

Mbalam Taking Shape

Date

29 August 2008

ASX Code

SDL

Share Price

25.5cps

Valuation

52cps

Market Cap (fully diluted)

\$479.6m (\$501.6m)

Issued Capital (fully diluted)

1880.9m shares (1966.9m)

Cash (as at 30 June 2008)

\$47m

Management

George F Jones (Non Exec. Chairman)
 Don Lewis (MD/CEO)
 Ken Talbot (Non Exec. Dir)
 Geoff Wedlock (Non Exec. Dir)
 Dr. John Saunders (Non Exec. Dir)
 Alec Pismiris (Exec. Dir)
 Craig Oliver (Non Exec. Dir)
 John Carr-Greg (Co. Sec.)

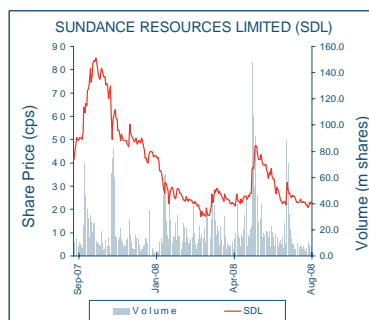
Top Shareholders

Talbot Group Holdings (19.9%)
 Concord Capital (4.4%)
 Marble Bar Asset Mgt (4.0%)
 Passport Capital (3.5%)

Resources Analyst

Andrew Muir
 Ph: +61 8 9268 3045
 andrew_muir@hartleys.com.au

Share Price Performance



Source: Iress

Sundance Resources Limited (“Sundance”, “Company”) is progressing its large Mbalam iron ore project in the Republic of Cameroon, on the central west coast of Africa. The Company is currently undertaking a definitive feasibility study into the development of the project, which is due to be completed by mid 2009. Sundance plans to produce a lump and fine direct shipping ore product from an enriched hematite ore at surface in 2012, before moving to a hematite concentrate product in 2019 produced from itabirite ore as the direct shipping ore resource is exhausted.

The project has the potential to generate large cash flows of ~US\$1,000m per annum from the enriched direct shipping hematite ore and ~US\$500m per annum from the itabirite ore. However, it is not without its risks, which include defining sufficient ore reserves; large infrastructure requirements including construction of a port and ~500km of railway; unknowns relating to the final fiscal regime; as well as perceptions of sovereign and political risk. Sundance is currently trading at a substantial discount to our conservative valuation of 52cps, and as the Company continues to de-risk the project, we expect it to be re-rated, leading to significant share price appreciation. We rate **Sundance Resources Ltd** as a **Speculative Buy**.

Investment Highlights

- **Two Ore Styles with JORC Resources** – The project contains two different iron ore styles: an enriched hematite ore at surface that is amenable for direct shipping ore production with lump and fine components; and a lower grade itabirite style of hematite mineralisation suitable for beneficiation to generate a high grade concentrate.

The current direct shipping ore resource is 201Mt @ 60.3% Fe, with moderate silica and low levels of alumina and phosphorous. The current itabirite resource is 1,190Mt @ 38% Fe with low alumina and phosphorous. The Company’s development plan requires direct shipping ore reserves of 300Mt and itabirite ore reserves of ~955 Mt. The Company’s exploration target is 2 – 2.5 billion tonnes itabirite. Drilling is ongoing, with upgrades to JORC resources expected by the end of CY2008.

- **Large Infrastructure Spend Required** – The project is located approximately 500km from the Cameroon coast, and will require the construction of a railway and port. Total capital expenditure is currently budgeted at US\$3,277m.

However, due to the long mine life and quality of the ore, there is a large amount of interest in securing offtake from the project. This should enable Sundance to secure strategic customers to participate in the development and funding of the infrastructure works.

- **Definitive Feasibility Study Progressing** – The Company has commenced preliminary mine design studies, which indicate that the operation should have low strip ratios of 0.5:1 or less. Metallurgical testwork on both ore styles has also been encouraging, indicating that the direct shipping ore is relatively soft and should require only simple crushing and screening. Likewise, the itabirite ore is suitable for generating a +65% Fe concentrate from a simple grind and float process.

