25 January 2011

Sundance Resources (SDL)

Moving towards FID in 2011

Analyst
Fleur Grose 613 9235 1678

Authorisation
Johan Hedstrom 612 8224 2859

Recommendation

Buy

Price

$0.46

Target (12 months)

$0.81

SDL's Mbalam project in Cameroon and Congo is on track to ramp up to 35Mtpa from 2014, which will make it a top ten global iron ore exporter. There are few iron ore opportunities of this scale so close to FID. The successful ratification of a mining convention, and financing and off-take solutions early in 2011, should drive a re-rating. We maintain our Buy rating and our target has increased to $0.81.

Expected Return

Capital growth	**76%**
Dividend yield	**0%**
Total expected return	**76%**

Company Data & Ratios

Enterprise value	**$1207m**
Market cap	**$1247m**
Issued capital	**2,711m**
Free float	**80.5%**
12 month price range	**$0.105-0.665**
GICS sector	**Materials**

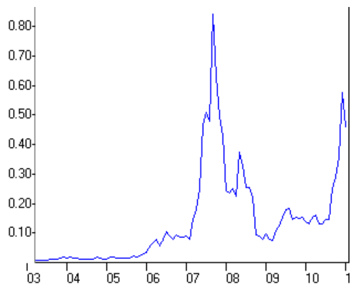
Large, low cost, long life

The Mbalam project has resources to support a 35Mtpa high grade hematite (62.5%) direct ship operation for 12+years at low opex of c.US$22/t. The capex is substantial at c.US$3.8bn, but competitive against the majors at US$110/t. Stage 2 will involve beneficiation of a lower grade hematite to produce 35Mtpa of high grade (66%) concentrate for 20+ years, giving a total life of 30+ years. There are several stranded iron ore deposits in the region, an opportunity for SDL to consolidate, or provide infrastructure services.

Announcing a project partner should be a key catalyst

SDL is due to complete and publish the DFS on Stage 1 and a PFS on Stage 2 by end March 2011. This will pave the way to choose an off-take partner capable of taking equity in the project and arranging project financing, finalise the mining conventions with Cameroon and Congo, and then FID before year end. Our valuation of the project has not changed since our last report, but the higher share price reduces the dilutive impact of potential financing, hence we have raised our price target to $0.81, which is equivalent to $3.35 at spot prices.

Absolute Price



SOURCE: IRESS

Earnings Forecast

Year end	2011f	2012f	2013f	2014f
Sales (A$m)	0	0	0	0
EBITDA (A$m)	-20	-20	-20	-20
NPAT (reported) (A$m)	-12	8	-5	-53
NPAT (adjusted) (A$m)	-12	8	-5	-53
EPS (adjusted) (cps)*	-0.4	0.2	-0.2	-1.6
EPS growth (%)	1	-2	-2	9
PER (x)	-118	201	-297	-30
P/CFPS (x)	-0.4	0.2	-0.2	-1.6
EV/EBITDA ($m)	39	27	-16	-83
ROE (%)	-1.3	0.8	-0.6	-6.0

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Next world-scale iron ore project

Large, long life, low cost

Large: The Mbalam project, straddling the Cameroon/Congo border has a resource base capable of positioning SDL in the top ten iron ore exporters globally. At the 35Mtpa production rate it will be one of the biggest independent producers behind the "big four" Vale, Rio Tinto, BHP Billiton and FMG.

High grade: Direct ship hematite material is expected to be 62.5% Fe. That will make it one of the highest grade new hematite mines coming to market.

Long life: Under the hematite resource lies lower grade itabirite at 38% Fe which can be beneficiated into hematite concentrate. The use of this material after the hematite is exhausted should extend the life of the project beyond 30 years.

The project is due to begin construction in 2011, begin shipping in 2014, and be at the full production rate of 35Mtpa in 2015. The fast track to a sizable production level, makes SDL the fastest growing Australian listed iron ore producer.

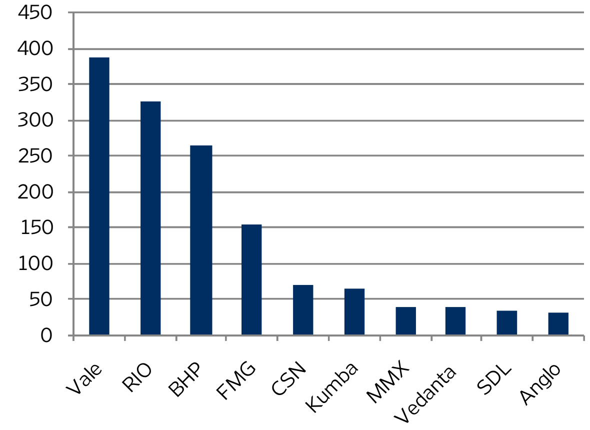
Low cost: With strip ratios c.0.2:1, the project is expected to be in the lowest cost quartile of iron ore producers.

