Territory Resources Ltd
(TTY $0.12) Hold

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Comments **Price Target:** $0.15/sh

Territory has continued to sell product throughout the financial crisis which is a credit to its marketing efforts through Noble. This is in contrast to other small iron ore producers which are known to have struggled to sell ore during the Dec Q. Territory achieved sales of 418kt during the Dec Q.

Territory generated operating cashflow of $15m during the Dec Q. Capital expenditure and exploration were an outflow of $18m. Net cashflow for the Dec H'09 after capex and expl'n was a $1m surplus.

Territory is slightly behind in its production and sales target of ~2.0mt in FY'09. It is confident of achieving this target during CY'09

A 2nd mobile wet crushing and screening plant, and port stockpiling area were commissioned in Dec'08. Accordingly the bulk of the FY'09 capex program has now been spent. A third crushing and screening plant has been installed in early Jan giving TTY capacity to achieve its production targets.

The spot iron ore market has retreated to the lows experienced during Nov'08 of US$68/t(cif). We estimate that TTY remains cashflow positive before hedging losses, with a margin of ~$10/t(fob).

Territory's out of the money FX hedge book is cause for concern. Due to the weak A$ the deficit now exceeds the approved credit limit and Territory has been issued with a standstill notice. Territory is now operating with the support of Noble and the hedge provider. Territory is attempting to reschedule its debt and hedging commitments to meet with the forecast cashflow from the significantly lower iron price received. The extent of the hedge commitments is not well disclosed with the annual report to June 30th 2008 stating commitments of US$94m at roughly A$1=US$0.88. It is unknown how much of the hedging remains unsettled at end Dec'08, except that the commitments now expire in Aug'09. We estimate the hedging will have cost shareholders ~$33mm or $0.13/sh.

Territory currently sells ore through the spot market and has been doing so since start-up. It is now contemplating switching its sales arrangements into the long term contract market where its pricing will be referenced to benchmark. It believes it has qualified for this through various trial cargoes and a good record of delivery on-specification. Further developments on this will occur during the March Q. While the benchmark related contracts will provide certainty, we do wonder whether TTY shareholders may be disadvantaged by the lag effect in benchmark prices should a market upswing occur subsequent to settlement of the benchmark. This is significant given TTY's short mine life of 2-3yrs based on known ore reserves at present.

Exploration expenditure has been curtailed since the fall in ore prices and the onset of the wet season. Restarting exploration asap is vital for TTY given its short mine life, but is also subject to funding.

TTY's balance sheet at Dec'08 showed total borrowings of $41m of which US$25m is an unsecured short term loan from Noble. TTY had been negotiating to replace this with a larger conventional secured debt facility prior to the financial crisis. This is now unlikely and we would not be surprised to see the Noble debt restructured in some way.

Investment Case

Territory is operating well despite sustaining several blows over the last year, such as loans to and investments in non-core companies by previous management, a poorly executed commissioning, financial crisis causing sharply lower iron ore price and out of the money hedging.

Unfortunately these issues have all left the balance sheet in a stretched shape. We acknowledge that Noble has and is continuing to support Territory very well to the benefit of all shareholders, however the risk is that if the terms change it may not be as advantageous as is currently. We would much prefer to see Territory with a balance sheet that allowed it more control of its destiny.

The lower iron ore price has diminished value significantly, with our valuation now at $0.22/sh. In view of the balance sheet risk we believe that a discount is justified. We maintain our recommendation at Hold.

The real driver of value will be through exploration success however TTY is not currently investing in this area.

Euroz Securities declares that it has acted as underwriter to, and/or arranged an equity issue in, and/or provided corporate advice to Territory Resources Ltd during the last year. Euroz Securities has received a fee for these services. This analyst declares that he has a beneficial interest in Territory Resources Ltd shares.

Top 20 Shareholders as at 23 February 2009

	Shareholders	Shares (m)	(%)
1	Jonesville Ltd	51.99	19.65
2	O M Holdings Limited	28.36	10.72
3	DCM Decometal	28.18	10.65
4	Crawley Resources Limited	18.00	6.80
5	OCJ Investment	14.06	5.31
6	Sun Hung Kai Investment Services Ltd	5.00	1.89
7	ANZ Nominees Limited <Cash Income>	3.82	1.44
8	HSBC Custody Nominees <Austalia>	2.41	0.91
9	Joseph Fondacaro + Josianne Fondacaro	1.79	0.68
10	Mr Chunlin Ouyang	1.55	0.59
11	Uob Kay Hian Private Limited <Clients A/C>	1.54	0.58
12	National Nominees Limited	1.35	0.51
13	Zero Nominees Pty Ltd	1.30	0.49
14	Tinkler Inv Pty Ltd <Tinkler Family A/C>	1.22	0.46
15	David L Eckersley + Nancy A Eckersley	0.84	0.32
16	Citicorp Nominees Pty Limited	0.83	0.31
17	Palazzo Nom Pty Ltd <Palazzo Inv A/C>	0.81	0.30
18	Mr Keith William Sheppard	0.80	0.30
19	Gibbins Investments Pty Ltd	0.72	0.27
20	Mr Sheldon Philip Coats <Super Fund A/C>	0.70	0.26
	TOTAL	**165.25**	**62.44**