Background

Sundance Resources Ltd (ASX: SDL) is focused on the development of its Mbalam iron ore project, located in the Republic of Cameroon, on the central west coast of Africa. The project is located approximately 400km southeast of Yaounde, the capital city of Cameroon, and approximately 500km due east of the coast. The Company is currently undertaking feasibility studies into the development of the project.

Mbalam Project

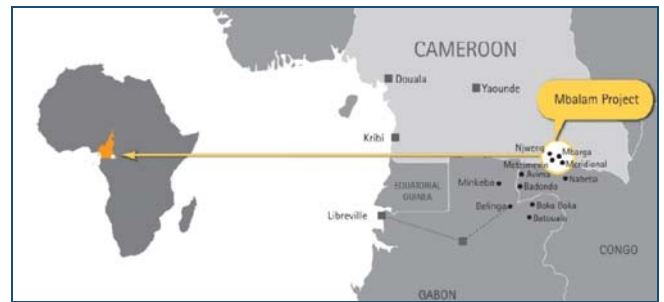
Overview

The Mbalam Project is owned by Camlron SA, a Cameroon based company, 90% owned by Sundance. Local Cameroonian investors hold the remaining 10%, of which 5% is free carried, and 5% is contributing from project commencement. The project consists of two exploration permits, EP92, where the majority of work has occurred to date, and EP143 which is immediately adjacent to EP92 and granted in April this year. The two permits cover a total area of ~1,800km².

To date work has primarily focused on the Mbarga and Mbarga South deposits in EP92, with 159 drill holes being completed to the end of June 2008 allowing the calculation of JORC compliant resources for both Mbarga and Mbarga South. This drilling is ongoing, with currently 6 rigs operating on site. Drilling is also due to commence on the nearby Metzimevin prospect this quarter.

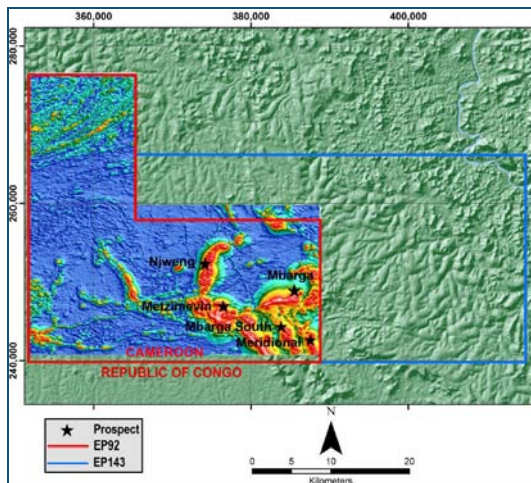
The Mbarga iron ore deposit is characterised by a 40 – 50m thick hematite enriched cap, with grades averaging around 60% Fe. This enriched cap overlies a lower grade itabirite style of hematite mineralisation. The itabirite mineralisation is significantly larger in size, being intersected down to over 500m depth, but is lower grade at around 38% Fe.

