

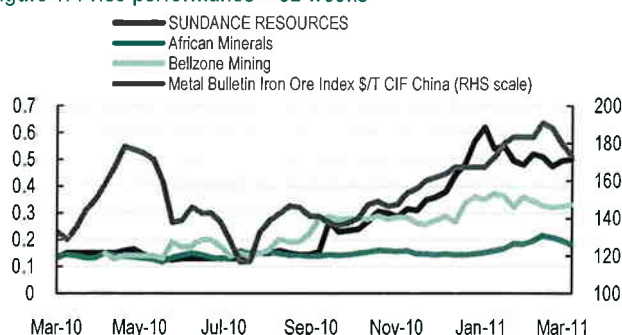
Sundance Resources Ltd

Strategic partner by end-2Q11

- **Large-scale, high-quality iron ore project with DFS due in March 2011.** Sundance is advancing its Mbalam iron ore project, located on the border between Cameroon and the Republic of Congo (RoC), towards production that it believes can be achieved by 1Q14.
- **Phase 1: 35mn tpa DSO hematite for 10 years.** The company expects to publish the results of a definitive feasibility study (DFS) at the end of 1Q11. Plans call for the production of 35mn tpa of DSO hematite fines product, which we expect to be supported for a period of 10 years. We have assumed total cash costs of \$22.50/tonne FOB and initial capital costs of approximately \$4.0bn.
- **Phase 2: 35mn tpa itabirite concentrate for 20 years.** At the same time as the phase 1 DFS is released, we expect the announcement of the results of a prefeasibility study (PFS) on phase 2 of the project. Phase 2 will commence after the exhaustion of supergene hematite resources exploited in phase 1 and will exploit the underlying primary itabirite mineralisation to produce 35mn tpa of fines concentrate. We expect total cash operating costs to be \$38/tonne FOB, capital costs to be approximately \$2.7bn, and current resources to support the operation over a period of 20 years.
- **Funding the key catalyst, to be provided by a strategic partner that is expected to be selected by end-2Q11.** The company is likely to sell up to half its interest in the project, in return for the required equity to fund the project. The partner is also likely to have to facilitate debt funding for the project in return for an offtake contract.
- **We maintain our BUY rating and increase our TP to AUD0.76/share from AUD0.40/share.** We use a risked SoTP NAV valuation to derive our updated TP, which is based on a long-term iron ore price of \$1.35/dmtu.

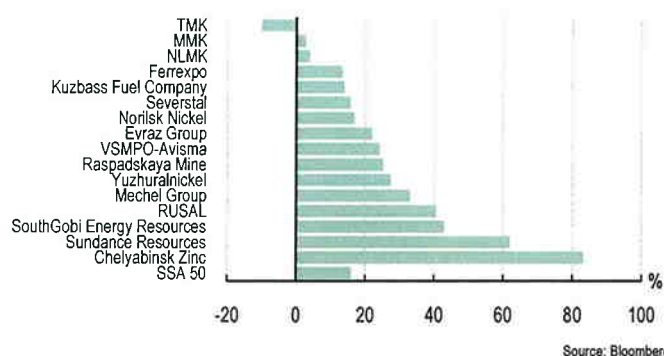
Report date:	11 March 2011
Rating common	BUY
Target price (comm), AUD	0.76
Current price (comm), AUD	0.49
MktCap, \$mn	1,343
EV, \$mn	1,300
Reuters	SDL.AX
Bloomberg	SDL AU Equity
Common shares outstanding, mn	2,711
Change from 52-week high:	-23.3%
Date of 52-week high:	05/01/2011
Change from 52-week low:	385.7%
Date of 52-week low:	19/07/2010
Web:	www.sundanceresources.com.au
Free float in \$mn	1,092
Major shareholder	Talbot Group
with shareholding	16%
Average daily traded volume in \$mn	21
Share price performance over the last	
1 month	-1.98%
3 months	30.3%
12 months	253.6%

Figure 1: Price performance – 52 weeks



Source: Bloomberg

Figure 2: Sector stock performance – three months



Source: Bloomberg

Investment summary

Having updated our valuation of Sundance, we maintain our BUY rating and increase our TP to AUD0.76/share from AUD0.40/share.