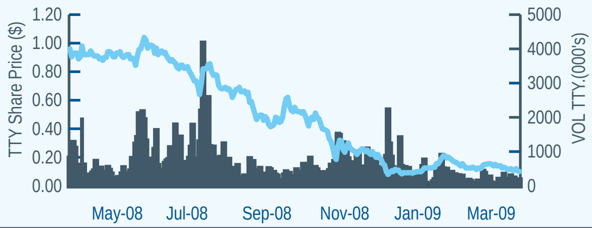
Market Statistics

Share Price	**$0.11A$/sh**
Issued Capital	
FP Ord	264.6
Opt (@$0.40/sh)	0.1
Opt (@$0.50/sh)	0.1
Opt (@$0.60/sh)	0.1
Opt (@$0.82/sh)	0.5
Opt (@$0.90/sh)	4.0
Opt (@$1.00/sh)	0.3
Opt (@$1.50/sh)	1.3
Opt (@$1.11/sh)	7.6
Opt (@$0.93/sh)	1.3
Total Dil. FPOrd	**264.6**
Market Capitalisation	$29
Enterprise Value	$67
Debt	$42
Cash	$3

Directors	
A Simpson	Chair
A Haslam	COO
I McCubbing	NE Dir
J Ariti	NE Dir
M Donaldson	NE Dir
F Harris	NE Dir

Shareholders	
OM Holdings	11.0%
Noble	26.5%
DECOmetal	10.7%
CCJ Inv	5.0%

Share Price Performance



Territory Resources Ltd

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TERRITORY RESOURCES LTD (TTY)	YEAR END 30 JUNE	
ASSET VALUATION	**A$M**	**A$/sh**
Frances Creek	76	0.29
Hedging	0	0.00
Corporate	-7	-0.03
Residual Value	5	0.02
Frances Ck Expl'n	15	0.06
Other FeO Projects	5	0.02
Investments (excl MON)	2	0.01
Investments (MON)	0	0.00
Loan to MON	0	0.00
Working Capital	0	0.00
Unpaid Capital	0	0.00
Debt	-42	-0.16
Cash	3	0.01
Total @ 10% nom	**58**	**0.22**
Total @ 0% nom	**79**	**0.30**
Total @ 5% nom	**68**	**0.26**
Total @ 15% nom	**50**	**0.19**

FORECAST PRODUCTION		**2008a**	**Jun H '09f**	**2009f**	**2010f**	**2011f**
Frances Creek (100%)						
Lump Sales	kt	377	550	927	1,125	1,000
Fines Sales	kt	377	550	927	1,125	1,000
Total Fe Ore Sales	**kt**	**755**	**1,100**	**1,855**	**2,250**	**2,000**
Total Cash Costs	A$/t	60	54	56	56	54
Net Lump Rec'd	US$/t	101	67	84	71	-
Net Fines Rec'd	US$/t	66	43	55	49	-
B'mark Lump JFY fob	US$/dmtu	201.8	171.5	102.7	201.8	141.2
Foreign Exchange						
Avg Rate Ach'd	US$:A$	0.84	0.86	0.84	0.75	0.80
Ass'd Spot Rate	US$:A$	0.78	0.68	0.73	0.75	0.80

RATIO ANALYSIS	**2008a**	**Jun H '09f**	**2009f**	**2010f**	**2011f**
CF (A$m)	5.0	(2.9)	2.1	39.8	31.8
CF / Sh (Ac/sh)	1.9	(1.1)	0.8	15.1	12.0
CF Ratio (x)	-	-	13.6	0.7	0.9
Earnings (A$m)	8.2	(7.0)	1.2	16.5	11.1
EPS (Ac/sh)	3.1	(2.6)	0.5	6.3	4.2
EPS Growth (%)	309%	-264%	45%	625%	421%
Earnings Ratio (x)	-	-	24.4	1.8	2.6
E'prise Val. (A$m)	139	69	69	38	6
EV : EBITDA (x)	2.6	3.3	1.9	0.7	0.2
EV : EBIT (x)	6.1	(6.9)	10.9	1.5	0.4
Net Debt / ND+Eq (%)	34%	39%	39%	13%	-30%
Interest Cover (x)	-	-	8	17	(53)
EBIT Margin (%)	0%	0%	4%	14%	10%
ROE (%)	11%	-11%	2%	22%	13%
ROA (%)	8%	-4%	5%	21%	12%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%
Div. Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Div. Franking	0%	0%	0%	0%	0%