Figure 1: Mbalam Project Location



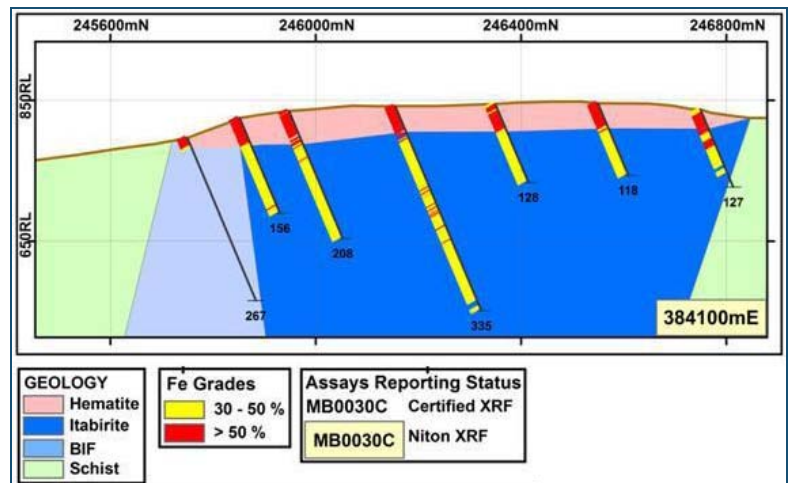
Source: Sundance Resources Ltd

Figure 2: Mbalam Project



Source: Sundance Resources Ltd

Figure 3: Mbarga Cross Section



Source: Sundance Resources Ltd

Development Plan

The Company is currently undertaking a definitive feasibility study into the development of Mbalam. The strategy that the Company is focussing on involves the production of DSO hematite at 35Mt per annum for approximately 7-8 years, then transitioning to production of itabirite hematite iron concentrate at 35Mt per annum.

The ore will require transport to the coast, before shipping for export. Neither the transport nor port infrastructure is in place and requires construction. The Company's studies to date have focussed on rail to transport the ore to port, though it is also investigating a slurry pipeline option. The rail option is likely to require lower capital expenditure than the pipeline, though would incur higher operating costs. Whilst the slurry pipeline has the benefit of lower operating costs, it cannot be expanded easily unlike the rail. The pipeline would also require the

grinding of the DSO product for transport to the coast, resulting in the loss of the lump component which attracts a price premium to the fines.

DSO Production

The Company has indicated that DSO production is planned to commence in mid 2012, producing a total of ~300Mt of product over approximately 10 years, primarily from the Mbarga, Mbarga South and Metzimevin deposits. The last four years of production are expected to be at the lower rate of 20Mt per annum as production transitions to the itabirite ore. The DSO product is likely to have a lump to fine ratio of approximately 20:80 at grades of ~60% Fe.

The Company estimates that operating costs for the DSO operation will be ~US\$20/t, helped by a low stripping ratio of 0.2:1. Capital costs are estimated at US\$3,277m (Table 1), covering all capital items including construction of the port and rail, as well as contingencies.

Table 1: DSO Capital Expenditure

Item	US\$m
Mine and Plant	375
Rail	1,423
Port	529
Indirect Costs	442
Contingency	508
Total	3,277

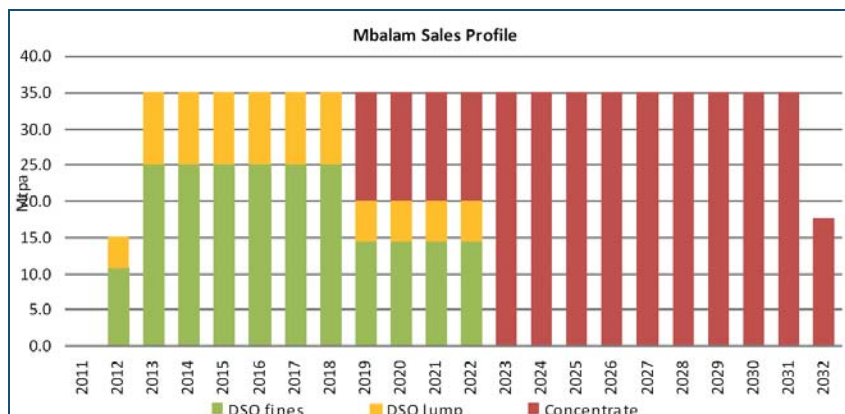
Source: Sundance Resources Ltd

Itabirite Production

The Company plans to commence itabirite production in a staged manner, with initial production from 2019 at 15Mt per annum of concentrate, lifting to 35Mt/tpa from 2023 when DSO production ceases. Operating costs are likely to be ~US\$10/t higher than the DSO costs, mainly due to the additional processing required to produce a concentrate from the lower grade ore. The processing is likely to involve a grind and flotation circuit, producing a +65% Fe concentrate, with +40% weight recoveries. The itabirite ore has slightly higher strip ratios than the DSO at 0.5:1.

