

# SDL.AU

## Sundance Resources Limited

A\$ 0.42

8 December 2010  
Iron Ore  
Cameroon, Republic of Congo  
Definitive Feasibility Study  
Exchanges: ASX:SDL

**MOU's with potential infrastructure providers for the Mbalam Iron Ore Project (Cameroon, ROC) triggered a rerating of SDL in Sep '10, and the trend has continued: 6 month performance is +193%. A DFS for the 35mtpa, +US\$3bn capex project is expected in 1Q11.**

### Capital Profile

Share price (A\$)	0.42
52 week range (A\$/share)	0.11 to 0.42
Number of shares (m)	2710
Options and warrants (m)	75
Convertible notes (m)	0.0
Fully diluted (m)	2785.5
Market capitalisation (undiluted) (A\$m)	1124.7
Debt (A\$m) - Dec 10F	0.0
Enterprise value (A\$m)	1124.7
Major shareholders:	
Talbot Group Investments (16%), UBS AG (6.2%)	
Avg monthly volume (m)	605
Cash (A\$m) - Dec 10F	41.8
Price/Cash (x)	26.9
Price/Book (x)	6.4
Listed company options:	No

### Production and Financial Forecasts

YEAR END: June	Sep-10a	Dec-10F	2010a	2011F	2012F
Exploration and evaluation (A\$m)	12.05	15.93	20.26	57.98	60.00
Corporate (A\$m)	4.92	3.63	7.41	15.55	14.00
Exploration/(Expl.+ Corporate) (%)	71	81	73	79	81
Funding duration at current burn (years)	3.6	2.1	2.8	4.2	5.3
Shares on issue (pr end) (m shares)^	2710.0	2710.0	2710.0	2710.0	2721.0
Drilling - RAB (m)	0	0	0	0	0
Drilling - Other/Diamond (m)	20,000	20,000	60,000	50,000	20,000
Land holding ('000 ha)*	174	174	376	174	174
Tenement costs (\$k per year)	-	-	-	-	-
Capital raisings (A\$m)	0.00	0.00	90.69	0.00	5.50
Funding from JV partners (A\$m)	0.0	0.0	0.0	0.0	0.0
Cash (A\$m)	60.6	41.8	76.7	311.6	390.5
Cash backing (Ac/share)	2.2	1.5	2.8	11.5	14.4
Net asset backing (Ac/share)	6.6	6.5	6.6	6.0	3.5

\*Iron Ore prospective tenements only. ^ Potential share consolidation in 4Q10 or 1Q11. Quarters stated on calendar year basis.

### Investment Points

First mover status in western Africa (Rep. of Cameroon, Rep. of Congo), potential new +100mtpa iron ore hub.

Resource of 2.74 billion tonnes of high grade hematite (61.6% Fe) and itabirite hematite (38% Fe). Resource upgrade and reserve definition is in progress.

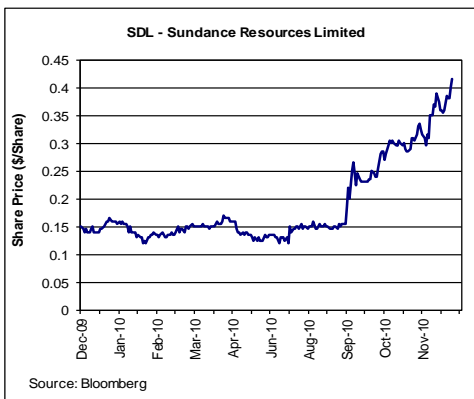
PFS (Jun '08) for 35mtpa production over 20 years, DSO capex US\$3.36bn with rail, port; opex US\$19.65/t. DFS with mining Reserves in 1Q11, construction 2Q11.

Infrastructure MOUs (port, rail) signed Sep '10 with two major Chinese companies, ahead of possible delivery contracts. CITIC Securities appointed to raise funds.

Pro-mining jurisdictions: majors include Rio Tinto, Xstrata, Exxon Mobil. Mining conventions are pending with Cameroon and Congo.

Cash reserves A\$60.6m at end September 2010.

NAV A\$0.71/share at LT iron ore US\$55/t (62% Fe).



### Company Comment

**Overview:** SDL is listed on the ASX. It is focused on iron ore development in western Africa. Its projects are held through the majority-owned Cam Iron SA (Rep. of Cameroon) and Congo Iron SA (Rep. of Congo).