We expect the stock to re-rate during the next six months, as we expect a significant de-risking of the project as a result of the expected publication in March 2011 of the DFS on phase 1 of the Mbalam iron ore project, the expected arrangement of funding for the project through securing a strategic investor in the project which we expect to be completed by mid-year. We also expect the finalisation of mining conventions for the project mid-year. This is expected to result in Mbalam emerging as a well-defined, fully funded project with offtake secured and set for a final investment decision by end-3Q11.

Assuming that this timetable is met, early start construction is planned to commence in 2Q11, and full construction to begin in 4Q11. This could allow the project to begin production in 1Q14. The first phase of the project involves the production of 35mn tpa of DSO hematite sinter fines product for a period of at least 10 years, at a very low expected operating cost of \$22.50/tonne FOB. We expect that initial capex for the project will be around \$4.0bn, equivalent to \$114/tonne of annual capacity. Phase 2 involves the production of the same volume of pellet feed product from the primary itabirite mineralisation over a life that we have assumed to be 20 years.

The large-scale, high-margin, DSO-based production planned over the project's first 10 years underpins the development of a large-scale rail and port infrastructure corridor in southern Cameroon. This will create the opportunity for the company to capitalise on the potential synergies with, or act as a consolidator of, other currently stranded resources in the region, which the company believes have the potential to produce 100mn tpa of iron ore product.

Project parameters to be confirmed by DFS due by end-March 2011

Sundance controls the Mbalam iron ore project, which straddles the border of Cameroon and the RoC. The company owns a 90% interest in licences in Cameroon, which host half the currently defined hematite resources and all the currently defined primary itabirite resources. Sundance also owns an 85% interest in the licences in the RoC, which host the remainder of the hematite resources.

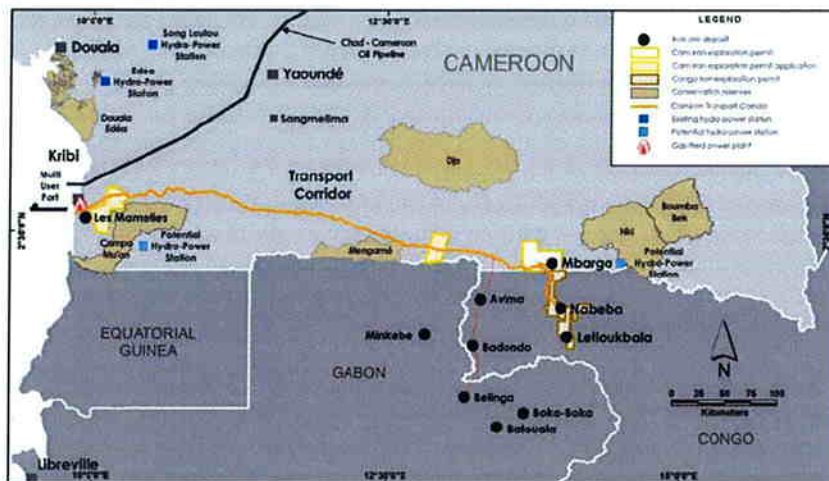
The company is currently finalising the phase 1 DFS and the phase 2 prefeasibility study. These are expected to be published by the end of 1Q11. The main change flagged by the company compared with previous estimates is an expected increase in the project's capex from \$3.4bn to \$4.0bn, as a result of the addition of mine, plant and rail spur expenditures related to the development of the Nabeba deposit in the RoC.

High-quality iron ore project with planned production of 35mn tpa commencing 1Q14 and supported by current resources for 25 years

The proposed development of the Mbalam project is planned in two phases. The first is the production of 35mn tpa of sinter feed quality DSO hematite fines product for at least 10 years and the second the production of 35mn tpa of itabirite fines concentrate for at least 20 years. With a construction period of two-and-a-half years

and assuming that a final investment decision is taken at the end of 3Q11, the project could ship its first product at the end of 1Q14.

Figure 3: Mbalam project location



Source: Company presentation

Phase 1: 35mn tpa of DSO product for 10 years, with initial capex of \$4.0bn and opex of \$22.50/tonne

It is planned for the project's open-pit mining to be contracted out. The operation will employ conventional crushing and screening for supergene material, with the provision for gravity-based upgrading of transitional material. The blending of products from Cameroon and the RoC will be undertaken to reduce the high levels of silica at Mbarga and the high levels of alumina at Nabeba to produce a product with acceptable levels of alumina (less than 2.5%) and silica (less than 5.5%) for the intended sinter fines product. Infrastructure for phase 1 includes the construction of a new heavy haul rail line over a distance of 485 km to a new dedicated port facility. Power requirements for phase 1 are estimated at 36MW, which are planned to be provided by on-site diesel generators.