We understand that capital expenditure is likely to be in the order of US\$500m for the initial stage of 15Mt per annum, with another US\$500m required to get the operation to 35Mt per annum.

Figure 4: Proposed Production Profile



Source: Sundance Resources Ltd

Resources

The Company has recently upgraded its DSO Inferred Resource to over 200Mt with an initial JORC compliant itabirite Inferred Resource of 1.2 billion tonnes. Infill drilling is currently underway to elevate both resources into the measured and indicated categories.

Given the Company's DSO production targets and mine life, the operation will require at least 305Mt of DSO reserves. The itabirite production scenario will produce ~392Mt of +65% Fe itabirite concentrate. Based on this, and assuming an ore grade of 38% Fe and weight recovery of 42%, the operation will require itabirite ore reserves of ~955Mt.

Table 2: DSO Hematite Resources

	Mt	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (%)
Mbarga	173.7	60.4	7.5	2.5	0.06	1.8
Mbarga South	27.2	59.4	7.7	3.5	0.06	3.2
Total	200.9	60.3	7.6	2.7	0.06	2.0

Source: Sundance Resources Ltd

Drilling has also indicated the potential for high grade hematite mineralisation deep along the western flank of the Mbarga deposit. The Company believes that there is potential for an additional 40 – 60Mt of higher grade hematite just at Mbarga. Better intersections include:

- 16m @ 64% Fe from 153m;
- 53m at 58% Fe from 279m; and
- 24m at 60% Fe from 177m.

The current itabirite resource is based on drilling over a 3km by 3km area on the Mbarga Deposit, down to an average depth of 350m. The mineralisation is still open at depth with mineralisation extending to over 500m.

The Company has an exploration target for the itabirite mineralisation of 1.6 – 1.8 billion tonnes for the Mbarga deposit at 38 – 39% Fe. The overall Itabirite exploration target for EP92 is 2.0 – 2.5 billion tonnes. This size resource target should easily enable the generation of a 955Mt itabirite reserve.

Table 3: Itabirite Hematite Resource

	Mt	Fe (%)	SiO ₂ (%)	Al ₂ O ₃ (%)	P (%)	LOI (%)
Mbarga	1,190	38.0	44.0	0.6	0.04	0.3

Source: Sundance Resources Ltd

Feasibility Studies

The Company is steadily progressing the feasibility studies into the development at Mbalam, including mine planning, metallurgical testwork, infrastructure studies and environmental studies.

Mine Design

Sundance has completed initial pit optimisation work with a view to extracting the shallow DSO material then the deeper itabirite ore as per the development plan. First pass optimisation of the Mbarga deposit indicates an open pit is likely to have low stripping ratios for both the DSO and Itabirite mineralisation.

DSO Processing

Recent testwork on the DSO material has been based on limited core samples, as the majority of drilling to date has been RC. Based on this drilling, testwork has indicated that the ore is relatively soft. The softness of the ore has positive ramifications for drill and blast costs whilst mining, as well as reducing the amount of crushing and screening costs.