**Mbalam Project:** Covers 1740km<sup>2</sup> in Cameroon and the Republic of Congo. There are JORC total resources (July '10) of 415mt @ 61.6% Fe (DSO hematite) and 2,325mt @ 38% Fe (itabirite hematite). To date, resource drilling covers 13km<sup>2</sup>, on the **Mbarga, Mbarga South and Metzimevin** deposits in Cameroon (EP92), and **Mt Nabeba** (Congo). The ore outcrops, with a low strip ratio of < 0.3:1, and extends to as deep as 600m. The higher-grade DSO hematite overlies the itabirite, which consists of interlayered iron- and silica-rich material. There is potential for further resource expansions, e.g. at **Mt Letioubkaba**. SDL is targeting resource upgrades (to measured and indicated status) and mineral reserves: an update for Nabeba is expected in 1Q10.

**Feasibility studies:** Itabirite is a major source of global iron production, in Brazil (>150mtpa). Mbalam hematite ore could form blended Direct Shipping Ore (DSO) quality sinter fines, with 62.5% Fe, <5.5% SiO<sub>2</sub>, <2.5% Al<sub>2</sub>O<sub>3</sub> and 0.08% P. The itabirite, often free digging, can be beneficiated by grind and flotation (targeting 45% weight recovery) to produce both DR grade (68% Fe) and BF grade (66% Fe) pellet feed. An updated **Pre-Feasibility Study** (Jun '08) was based on mining **35mtpa** for 20 years, assuming feed of 375mt high grade (60% Fe) and 963mt itabirite (concentrate +65% Fe), with only DSO for the first ten years (higher margin, faster payback). Current resources could support +25 years. Transport could be by rail, along a 485km corridor to the deep water port site at Lolabe (Kribi Multi-User Port, single berth for 300kt deadweight bulk carrier). DR pellets could be produced near Kribi (4-8mtpa). **Infrastructure MOUs** were signed in Sep '10 with Chinese companies for studies of the port and rail projects (respectively China Harbour Engineering, and CRRC China-Africa Construction), which could lead to delivery contracts. Capex for DSO is US\$3.36bn (or ~US\$100/t capacity), including US\$1.472bn for rail, US\$505m for port. SDL graphics indicate that capex for the itabirite phase could be ~US\$4.5bn. Opex for DSO is US\$19.65/t. A **DFS** is due in 1Q11 ahead of construction from 4Q11; a rate-limiting step could be the railway, at ~2.5 years. Mining is possible in 1H14.

**Corporate:** SDL plans to choose a strategic project partner by 2Q11. China's largest investment bank CITIC Securities has been appointed to assist with debt and equity funding, prior to a final investment decision in 2H11. Restructuring of the Board after the Jun '10 air crash is complete. SDL has flagged a share consolidation to reduce its unwieldy capital structure (2.7b shares), which could coincide with project funding.

**Government approvals:** A framework agreement was signed in Dec '08 between SDL and Cameroon, which will provide economic incentives and equity support to the project. Cameroon granted environmental approval in July 2010. Negotiations for a formal SDL-Cameroon convention began Sep '10; similar discussions with Congo, which is supportive of the project, commenced in Jul '10. Cameroon can purchase a 15% contributing equity interest in Cam Iron, above its 10% carried entitlement under the Mining Code.

**Investment Comment:** Mbalam is one of the largest iron ore projects in the world not held by a "major", and its development could open a +100mtpa province. Six-month share price performance is +192%, with a rerating triggered by the MOU's in Sep '10. Our valuation for SDL is A\$0.71/share, based on NPV<sub>10</sub> A\$1963m with 25 years' production (PFS conditions, exchange 0.82, LT iron ore US\$55/t at 62% Fe), plus cash. Dilution during financing (assumed 50% capex at A\$1/share under current structure) could push this to A\$0.40/share.

### Reserves and Resources/Mineralised Material

Code for reporting mineral resources - Australian: (JORC)									
Iron (Fe)	Classification	Project	Ore	Fe	Cut Off	Fe	Fe Equity		
		Equity	mt	%	%	mt	mt		
<b>Reserves</b>									
<b>Resources* (Cameroon, Republic of Congo)</b>									
High-grade hematite	Indicated, inferred	90%	415	61.6%	na	256	230		
Itabirite hematite	Indicated, inferred	90%	2325	38.0%	na	884	795		
<b>Total</b>			<b>2740</b>			<b>1139</b>	<b>1025</b>		
* Indicated: 4% of high grade, 62% of itabirite. Minors: high grade SiO <sub>2</sub> , 6.3% Al <sub>2</sub> O <sub>3</sub> , 2.8% P 0.08% LOI 2.4%; itabirite SiO <sub>2</sub> , 44.4% Al <sub>2</sub> O <sub>3</sub> , 0.48% P 0.04% LOI 0.36%									
<b>Exploration target (Cameroon)</b>		90%	100-250	55-65%					
<b>Mineralised Material (est., non compliant w ith JORC)</b>						<b>0.0</b>	<b>0.0</b>		

### Contact

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G Casello (MD, CEO)  
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F Harris (Non Exec)  
B Eldridge (Non Exec)  
R Marshall (Non Exec)