Integrated infrastructure solution: A 500km rail corridor and deepwater port site have been chosen, and MOUs signed with chinese construction companies to do final designs, costings and then construction. Infrastructure is the strategic advantage in bulk commodities, and SDL has the opportunity to consolidate, or provide haulage for, other stranded deposits in the region. In total the project could be managing up to 100Mtpa of exports.

Corporate Appeal

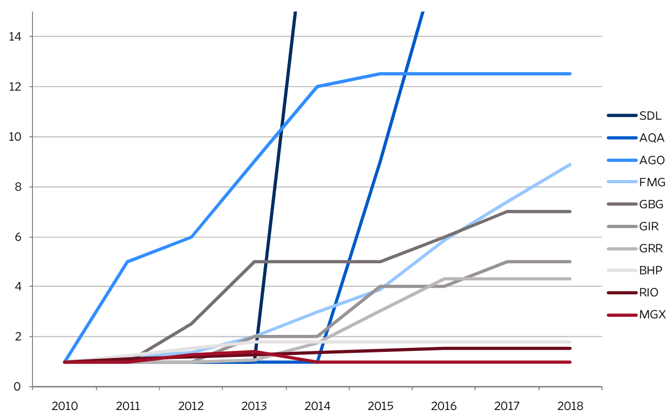
There are few independents with iron ore projects of this size and quality, so close to production. SDL is looking for an offtake partner and we expect there to be competitive tension for this opportunity. Miners looking to establish a larger iron ore business, or steelmakers looking for greater supply certainty could also see the business as an attractive target. The Talbot Group is the largest shareholder at 16%, and although it is committed to the project, the group has sold large stakes in companies after significant value uplift in the past, i.e. MCC and RIV.

Figure 1 - Top iron ore exporters 2016 Mtpa (Managed)



SOURCE: COMPANY AND SOUTHERN CROSS EQUITIES ESTIMATES

Figure 2 - Production growth (x) rebased to 1, equity basis



SOURCE: COMPANY AND SOUTHERN CROSS EQUITIES ESTIMATES

Ready to construct in 2011

SDL is on a fast track to a final investment decision in 2011. That should see first production in 2014 and the full 35Mtpa rate by 2015.

The key achievements in 2010 were:

- Environmental approvals received – from Cameroon Ministry of Environment and Nature Protection in June 2010.
- Port and Rail MOUs signed – with 3rd party infrastructure providers from China which can provide fixed price, fixed time contracts.
- Declaration of Public Utility (DUP) – received for port and waiting for rail. Appropriation of land by the government will follow.
- Reserve definition drilling. SDL currently had four drill rigs working around the clock to upgrade part of the resource to reserve status to underpin the feasibility study.

The key steps to be completed in the next few months are:

- DFS completion. Most studies have been completed, but awaiting final drill results.
- Signing Mbalam Convention and ratification by parliament. The convention covers the fiscal terms of the project with the Cameroon government. The convention has been submitted, but the final details are being negotiated. A similar convention is required with the Congo government which will follow. We assume the terms will be similar.
- Finalise offtake contracts. Chinese steel mills are reportedly interested. An offtake contract may also involve an equity stake in the project.
- Secure project financing terms. The offtake partner is likely to be required to arrange debt financing.
- Final investment decision. This should occur in H2 2011.
- Construction: Late 2011.

The port and rail are expected to take 2.5 years to build. SDL is expecting first production in 2014, and full production from 2015. We have modelled a 1 year delay, assuming full production from 2016.

West Africa – emerging iron ore province

This world class iron ore project, close to commencement, would likely be valued higher if it was in an existing production province like the Pilbara or Brazil. Of the risks associated with a new iron ore project, we believe the resource, infrastructure and financing risk is relatively low for the Mbalam project. Political risk is what concerns most investors, so we explore the emerging iron ore province of West Africa.

Majors prepared to invest in West Africa

Most recently Xstrata has acquired Sphere Minerals for $3/share or $514m, which has a 6Mpta iron ore project in Mauritania, but which Xstrata hopes to grow much bigger. Xstrata has another project in Congo and is looking to grow its African business.