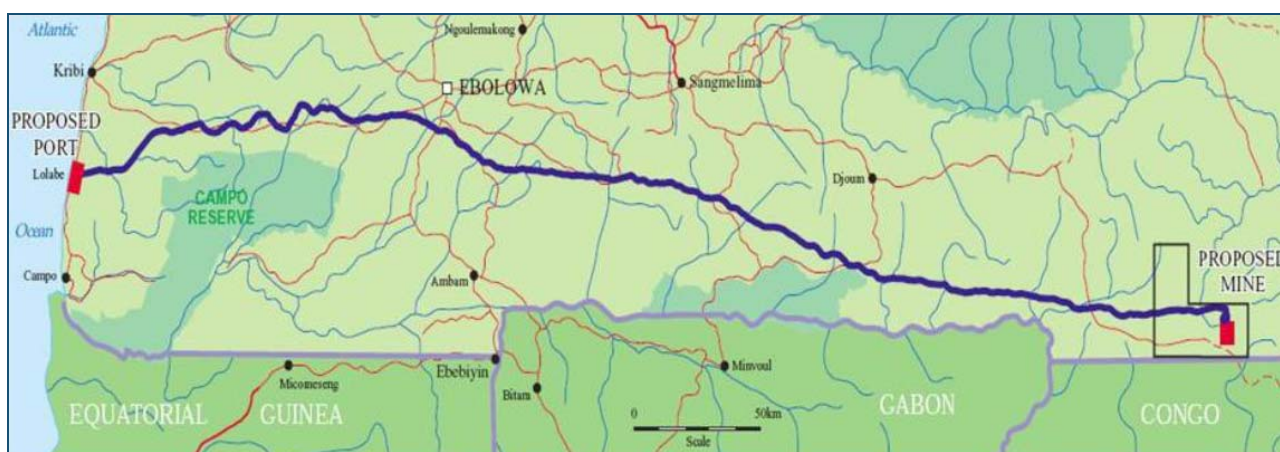
Itabirite Processing

Recent metallurgical test work has demonstrated that by using reverse flotation techniques, the itabirite ore can generate a +66% Fe concentrate with weight recoveries of ~44%. This testwork was performed on diamond drill core from depths between 37m to 315m, with grades averaging 39% Fe. The plant design currently assumes that there will be conventional crushing, milling and separation processes to produce the concentrate.

Transport and Port Infrastructure

Planning of the rail route has identified a preferred alignment from the mine site to the proposed port location.

Figure 5: Proposed Transport Route



Source: Sundance Resources Ltd

Marine bathymetric and seismic reflection/refraction studies have been used to optimise the port layout. The studies have identified deeper water closer to shore than assumed in previous studies, which may lead to a reduction in the expected capital.

Environmental and Social Impact Assessment (ESIA)

Scoping and scheduling of the ESIA work programme has been completed and baseline data collection and community consultation has commenced.

Government and Licensing

Due to the scale and potential economic impact of the project, the project is considered to be a Project of National Significance.

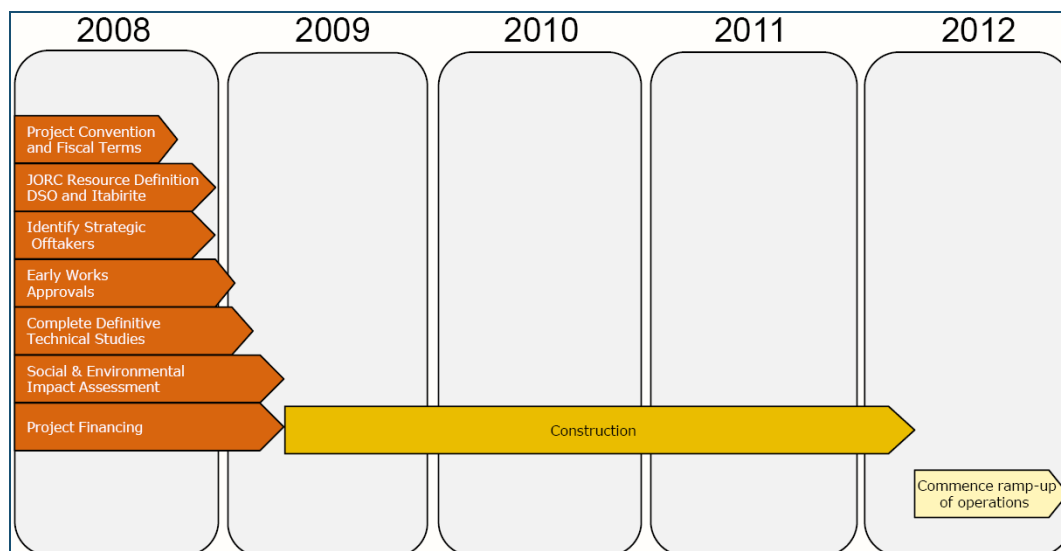
Negotiations are continuing with the government with respect to developing a Framework Agreement between Camlron and the Government. The Agreement is aimed at providing a structure for the key fiscal and governmental terms which will underpin the Project. The framework will form the basis of the Mbalam Convention, which, once finalised, is to be passed by an act of the Cameroon Parliament. This will give the Convention the force of law. The current company tax rate in Cameroon is 38.5%. However, we understand that part of the framework currently being negotiated may provide for tax reductions for several years after project start up.