PROFIT AND LOSS	**2008a**	**Jun H '09f**	**2009f**	**2010f**	**2011f**
Iron Ore Sales Revenue	80.8	90.1	170.9	183.0	147.5
Forex Hedging Revenue	(5.1)	(16.4)	(21.5)	(0.0)	0.0
Interest Revenue	0.0	0.1	0.1	0.4	0.6
Other Revenue	-	-	-	-	-
TOTAL REVENUE	**75.7**	**73.8**	**149.5**	**183.4**	**148.1**
Operating Costs	45.3	59.2	104.4	124.9	108.3
Dep/Amort	11.6	14.1	25.7	24.5	21.4
Corp O/H	4.0	4.0	8.0	6.0	2.0
Prov/w'off (expl'n)	0.2	0.5	5.0	1.5	0.5
EBITDA	26.4	10.6	37.0	52.1	37.2
EBIT	11.3	(5.0)	6.3	26.2	15.3
Interest Expense	1.7	2.1	3.8	2.9	-
NPBT	9.6	(7.0)	2.6	23.6	15.9
Tax	1.4	-	1.4	7.1	4.8
Minority Interest	-	-	-	-	-
NET PROFIT	**8.2**	**(7.0)**	**1.2**	**16.5**	**11.1**
Net Abnormal Gain/(Loss)	-	-	-	-	-
NET PROFIT After Abn'l	**8.2**	**(7.0)**	**1.2**	**16.5**	**11.1**

CASH FLOW	**2008a**	**Jun H '09f**	**2009f**	**2010f**	**2011f**
Net Profit	8.2	-7.0	1.2	16.5	11.1
+ Working Capital Adjustment	-1.6	0.0	-1.6	0.0	0.0
+ Dep/Amort	11.6	14.1	25.7	24.5	21.4
+ Provisions / writeoffs (explor)	3.5	1.5	5.0	1.5	0.5
+ Tax Expense	1.4	0.0	1.4	7.1	4.8
- Tax Paid	0.0	1.4	1.4	5.8	4.0
Operating Cashflow	**23.1**	**7.1**	**30.2**	**43.8**	**33.8**
-Capex + Development	18.1	10.0	28.1	4.0	2.0
-Exploration	4.2	1.5	5.7	8.5	0.0
-Assets Purchased	0.0	0.0	0.0	0.0	0.0
+Asset Sales	0.0	0.0	0.0	0.0	0.0
Investing Cashflow	**-22.3**	**-11.5**	**-33.8**	**-12.5**	**-2.0**
+ Equity Issues	0.2	0.0	0.2	0.0	0.0
+Loan Drawdown/Receivable	1.0	0.0	1.0	0.0	0.0
+Loans repaid from/(to) other entities	0.0	0.0	0.0	0.0	0.0
-Loan Repayment	0.4	0.0	0.4	20.0	17.0
-Dividends	0.0	0.0	0.0	0.0	0.0
Financing Cashflow	**0.8**	**0.0**	**0.8**	**-20.0**	**-17.0**
Period Sur (Def)	**1.6**	**-4.4**	**-2.8**	**11.3**	**14.8**
Cash Balance	**3.4**	**-1.0**	**-1.0**	**10.4**	**25.1**

BALANCE SHEET	**2008a**	**Jun H '09f**	**2009f**	**2010f**	**2011f**
Assets					
Cash	3.4	-1.0	-1.0	10.4	25.1
Current Receivables	12.2	12.2	12.2	12.2	12.2
Other Current Assets	20.9	20.9	20.9	20.9	20.9
Non-Current Assets	108.5	104.4	104.4	84.0	64.6
Total Assets	**145.0**	**136.6**	**136.6**	**127.5**	**122.8**
Liabilities					
Borrowings	41.5	41.5	41.5	21.5	4.5
Current Accounts Payable	15.6	15.6	15.6	15.6	15.6
Other Liabilities	14.4	14.4	14.4	14.4	14.4
Total Liabilities	**71.5**	**71.5**	**71.5**	**51.5**	**34.5**
Net Assets	**73.5**	**65.1**	**65.1**	**75.9**	**88.3**

RESOURCES AND RESERVES	**Reserves**			**Resources**		
	mt	**Fe**	**P**	**mt**	**Fe**	**P**
Helene 6/7	1.83	61.2%	0.03%	2.45	61.6%	0.04%
Helene 5	1.13	59.0%	0.10%	1.18	58.9%	0.11%
Helene 2/3	0.10	65.2%	0.05%	0.68	62.3%	0.08%
Helene 9	0.15	59.8%	0.13%	0.19	59.6%	0.13%
Helene 11	0.14	60.2%	0.12%	0.18	60.0%	0.14%
Thelma/Rosemary	1.08	61.3%	0.20%	1.39	60.4%	0.18%
Jasmine East	0.71	61.8%	0.07%	1.28	61.0%	0.09%
Ochre Hill	0.47	59.8%	0.11%	1.21	59.8%	0.12%
Millers				1.28	53.2%	0.11%
Surface Fines				0.29	53.6%	0.08%
Others				0.44	58.7%	0.12%
Total	**5.6**	**60.8%**	**0.10%**	**9.9**	**59.3%**	**0.10%**

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