Including a provision for the development of a mine, crushing and sorting plant and a 60 km rail spur to the Nabeba deposit in the RoC, we expect that capital costs for phase 1 will be \$4.0bn (equivalent to \$114/tonne of annual capacity), including a 20% engineering, procurement, construction management (EPCM) charge and 20% contingency. We expect that over \$3bn of the capital expenditure relates to expenditures on port and rail infrastructure. We expect total cash costs (including royalty and contingency) to be \$22.50/tonne FOB.

High-grade hematite resources are currently of a scale to support a DSO-based hematite operation for 10 years. We note that approximately 60% of this resource is in the inferred category and is expected to be upgraded in the short term. Exploration in 4Q10 focused on in-filling and upgrading the inferred resources, particularly at Nabeba in the RoC. Four rigs are currently active on site. Regional mapping and geophysical interpretation are reported to continue to generate high-potential high-grade (HG) hematite targets for future drilling.

Phase 2: 35mn tpa of itabirite concentrate product for at least 20 years, with capex of \$2.7bn and opex of \$38/tonne, commencing 2024

Phase 2 of the project involves the exploitation of the underlying primary itabirite resources that have been outlined at the Mbarga deposit. The bulk of the work for phase 2 involves the construction of a processing plant comprising milling and reverse flotation circuits (flotation of silica) to produce two itabirite fines concentrates; one suitable for blast furnace pellet production and the other for direct reduction (DR) pellet feed, depending on grind size. With respect to infrastructure, rail and port facilities will be the same as those for phase 1, while the power requirement will increase dramatically to 300 MW, largely on account of the grinding circuits in the plant. The company currently envisages that power will be provided by third parties from hydro projects in the area. The company also notes the potential to produce 4-8mn tpa of DR grade pellets on the coast and that gas for this process is available near the port site.

Capital costs for phase 2 are currently expected to be \$2.7bn, including a 20% EPCM charge and 20% contingency. Almost all of this expenditure relates to the construction of the itabirite concentrator. Total cash costs (including royalty and contingency) are estimated at \$38/tonne FOB, including \$22/tonne for processing. We expect that phase 2 will be funded internally, by cashflow from phase 1. At steady state, we expect phase 1 to generate \$1.6bn of net free cash flow pa – more than sufficient to cover phase 2 capex over a two-year construction period.

Having defined a large resource of primary itabirite at the Mbarga deposit that was sufficient to support an operation of around 20 years, exploration has recently focused on the supergene hematite and transition hematite resources to support the projection of DSO from the operation. Mbarga is believed to retain potential for the discovery of additional primary resources and there are numerous additional geophysical anomalies across the company's licences offering the potential to further increase resources and support the extension of the project's life and/or an expansion of the project.

Rail and port studies under way

Phase 1 includes the construction of a new 485 km heavy haul rail line from Mbalam to the coast. The design and costs of the line are currently being finalised by Australian consultants Calibre Rail. A memorandum of understanding (MoU) was signed in 3Q10 with the company's preferred engineering, procurement and construction (EPC) contractor, China Rail Construction Company (CRCC). Having visited the site in January, CRCC will also establish the scope, cost and timetable for the delivery of track and rolling stock for the project. The company is working towards agreeing the final terms of an EPC contract with CRCC, which is expected to deliver pricing and commercial terms in 1Q11.

Plans for the construction of a new port for phase 1 include the construction of a near-shore single-berth facility, with a draft of 25 metres allowing the direct loading of 300,000 DWT China-max bulk ore carriers. A 3 km channel will be dredged to access open water. French infrastructure consultant Sogreah is finalising the port's design and costs as part of the feasibility study. Sundance has signed an MoU with China Harbour Engineering Company (CHEC), its preferred EPC contractor for the port in 3Q10. CHEC visited the site in December 2010 and is expected to submit pricing and commercial terms in 1Q11. Discussions are ongoing between the

company and the authorities regarding the allocation of land for the proposed port facilities, with a view to commencing early earthworks during 2Q11.

Sundance also notes that EXIM Bank of China and the Republic of Cameroon have recently signed a loan agreement that will help pay for the construction of a deepwater multi-user port at the town of Kribi, which is adjacent to the planned Sundance jetty and is expected to be built by CHEC.