The Pre-Feasibility Study was submitted to the Cameroon government in late June 2008 as part of the permit renewal process for EP92. The country's Mining Code allows for progressive 2 year extensions of exploration permits prior to the issue of a Mining Permit when a decision to mine is reached.

Project Financing

Given the large scale of the project and consequent capital expenditure requirements, it is likely that the strategic partners will participate in the development of the project and funding via equity participation and offtake agreements. To this end, the Company hosted its first site inspection by parties interested in product offtake in the June 2008 quarter. The Company plans to accelerate product marketing and financing work now that it has removed an element of risk to the project by releasing JORC compliant DSO and itabirite resources, which demonstrate that a substantial resource exists at the project.

Figure 6: Milestone Timeframe



Source: Sundance Resources Ltd

Financial

As at 30 June 2008, Sundance had 1,880.9m shares on issue, and 92.0m options exercisable at various dates and prices. As at the same date, the Company had \$47.0m in cash, with no debt.

Valuation

We have modelled the development of the Mbalam project, using the production profile outlined by the Company. We have assumed that Sundance will be able to achieve the targeted resource and reserve levels to enable the production of 35Mt per annum, initially producing lump and fine DSO, then transitioning to itabirite concentrate.

Our modelling incorporates the exchange rate and commodity price assumptions as detailed in Table 4. We have been conservative and assumed that the Company can only negotiate a flat 20% Corporate tax rate across the life of the project, with no zero tax grace period.

Table 4: Hartleys Commodity Price, Exchange Rate and Fiscal Assumptions for Mbalam

		2009	2010	2011	2012	2013 on
AUDUSD	A\$/US\$	0.90	0.87	0.78	0.75	0.75
Iron Ore - Concentrate	US\$/dmu	1.33	1.33	1.23	0.98	0.90
Iron Ore - Fines	US\$/dmu	1.45	1.45	1.34	1.06	0.98
Iron Ore - Lump	US\$/dmu	2.02	2.02	1.87	1.47	1.36
Tax Rate		20%	20%	20%	20%	20%

Source: Hartleys Estimates

We have modelled the DSO and itabirite production separately as if they are different operations to give some perspective on the value of each.

For the DSO operation, we have assumed a lump:fine ratio of 20:80, a 60% Fe grade, operating costs of US\$22.50/t (A\$30/t), and construction capital costs of US\$3,500m (~A\$4,133m).

Our modelling has used a base case scenario that assumes Sundance finances and develops the project by itself, maintaining 90% ownership. Construction is assumed to start in the June quarter in 2009, and completed in the December 2011 quarter. Production commences in the June 2012 quarter at an initial rate of 15mt, before ramping up to 35Mt per annum in 2013. These parameters give a payback period of just under 4 years, and derive a value for the DSO operation of \$555m, or 28cps.

For the itabirite development, we have assumed that the feed grade will be 38% Fe, weight recoveries are 42%, producing a 65% Fe concentrate. Operating costs are an additional US\$10/t over the DSO due to the beneficiation required to generate the concentrate. Development capital expenditure totals US\$1,000m (A\$1,333.3m), with the first US\$500 spent during CY2018 to allow for initial concentrate production of 15Mt per annum, with the remaining US\$500m spent in CY2022 to ramp up to 35Mt per annum of concentrate. This scenario derives a value for the itabirite operation of \$354.6m, or 18cps.