Further south, the majors Vale, RIO and BHP all have interests in Guinea and/or neighbouring Liberia. Rio Tinto has had issues with the Guinean government threatening to rescind its Simandou project. Rio is now fast tracking the project and has brought in partner Chinalco. The lesson has been not to stall developments and move as quickly as possible.

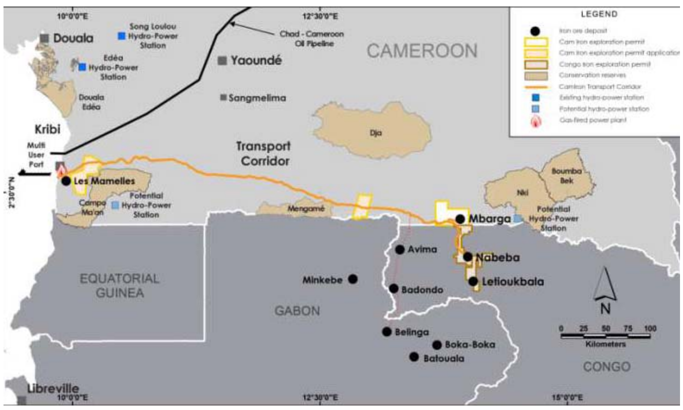
Other investors close to SDL in Cameroon and Congo are Xstrata, Severstal, Equatorial Resources, Cape Lambert, and China's CMEC which has received approval for a project across the border in Gabon.

As well as iron ore, there is significant investment in oil and gold in West Africa.

Figure 3 – West African iron ore projects

SOURCE: EQUATORIAL RESOURCES

Figure 4 – Mbalam project footprint



SOURCE: COMPANY REPORTS

Figure 5 – Cameroon welcomes investors with open arms

Cameroon and Congo attracting investment

The Republic of Cameroon enjoys relative political and social stability. It is a unitary republic of central West Africa with a population of about 18m people, with a government that has held power since 1982. The currency is pegged to the Euro and has been revalued only twice in the last 60 years. Agriculture, transport, mineral processing and hydrocarbon industries are the principal economic activities in Cameroon.

The Republic of Congo (Congo-Brazzaville) is celebrating its 50 years of independence this year. The President was re-elected in 2009 for a further 7 year term. The sparse population of about 4m is concentrated in the southwestern portion of the country, leaving the vast areas of tropical jungle in the north near SDL's tenements virtually uninhabited.

FOREIGN INVESTMENT FOR OVER 30 YEARS

Both Cameroon and Congo are former French colonies with a French based legal system. Both have recently enacted modern mining codes to attract mining investment. Governments take a 10% stake in projects and royalties are c.2.5%. Tax rates in Cameroon and Congo are 38.5% and 38% respectively, but tax incentives, including tax holidays are available for new projects.

Several international companies are already operating in Cameroon, including:

- Rio Tinto – Owns 47% of Alucam (ex Alcan), an aluminium smelter.
- AES Corp – US based power company with a US$12b market cap, owns 12 plants in Cameroon with almost 1000MW generation capacity.
- Exxon Mobil/Texaco - The Chad–Cameroon oil pipeline which pumps around 150kbpd.
- Total, ENI, Chevron - have operated in Congo for c.30 years.
- Xstrata - has an option to acquire 50% of the Zanaga iron ore project after funding a DFS.
- Severstal – has acquired an interest in Core Mining which owns the Avima iron ore deposit close to the Mbalam project.
- MagIndustries - A Canadian company with several resource interests in Congo including a Potash project.

THE MBALAM CONVENTION – GLOBALLY COMPETITIVE

The convention covers agreements with the government with respect to land access, and tax and royalty regimes. It is designed to offer security of tenure, and be internationally competitive. We expect the key elements to be a 5 year tax holiday, 25% corporate tax and 5% withholding tax, and a 2.5% mine gate royalty. The convention has been submitted and is in its final stages of negotiation.

The Mbalam project is the first mining project of scale in Cameroon and we believe it has the full support of key stakeholders including the government and local communities. The direct financial benefit is expected to be US$5bn over the life of the project and it will provide employment for over 1000 people and many direct and indirect business opportunities. 0.5% of project profits will be directed to an environmental and social fund.

Environmental approvals have already been received in Cameroon. Impact is reduced by the chosen rail corridor avoiding national parks and passing no villages. The area is heavily forested, but has been subject to previous logging. The Belinga iron ore project had environmental concerns due to the requirement for a new hydro facility. This is not a concern for Mbalam as there is existing hydro power near-by.