Funding partner likely to be decided on in 2Q11

Funding, offtake and third-party equity participation to be decided by mid-year

Given the project's large capital requirement, Sundance aims to secure a strategic partner to help fund the development of Mbalam. During 4Q10, it appointed CITIC Securities, China's largest investment bank, to assist with securing debt and equity funding in China for the Mbalam project and associated infrastructure. Commercial negotiations were reported to be under way with third parties. The company is confident of concluding arrangements for the introduction of strategic partner(s) to the project and confirmation of project financing and the final investment decision prior to end-2011. In addition to discussions with potential Chinese partners, Sundance has stated that it has held discussions with other interested parties, including POSCO (Korea's largest steel producer) and that various parties were undertaking due diligence on the project.

Potential terms of third-party involvement involve the provision of funding in return for an equity stake in the project and offtake

We assume that the project's funding requirement of \$4.0bn is funded 30% from equity (\$1.2bn) and 70% from debt (\$2.8bn). We expect that Sundance would sell down its interest in the project in return for funds that would at least cover its share of the expected equity requirement. The strategic partner would also facilitate debt funding for the project in return for an offtake contract for a significant proportion of the project's production.

Mining conventions, bilateral agreement and permits to be completed by mid-2011

Government participation and the fiscal and legislative framework under which the Mbalam project will be developed will be determined by mining conventions, to be negotiated with the governments of both countries. As Mbalam is a cross-border project, a bilateral agreement between the two governments is also necessary and a draft agreement covering the cross-border movements of people, equipment and ore is currently being reviewed by officials from the ministry of mines in both countries.

Agreements with Cameroon government to be completed by end-1Q11

In Cameroon, negotiations on the Mbalam Convention with the Cameroon Ministry of Mines and Energy commenced in September 2010. The government has since

appointed international lawyers and a leading international bank to its negotiating team. Sundance aims to finalise the negotiations of the fiscal and development terms in 1Q11.

The majority of the current resources are located in Cameroon, where Sundance's interest in the project's exploration licences is currently 90%, with a local company owning the remaining 10%, which will be carried through to the completion of the DFS. The government also has the option to purchase a 10% free-carried interest at a price of 50% of its pro-rata share of sunk costs, which if it exercises will reduce the company's interest to 81%.

Agreements with the RoC government to be completed by end-2Q11

The DFS was submitted to officials in the RoC during 4Q10 and the process and requirements for agreeing the project's development terms were confirmed. The company is aiming to finalise commercial and development terms for the project in the RoC by end-2Q11.

In the RoC, the company's current interest is 85%, with a local company owning the remaining 15%, which will be carried through to the completion of the DFS. The RoC government also has the option to purchase a free 10% carried interest, which if exercised would reduce the company's net interest in the licences in the RoC to 76.5%.

Environmental and social assessment and land tenure

On 25 June 2010 the company received an environmental conformity certificate from the Cameroon Ministry of Environment and Nature Protection. This represented environmental approval for the project and allowed a mining permit application to proceed. The environmental and social assessment (ESA) will be upgraded prior to the commencement of operations and the company aims to submit the upgraded ESA in 1Q11. A declaration of public utility is expected to be awarded in 1Q11, which will enable the lands ministry to initiate a programme of compulsory land acquisition, as well as an associated compensation and resettlement programme. The land will then be leased to the company for the construction and use of the Mbalam infrastructure.

In the RoC, the ESA is expected to be submitted by the end of 1Q11.