Combining these valuations with current, cash, exploration and other components, we derive a value for Sundance Resources Limited of \$1,018.3m, or 52cps.

Conclusions

Sundance is steadily progressing the development of its large Mbalam iron ore project, with a view to commencing production in CY2012, initially producing a lump and fine DSO product, before moving to a concentrate product as the DSO resource is exhausted. The project has the potential to generate very large cash flows of ~US\$1,000m per annum from the DSO and ~US\$500m per annum from the itabirite ore. However, it is not without its risks, which include defining sufficient reserves, large capital expenditure requirements, as well as unknowns relating to the final fiscal regime and perceptions of sovereign and political risk. The Company is currently trading at a substantial discount to our conservative valuation, and as Sundance continues to de-risk the project, we expect to see significant share price appreciation. We rate **Sundance Resources Ltd** as a **Speculative Buy**.

Table 5: Hartleys Valuation of Sundance

Component	A\$m	cps
Mbalam DSO (NPV @ 12%)	555.2	0.28
Mbalam Itabirite (NPV @ 12%)	354.6	0.18
Exploration	50.0	0.03
Cash	47.0	0.02
Forwards	0.0	0.00
Corporate Overheads	(7.6)	(0.0)
Total Debt	0.0	0.00
Tax Losses	3.8	0.00
Options & Other Equity	15.3	0.01
Total	1,018.3	0.52

Source: Sundance Resources Ltd

Hartleys Corporate Directory

Research

Trent Barnett	Senior Industrial Analyst	+61 8 9268 3052
Nikki Ermongkonchai	Industrial Analyst	+61 8 9268 2837
Andrew Muir	Resources Analyst	+61 8 9268 3045
David Wall	Resources Analyst	+61 8 9268 2826

Institutional Sales

Bradley Booth	+61 8 9268 2873
Carrick Ryan	+61 8 9268 2864
Darren Reed	+61 8 9268 3053
Simon Van Den Berg	+61 8 9268 2867

Corporate Finance

Richard Simpson	Managing Director & Head of Corporate Finance	+61 8 9268 2824
Grey Egerton-Warburton	Lead Director-Corporate Finance	+61 8 9268 2851
Martin Pyle	Director-Corp Finance	+61 8 9268 2821
Paul Fryer	Director-Corp Finance	+61 8 9268 2819
Dale Bryan	Assoc Director-Corp Finance	+61 8 9268 2829
Ben Wale	Manager-Corp Finance	+61 8 9268 3055

Wealth Management

Nicola Bond	+61 8 9268 2840
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Travis Clark	+61 8 9268 2876
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
Robin Forbes	+61 8 9268 2813
John Georgiades	+61 8 9268 2887
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
Neil Inglis	+61 8 9268 2894
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Christian Marriott	+61 8 9268 2828
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Nicole Morcombe	+61 8 9268 2896
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Ian Plowman	+61 8 9268 3054
Margaret Radici	+61 8 9268 3051
Charlie Ransom	+61 8 9268 2868
James Robinson	+61 8 9268 2859
Conlie Salvemini	+61 8 9268 2833
Darryl Smalley	+61 8 9268 2808
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Marlene White	+61 8 9268 2806

Registered Office

Level 6, 141 St Georges Tce
Perth WA 6000
Australia

Postal Address
GPO Box 2777
Perth WA 6001
Australia

Contact Details
Telephone: +61 8 9268 2888
Facsimile: +61 8 9268 2800
Website: www.hartleys.com.au
Email: info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner:
firstname_lastname@hartleys.com.au

Hartleys Recommendation Categories

Strong Buy	Significant share price appreciation anticipated
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but is considered high risk
Accumulate	Buy in periods of weakness
Hold	Take no action
Reduce	Sell in periods of strength
Sell	Significant price depreciation anticipated

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