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### Key Projects

Project	Ownership/Option	Metal	JV Partner	Target Type	Process Route	Project Status	Location
Mbalam (Cameroon)	90%/67.5%	Fe	Govt	Itabirite	Convnt'l	Feasibility	Cameroon
Mbalam (Rep of Congo)	85%	Fe	na	Itabirite	Convnt'l	Early Expl	Rep. Congo

**Valuation and model conditions for Sundance Resources Ltd: mid-term target at long term iron ore US\$55/t (62% Fe) is A\$0.71/share, not including potential dilution during project financing.**

**SUNDANCE RESOURCES, VALUATION**

					Target	Valuation Sensitivity	
	Equity	Resource	Grade	Valuation	Price	(Low)	(High)
		(mt)	%	US\$/t Fe	A\$m	A\$m*	A\$m
<b>Projects</b>							
Mbalam DSO	90%	415	61.6	3.07	1400	985	11383
+ Itabirite hematite for 25 years	90%	460	38.0	0.99	499	257	6335
<b>Sub Total</b>					<b>1899</b>	<b>1242</b>	<b>17718</b>
+ Cash					41.8	41.8	41.8
+ Tax Losses					33.1	33.1	33.1
- Corporate					11.1	11.1	11.1
- Debt					0.0	0.0	0.0
<b>Sub Total</b>					<b>63.8</b>	<b>63.8</b>	<b>63.8</b>
<b>SDL NET ASSET VALUE</b>					<b>1963</b>	<b>1306</b>	<b>17782</b>
<b>Capital Structure</b>							
Shares					2710.0	2710.0	2710.0
Fully Diluted Shares					2785.5	2785.5	2785.5
<b>SDL NET ASSET VALUE PER SHARE</b>	<b>:A\$/share</b>				<b>0.72</b>	<b>0.48</b>	<b>6.56</b>
<b>SDL NET ASSET VALUE DILUTED</b>	<b>:A\$/share fully diluted</b>				<b>0.71</b>	<b>0.47</b>	<b>6.38</b>
<i>SDL NET ASSET VALUE POST FUNDING</i>	<i>:A\$/share fully diluted (50% of US\$3.6bn at A\$1/share)</i>				<i>0.40</i>	<i>0.27</i>	<i>3.57</i>

**MBALAM IRON ORE PROJECT (based on current Resource and 2008 Pre-Feasibility Study, DSO production only)**

			Equity		Sensitivity		
LONG TERM IRON ORE FINES INDEX PRICE^	:US\$/t (at 62% Fe)	50	80	110	140	170	
EXCHANGE RATE	:C/US	0.82	0.82	0.82	0.82	0.82	
MBALAM NPV @ 10% NOMINAL	:A\$m 90%	985	3571	6158	8797	11383	
MBALAM NPV @ 10% NOMINAL	:US\$m 90%	808	2929	5049	7214	9334	
<b>NPV/SHARE</b>	<b>:A\$/share</b>	<b>0.35</b>	<b>1.28</b>	<b>2.21</b>	<b>3.16</b>	<b>4.09</b>	
* Includes a pre-production discount of 30% of the project valuation:		30%					
^ Iron ore fines forecasts: current US\$2.05/dmt, 1Q11 US\$2.27/dmt, flat to 15% drop in 2Q13, thence long term US\$0.887/dmt (i.e. US\$55/t at 62% Fe).							

**MBALAM IRON ORE PROJECT KEY ASSUMPTIONS\***

RESOURCE ESTIMATES			
		Ore (Mt)	Iron Ore % Fe Fe (Mt)
	Resource: high grade (DSO) hematite	415	61.6% 256
	Resource: itabirite hematite	2325	38.0% 884
	<b>Total Resource</b>	<b>2740</b>	<b>41.6% 1139</b>
MINING METHOD	Open Pit	Itabirite could be free digging. Strip 0.3:1.	
PROCESS METHOD	Crush for DSO, plus autogenous grind, gravity spiral and flotation for itabirite pellet feed.		
PRODUCTION RATE	:mtpa ore mined	35	DSO for first 10 years
	:head/concentrate grade	60%/66%	DSO head grade and itabirite BF concentrate grade
CAPITAL COSTS	:US\$million	3,360	DSO: rail US\$1.472bn, port US\$505m, mine US\$358m.
OPERATING COST	:US\$/t	19.65	For initial DSO operation
TAX	:%	38.5	Possible 5 year tax holiday. With incentives, likely 30%.
ROYALTY	:%	2.5	
MINE LIFE	:Years	25+	
COMMISSION DATE	:	2014	

\* These figures are preliminary in nature and are intended to provide only a general indication of project potential scale and economic robustness. Considerable refinement may result from subsequent feasibility studies, expected to be completed in 2011.

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