Mbalam Iron Ore Project

Establishing a large footprint in an emerging province

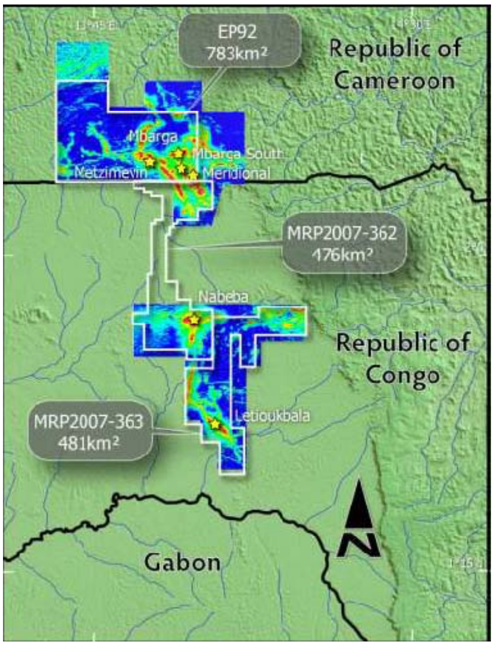
The project is located in an area that straddles the border of both Cameroon and Congo in Central West Africa approximately 500km due east of the coast. The province was discovered in the 1980s by le Bureau de Recherches Geologiques et Minieres, a French geological survey organisation.

CamIron was incorporated in April 2005 to explore and develop hematite iron ore prospects in the Mbalam region of Cameroon, and SDL acquired its interest in CamIron in 2006 based on its commitment to provide the financing and development expertise required to implement the project. SDL holds 90% of CamIron, with the original investors the balance, and the government has the right to a 10% interest which would dilute existing shareholders.

In 2008 SDL bought into CongoIron which holds the rights to the Nabeba deposit in Congo, 42km to the south of Mbalam. The option to transport Congo material to the Cameroon site improved the economics of the project, but additional ongoing drilling at Nabeba has delayed the project beyond an initial 2012 start-up estimate. SDL holds 85% of CongoIron, with local investors the balance, and again the Congo government has the right to 10% which would dilute SDL to 76.5%.

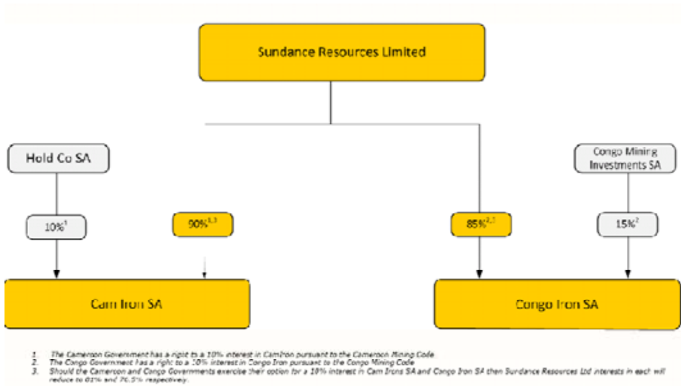
The Mbalam iron ore project comprises the Mbarga deposit in EP92 in Cameroon; and the Nabeba deposit in MRP362 and the Letioukbala deposit in MRP363, both in Congo. SDL now holds rights to over 1,742 square kilometres of this iron ore province.

Figure 6 – Project location on the Cameroon/Congo border



SOURCE: COMPANY REPORTS

Figure 7 – Corporate Structure



SOURCE: COMPANY REPORTS

World-scale resource with upside potential

HIGH GRADE DSO MATERIAL UNDER MINIMAL COVER

The total hematite resource of 415Mt @ 62% Fe is sufficient to support a 35Mtpa operation for at least 10 years. The grade is at the high end for new mines. The Nabeba ore is of high quality with 63% Fe and low silica. Blending with the Mbarga ore will produce a premium quality product with 62.5% Fe, <5.5% silica, and <2.5% alumina. The resource at Nabeba in the south is in the inferred category, but further drilling should bring this into the indicated category for use in the mine plans and DFS.

There is minimal cover over the high grade hematite cap which will result in a low strip ratio, <0.2:1 for Mbarga. The material is soft and will only require simple crushing and screening, before railing and shipping.

UNDERLYING ITABIRITE SUITABLE FOR HEMATITE CONCENTRATE

The high grade hematite is overlying lower grade itabirite at both Mbarga and Nabeba. Itabirite is the name given to a particular lower grade hematite enriched BIF (Banded Iron Formation) found in the Itabira region of Brazil. It requires processing through grinding and flotation, and concentrates and pellets are produced commonly in Brazil. Further drilling will follow to give an itabirite resource at Nabeba.