Other project background

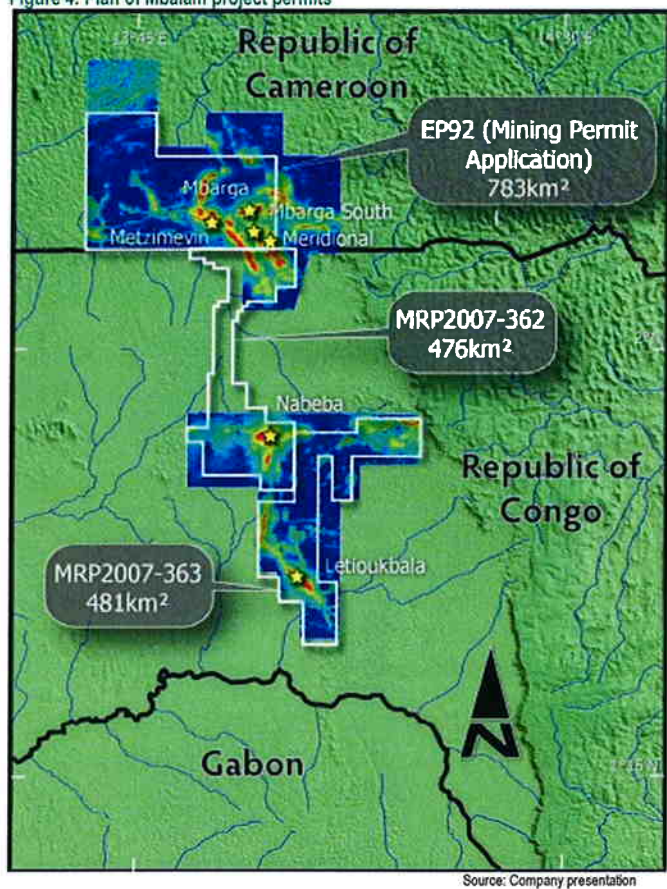
A new board and management team were formed after the loss of the majority of former board members in a tragic accident on 19 June 2010

Having taken up the reins as chairman for a second time in June 2010, George Jones has helped to rebuild the company's board. The new board comprises highly experienced members, with Guilio Casello recently appointed MD, having joined from Western Australian iron ore producer Sinosteel Midwest Corp where he was COO. Peter Canterbury has resumed his role as CFO, after a period as acting MD.

Mbalam Project

In Cameroon, the Mbalam project comprises the 90% owned licences EP 92 and 142, at which both primary itabirite hematite and secondary hematite resources have been outlined. In the RoC (Brazzaville), the Mbalam project comprises the 85% owned MRP 362 and 363 licences, on which secondary hematite resources have been outlined.

Figure 4: Plan of Mbalam project permits



A current primary itabirite resource of 2.3bnt, all located in Cameroon

In Cameroon large-scale resources of primary, low impurity itabirite hematite have been outlined at the Mbarga deposit, where JORC resources totalling 2.3bnt grading 38% Fe (of which 1.4bnt were in the indicated category) were announced in May 2009. The deposit has been drilled to a depth of 600 meters, where it remains open. Drilling on the potential primary mineralisation in the RoC has not yet commenced. Itabirite is a non-magnetic, laminated, metamorphosed iron oxide in which the chert has been recrystallised into quartz. Although a less common form of primary iron ore than magnetite, it is exploited in large quantities, notably at Vale's operations in southern Brazil.

Secondary HG hematite resources of 415mnt split between Cameroon and the RoC

In July 2009 it was announced that secondary HG hematite (comprising supergene, transitional and hypogene hematite) resources totalling 215mnt grading 61.3% Fe had been outlined at the Mbarga, South Mbarga and Metzimevin deposits in Cameroon. In June, a maiden resource statement was announced for the Nabeba deposit in the RoC, which lies 42 km south of Mbarga and at which inferred resources were estimated at 200mnt grading 63.1% Fe of low silica hematite.

Recent exploration work has focused on expanding and upgrading the project's HG hematite resources, as the indicated itabirite resource at Mbarga is already thought to be sufficient to support stage 2 of the operation for 15 years.

Figure 5: Mbalam JORC resource

Host	Category	Tonnage, mnt	Fe total, %	SiO ₂ , %	Al ₂ O ₃ , %	P, %	LOI, %	Contained Fe (mnt)
HG hematite								
Mbarga	Indicated	169	60.5	9.5	2.1	0.08	1.4	102
	Inferred	10	57.5	13.0	2.7	0.06	1.6	6
	Sub-total	179	60.3	9.7	2.1	0.08	1.4	108
Mbarga South	Inferred	22	58.8	9.4	3.0	0.06	2.9	13
Metzimevin	Inferred	14	61.8	10.3	3.6	0.09	1.8	9
	Sub-total	215	60.3	9.7	2.3	0.08	1.6	130
Nabeba	Inferred	200	63.1	2.5	3.4	0.09	3.2	126
Total HG He DSO	Total	415	61.6	6.3	2.8	0.08	2.4	256
Itabirite hematite								
Mbarga	Indicated	1,431	38.0	44.5	0.4	0.04	0.3	544
	Inferred	894	38.0	44.1	0.5	0.05	0.4	340
	Total	2,325	38.0	44.4	0.5	0.04	0.4	884
Total		2,740	41.6	38.6	0.8	0.05	0.7	1,140

