. The value of the options issued has been assessed at a value of \$95,187, of which \$26,600 has been recognised at 30 June 2005. This is the portion representing the part of the vesting period that had elapsed at balance date (see Note 14(d)).

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the expenses from ordinary activities would have been \$26,600 higher, with a corresponding increase in option reserve.

The options issued to the underwriter of the Company’s initial public offer of shares would need to be recognised as a share issue cost. A total of 1,000,000 options exercisable at 20 cents each and expiring on 11 September 2007 have been issued. The options are exercisable on or before 30 months from the date of issue. The value of the options issued has been assessed at a value of \$35,500 using the Black-Scholes option valuation methodology, and assuming a market price of 20

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

cents, a volatility factor of 50%, a risk free interest rate of 5.4%, a four year term and a discount of 50% as the options in the Company are not listed on the ASX at date of issue, and are not tradeable.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, share issue costs would have been \$35,500 higher, with a corresponding increase in option reserve.

Income Tax

Under AIFRS, deferred tax balances will be determined using the balance sheet method, which calculates temporary differences based on the carrying amounts of the Company's assets and liabilities in the statements of financial position and their associated tax bases. Current and deferred taxes attributable to amounts recognised directly in equity will also be recognised directly in equity.

This will represent a change to the current accounting policy under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

There is not expected to be any material affect on the carrying value of assets and liabilities of the company as a result of this change in accounting policy.

Apart from this the Company considers that there do not appear to be any significant changes in accounting policies required on adoption of Australian equivalents to IFRS, and that adoption of the standards reviewed will not materially affect the carrying value of assets and liabilities and the recording of the transactions by the Company.

This assessment is based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, but these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

The impact of adopting AIFRS on the financial statements of the company is summarised below

Impact on the Statement of Financial Position as at 30 June 2004

It has been assessed that there will be no impact of adopting AIFRS on the Statement of Financial Position as at 30 June 2004

TERRITORY IRON LIMITED

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2005 (Continued)

Impact on the Statement of Financial Performance for the year ended 30 June 2005

	AGAAP 2005 \$	Effect of change \$	AIFRS 2005 \$
Revenue from ordinary activities	175,819	-	175,819
Exploration expenditure	(897,189)	-	(897,189)
Administration expenditure	(341,538)	(26,600)	(368,138)
Borrowing costs	(3,988)	-	(3,988)
Loss from ordinary activities before income tax expense	(1,066,896)	(26,600)	(1,093,496)
Income tax expense attributable to ordinary activities	-	-	-
Net loss after income tax	<u>(1,066,896)</u>	<u>(26,600)</u>	<u>(1,093,496)</u>
Basic loss per share	(1.69) cents		(1.73) cents
Diluted loss per share	(1.69) cents		(1.73) cents

Impact on the Statement of Financial Position as at 30 June 2005

	AGAAP 2005 \$	Effect of change \$	AIFRS 2005 \$
Equity			
Contributed equity			
Paid up capital	11,100,000	-	11,100,000
Less: Share issue transaction costs	(784,678)	(35,500)	(820,178)
	10,315,322	(35,500)	10,279,822
Option reserve	-	62,100	62,100
Accumulated losses	(1,210,747)	(26,600)	(1,237,347)
	<u>9,104,575</u>	<u>-</u>	<u>9,104,575</u>

Impact on the Statement of Cash Flows for the year ended 30 June 2005

It has been assessed that there will be no impact of adopting AIFRS on the Statement of Cash Flows for the year ended 30 June 2005.

TERRITORY IRON LIMITED

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 19 – 39.

- (a) comply with Accounting Standards, the Corporations Act 2001, Corporations Regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 30 June 2005 and of its performance as represented by the results of its operations and its cash flows for the financial year ended on that date.

The Chief Executive Officer and Company Secretary have each declared that

- (a) the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001.
- (b) the financial statements and notes for the financial year comply with the accounting standards; and
- (c) the financial statements and notes for the financial year give a true and fair view.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



D H STEWART
MANAGING DIRECTOR

Perth

Date :23 September 2005



STANTONS INTERNATIONAL

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INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF TERRITORY IRON LIMITED

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash-flows, accompanying notes to the financial statements, and the director's declaration for Territory Iron Limited (the Company), for the year ended 30 June 2005.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

INDEPENDENCE

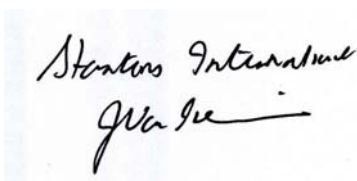
In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit report, an associate of Stantons International were engaged to undertake an investigating accountants report as noted in the financial statements. The provision of such service has not impaired our independence.

AUDIT OPINION

In our opinion, the financial report of Territory Iron Limited is in accordance with:

- a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory professional reporting requirements in Australia.

STANTONS INTERNATIONAL

A handwritten signature in black ink, appearing to read 'J P Van Dieren', is written over a light blue rectangular background.

J P Van Dieren
Partner

Perth, Western Australia
23 September 2005



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23 September 2005

Board of Directors
Territory Iron Limited
Suite 4, 111 Colin Street
WEST PERTH WA 6005

Dear Directors

RE: TERRITORY IRON LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Territory Iron Limited.

As Audit Partner for the audit of the financial statements of Territory Iron Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

STANTONS INTERNATIONAL

John Van Dieren
Partner