The intention is to beneficiate the itabirite into a high grade hematite concentrate (66%) once the DSO material is exhausted. The material is capable of producing direct reduction (DR grade) and blast furnace (BF grade) concentrates. DR grade pellets could be produced at a pellet plant at a site near the port where there is natural gas available. The strip ratio of the itabirite resource is also very low at 0.51:1, but beneficiation requirements will result in higher costs at c.US$40/t.

Figure 8 – DSO resources and target production specification

Deposit	Category	Tonnage	Grade	SiO_2	Al_2O_3	P	LOI
		Mt	%	%	%	%	%
Mbarga	Indicated and Inferred	215.2	60.2	9.8	2.3	0.08	1.6
Nabeba North	Inferred	200.2	63.1	2.5	3.4	0.09	3.2
		415.4	61.5	6.3	2.8	0.08	2.4
Target Product Specification		35Mtpa	62.5	<5.5	<2.5	0.08	2.4

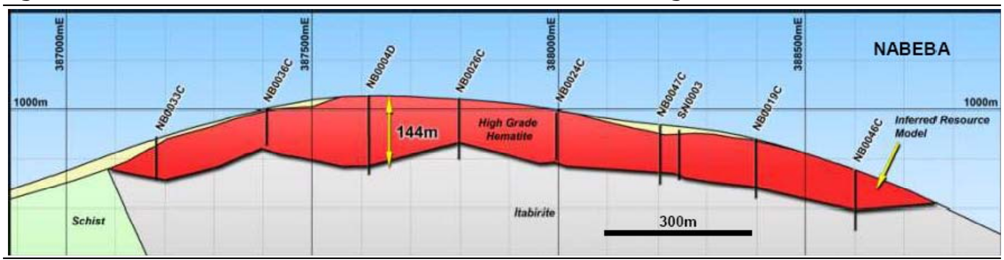
SOURCE: COMPANY DATA

Figure 9 – Itabirite resource and target concentrate product specification

Deposit	Category	Tonnage	Grade	SiO_2	Al_2O_3	P	Grind Size
		Mt	%	%	%	%	(P80 Microns)
Mbarga	Indicated	1431	38				
Mbarga	Inferred	894	38				
		2325	38				

SOURCE: COMPANY DATA

Figure 10 – Schematic of hematite over itabirite at Nabeba North Ridge



SOURCE: COMPANY DATA

Long life production plan

MINE PLAN

There will be two distinct stages for the project, Stage 1 is 35Mtpa of DSO hematite for 10+ years, followed by 35Mtpa of concentrate production for 20+ years. Ore will be transported from Nabeba across the border to the project site in Cameroon for processing and blending. The pre-feasibility cost estimates were upfront capex of US$3.4bn and opex of US$20/t. This was conducted before the concept of adding the Congo production, and we have modelled capex of US$3.8bn which covers mine, rail and port, and opex of US$22/t pre-royalties. The ore is suitable for a lump product, but we have assumed 100% fines. Stage 2 will require a later investment decision for a beneficiation facility. Additional capex is expected to be US$2.4bn, and operating costs for Stage 2 should be c. US$40/t.

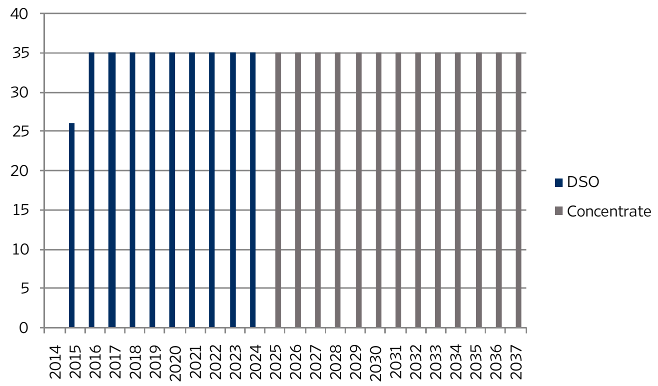
DEEPWATER PORT

A deepwater port site has been chosen at Lolabe, 50km south of Kribi, almost directly east from the project site. Scoping studies of a single berth with a capacity of 35Mtpa accommodating 200,000 DWT Capesize or 300,000 DWT “Chinamax” size vessels was completed by Sogreah (France). An offshore geotech drilling program was completed as part of the DFS studies. China Harbour Engineering Company (CHEC) is now finalising the scope and cost of the project. A Declaration of Public Utility (DUP) has been awarded as part of the Kribi multi user port facility. The Cameroon to China freight rate is lower than that from Brazil to China, so the product is relatively attractive to Asian customers.