Source: Company announcement 17 February 2010

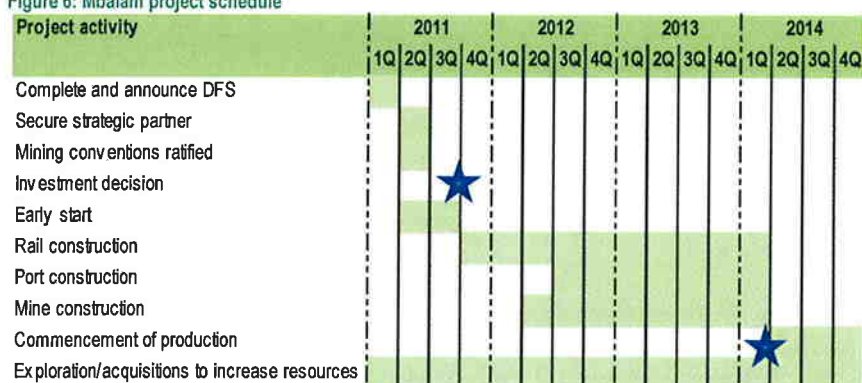
Cash resources of AUD43mn as at 31 December 2010

The company had cash resources of AUD43mn at the end of December 2010. We expect that this will cover the company's cash requirements until it has secured a strategic partner for the project or until it commences early works construction on the project.

Catalysts/timeline

- End-1Q11: Complete and announce DFS
- 2Q11: Secure strategic partner, secure offtake and project funding
- 2Q11: Commence early works construction
- End-2Q11: Cameroon and RoC mining conventions ratified
- End-3Q11: Final investment decision
- 4Q11: Commence construction of railway
- 2Q12: Commence construction of mine
- 3Q12: Commence construction of port
- End-1Q14: First shipment of ore

Figure 6: Mbalam project schedule



Source: Sundance Resources presentation February 2011

Valuation

NAV valuation

We have established our TP for Sundance Resources on the basis of a risked NPV for the project.

We model the Mbalam project on the basis of adjusted PFS parameters. The other major assumptions in our model are as follows:

- We use an iron-ore price deck that decreases from a price of \$1.92/dmtu this year to a long-term price of \$1.35/dmtu (equivalent to a reference 64% Fe fines price of \$86/tonne FOB) in 2015.
- The Cameroon and RoC governments will each exercise their right to a 10% interest in the projects based in their countries.
- Government royalties of 3% and profits tax of 25%; we assume no tax holiday.
- The project is funded on a debt/equity ratio of 70:30. We have assumed a real interest rate on the debt of 8% and a 10-year repayment schedule.
- The company will sell 50% of its interest in the project in return for half of its current market capitalisation.

Once de-risked, we expect the company to support a market value based on its NPV using a 10% real discount rate. However, we have applied higher discount rates separately to each of the two project phases, in recognition of the risks associated with the delivery of the project in line with the adjusted PFS parameters used in our model.

To derive our TP we have assumed discount rates of 15% and 17.5% for phases 1 and 2, respectively. The difference between the two rates is due to recognising the differing levels of confidence of the parameters of the two phases.

Figure 7: Sundance NAV breakdown

	Discount rate %	Variable discount rate		NPV 10%		Current	
		\$mn	AUD/share	\$mn	AUD/share	\$mn	AUD/share
Phase 1	15.0%	2,754	0.97	4,655	1.64		
Phase 2	17.5%	392	0.14	2,352	0.83		
Mbalam (100%)		3,146	1.11	7,007	2.47		
Phase 1	15.0%	1,202	0.42	1,791	0.63		
Phase 2	17.5%	120	0.04	880	0.31		
Mbalam (40.5% share)		1,321	0.47	2,672	0.94	1,341	0.47
Upsides (10% of project value)		132	0.05	267	0.09		
Assumed cash pmt (equivalent to 50% of current EV)		641	0.23	641	0.23		
Net current assets		62	0.02	62	0.02	62	0.02
Long-term debt		0	0.00	0	0.00	0	0.00
NAV		2,157	0.76	3,642	1.29	1,403	0.50
P/NAV10							0.39
P/TP							0.65
TP/NAV10							0.59

Source: Bloomberg and Renaissance Capital estimates

The previous table shows that on an un-risked basis, and assuming a 10% real discount rate, the company could be valued at AUD1.29/share and that using higher-risk adjusted discount rates of 15% and 17.5% for phases 1 and 2, respectively, the company's value is AUD0.76/share, from which we derive our TP. We note that our TP is equivalent to a TP/NAV10 multiple of 0.59.