RAIL TRANSPORT

Route optimisation modelling has been completed and has confirmed the Mid-Northern corridor as the preferred, least cost alignment, of several routes surveyed. The route is across undulating ground with no major river crossings. The jungle is thick, but the corridor does not pass through any villages and by-passes game reserves and national parks. China Rail completed the initial scoping work, and is now doing detailed design for the track and rolling stock.

Figure 11 – SCE FY production profile (Mt) 100%



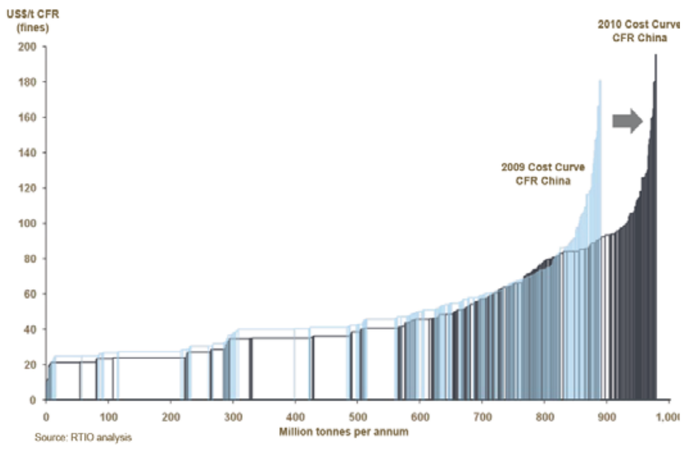
SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Figure 12 – Key variables for the project

		DSO		Concentrate	
		Long Term	Spot	Long Term	Spot
Price	US$/t	63	170	66	180
Cost	US$/t	25	25	40	40
Margin	US$/t	38	145	26	140
EBITDA	US$m	1330	5075	910	4900
Capex	US$m	3800	3800	2400	2400
Capex	US$/t	109	109	69	69
Payback	Years	2.9	0.7	2.6	0.5

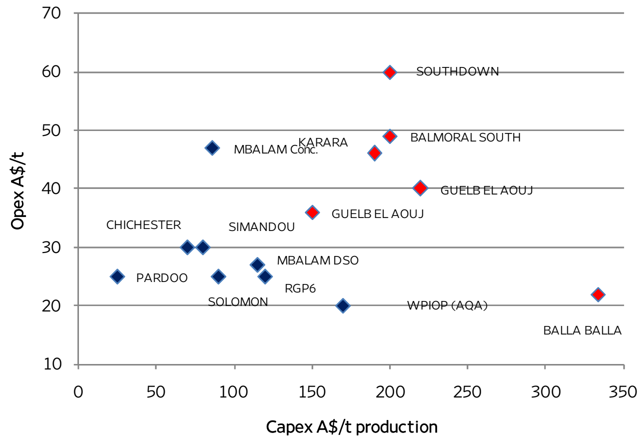
SOURCE: COMPANY DATA AND SOUTHERN CROSS EQUITIES ESTIMATES

Figure 13 – Global iron ore cost curve



SOURCE: RIO TINTO

Figure 14 – Comparison with peer capex and opex



SOURCE: COMPANY DATA AND SOUTHERN CROSS EQUITIES ESTIMATES, BLUE=HEMATITE, RED =MAGNETITE

PROJECT SITE

SCE visited the Mbalam site in November 2010. The camp is well established with accommodation units for 200 people, maintenance and laboratory facilities to service the exploration program, and a sophisticated communications set-up. Access is by road or air. Supplies from Perth are shipped in containers and arrive by road with a lead time of up to 6 weeks. Access has been established to the Nabeba deposit with a new border crossing just south of the Mbalam exploration base.

Figure 15 – High grade DSO Material outcropping

SOURCE: SOUTHERN CROSS EQUITIES PHOTO ALBUM

Figure 16 – Mbalam base camp - Cameroon

SOURCE: SOUTHERN CROSS EQUITIES PHOTO ALBUM

Valuation

DCF is our preferred valuation methodology

Our valuation for Sundance is $1.10. This assumes SDL has an 81% and 76.5% share of cash flows from CamIron and CongoIron respectively, and carries the government's 10% share of capex. Our valuation reduces to $0.81 in 12 months time, as we assume that a portion of the project is sold to an offtake partner at a discount to our valuation, and that further dilution occurs due to an equity raising.

The DSO component of the project has a higher contribution to the valuation as it is due to begin in 2014/2015, but the itabirite component begins much later in 2025 so the cash flows are greatly discounted.

Figure 17 – SDL valuation

	$M	$/sh	+1yr	+2yr	+3yr	+4yr
SUNDANCE RESOURCES						
Mbarga DSO	1337	0.48	0.26	0.33	0.51	0.77
Nabeba DSO	1252	0.45	0.25	0.31	0.48	0.73
Mbarga Itabirite	327	0.12	0.06	0.07	0.08	0.09
Nabeba Itabirite	307	0.11	0.06	0.07	0.07	0.08
Corporate	-200	-0.07	-0.06	-0.06	-0.06	-0.06
Cash	40	0.01	0.23	0.16	-0.09	-0.50
Total	3062	1.10	0.81	0.89	0.98	1.11

SOURCE: SOUTHERN CROSS ESTIMATES

Sensitivities and key variables

Our assessment of sensitivities is that the most important variable for the projects, like most mining projects, is the price. Therefore we give a valuation curve for SDL using the A$ iron ore price. At spot prices our $0.81 valuation rises to $3.35 (Figure 20).

Figure 18 – Mbarga DSO valuation sensitivities

10% Change in Variable	Impact on Valuation	
	$/share	% change
Fines price	0.12	26%
Production rate	0.10	21%
Discount rate	-0.06	13%
Capex	-0.07	15%
Cash operating costs	-0.06	13%
Mine life	0.05	11%

SOURCE: SOUTHERN CROSS ESTIMATES

Figure 19 – Mbarga Itabirite valuation sensitivities

10% Change in Variable	Impact on Valuation	
	$/share	% change
Fines price	0.14	117%
Production rate	0.10	83%
Cash operating costs	-0.07	58%
Capex	-0.05	42%
Discount rate	-0.03	21%
Mine life	0.03	21%

SOURCE: SOUTHERN CROSS ESTIMATES

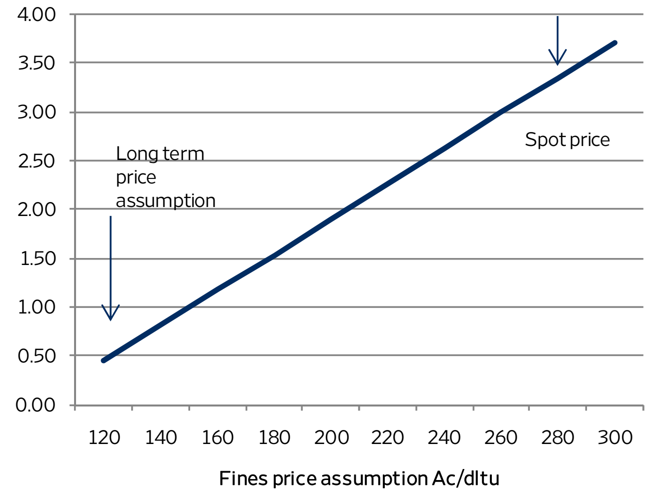
Funding requirement

We expect that the Mbalam project will be funded in a similar fashion to GBG's Karara project. Essentially GBG reduced its ownership to 50% by forming a JV with a Chinese partner, Ansteel, which offered LOM offtake and arranged the debt financing at competitive rates. The capex was funded 70:30 debt:equity. We assume that a partner buys in to Mbalam at a price which covers the majority of SDL's share of capex to be equity funded, but at a discount to our valuation. We also assume that a further US$250m equity is raised to cover the balance and contingencies. Overall our valuation is diluted to $0.81 next year, but still at a premium to the current shareprice. The itabirite project can be funded through cashflow in c.2024.

Earnings valuation methodology

When SDL reaches full production, it should be earning consistently >A$270m at long term prices (100US¢/dmtu) which translates into a diluted EPS of >$0.08. We would expect a pure play resources exposure to trade in the 8-11x PE range, less than the diversifieds. This implies a price of $0.64 - $0.88 sustainable for the full production level. This is consistent with our valuation.