We expect to update our assumptions and to reduce these rates as further information becomes available, particularly post the publication of the DFS and any announcement regarding the introduction of a strategic partner to the project. We have estimated a value that we believe reflects the project's upsides, including potential extensions or expansions of the project and the potential to leverage its strategic, first-mover advantage provided by its expected control of rail and port infrastructure.

We note in particular the potential impact of the sale of an interest in the project to a strategic partner at a price that is higher than the price assumed in our valuation. In this regard, if the company were to sell 50% of its interest in the project on the basis of the project's NPV, and assuming a 10% real discount rate, the value would be \$2.7bn, equivalent to AUD0.94/share – AUD0.71/share more than that assumed in our valuation.

In-situ comparables

We have compared the company's valuation to other, comparable iron ore project company valuations on the basis of the equivalent EV per tonne of iron contained in resources. We have based the metric on existing resources and also the targeted resources for each company. Where an independent estimate of target resources is not available, we have made an estimate.

Figure 8: Iron ore peer comparison

	Bloomberg ticker	Local currency	MktCap		EV, \$mn	EV/tonne Fe (\$)	
			Local (mn)	(\$mn)		Current	Targeted
African Minerals	AMI-LN	GBP	1,544	2,507	1,977	0.65	0.42
Sundance Resources	SDL-AU	AUD	1,341	1,361	1,290	1.41	0.58
Zanaga Iron Ore Co	ZIOC-AIM	GBP	471	764	718	1.31	0.68
Bellzone Mining	BZM-LN	GBP	416	676	636	1.16	0.24
Sphere Minerals	SPH-AU	AUD	513	521	521	0.46	
Equatorial Resources	EQX-AU	AUD	266	270	260		0.21
African Aura Mining*	AAAM-LN	GBP	195	317	233	0.75	0.20
African Iron	AKI-AU	AUD	161	163	118	8.94	0.44

* Adjusted for estimated value of gold assets

Source: Bloomberg, Renaissance Capital estimates

Disclosures appendix

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Under Review	12	3%	Under Review	1	2%
Suspended	0	0%	Suspended	0	0%
Restricted	0	0%	Restricted	0	0%
Unrated	152	38%	Unrated	28	52%
405			54		

Investment Banking Relationships*

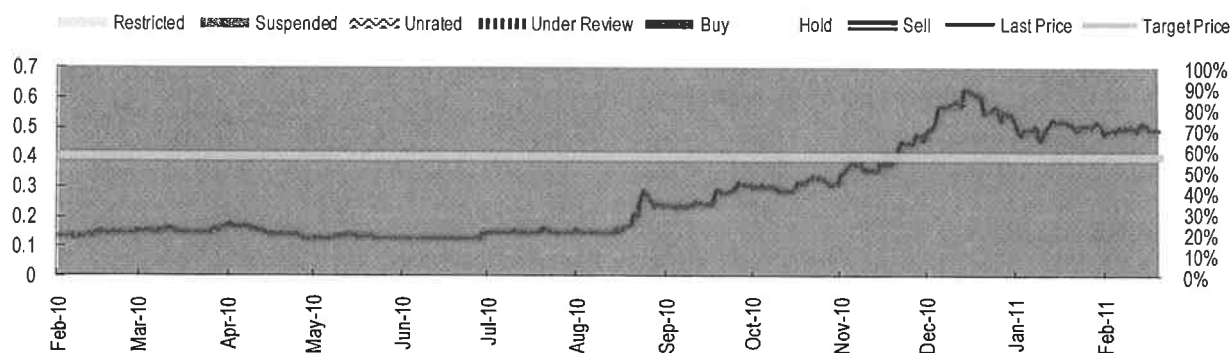
Renaissance Capital Research			Metals and mining		
Buy	4	57%	Buy	1	100%
Hold	3	43%	Hold	0	0%
Sell	0	0%	Sell	0	0%
Under review	0	0%	Under review	0	0%
Suspended	0	0%	Suspended	0	0%
Restricted	0	0%	Restricted	0	0%
Unrated	0	0%	Unrated	0	0%
7			1		

*Companies from which RenCap has received compensation within the past 12 months.

NR – Not Rated

UR – Under Review

Sundance Resources - SDL.AX share price, target price and rating history



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