Figure 20 – SDL Valuation Curve (A$/sh) – 12 month valuation



SOURCE: SOUTHERN CROSS ESTIMATES

Figure 21 – SDL long term estimates

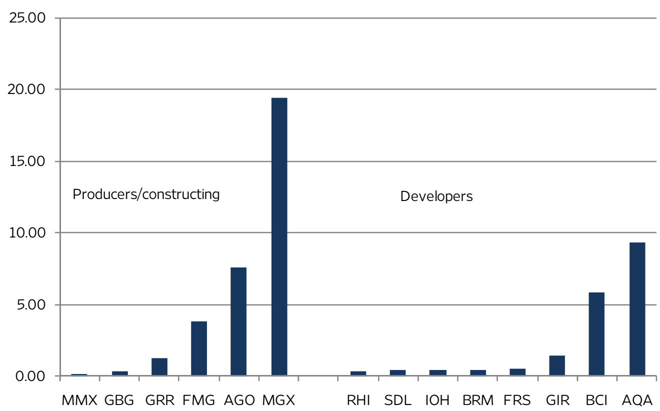
	2016f	2017f	2018f
NPAT A$m	482	279	293
EPS A¢/s	0.15	0.08	0.09
PE @ 0.30	2.0	3.5	3.4
PE @ 0.50	3.4	5.9	5.6
PE @ 0.70	4.8	8.3	7.8
PE @ 0.90	6.1	10.6	10.1
CF A$m	801	575	589
CFPS A¢/s	0.24	0.17	0.18
P/CF @ 0.30	1.2	1.7	1.7
P/CF @ 0.50	2.1	2.9	2.8
P/CF @ 0.70	2.9	4.0	3.9
P/CF @ 0.90	3.7	5.1	5.0

SOURCE: SOUTHERN CROSS ESTIMATES

Peer comparisons

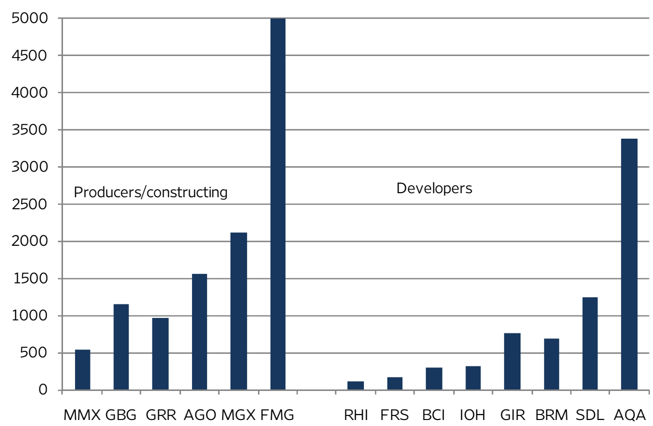
SDL will have the greatest production growth of the mid-cap producers (Figure 24). It is also one of the cheapest stocks under our coverage if we consider that it is trading at a discount to our valuation (Figure 25).

Figure 22 – EV/t Resource (A$/t)



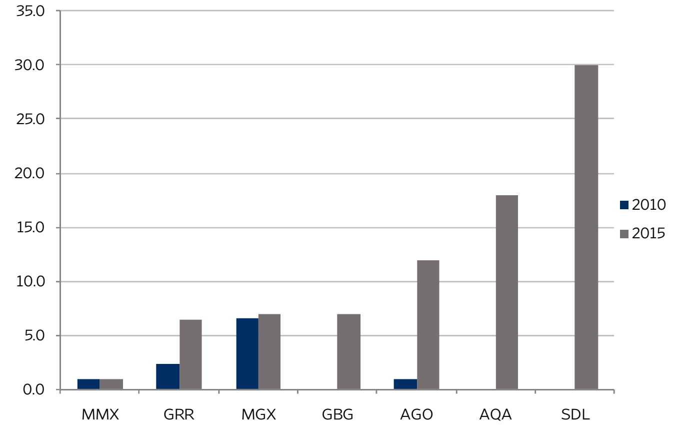
SOURCE: COMPANY AND SOUTHERN CROSS ESTIMATES

Figure 23 – EV (A$m)



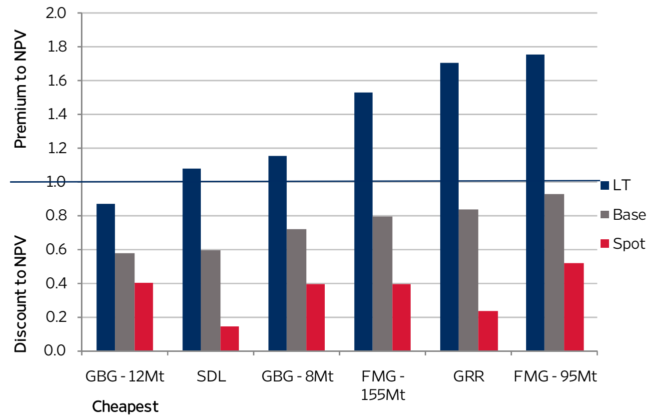
SOURCE: IRESS

Figure 24 – Producers equity production growth expectations (Mt)



SOURCE: COMPANY AND SOUTHERN CROSS ESTIMATES

Figure 25 – P/NPV



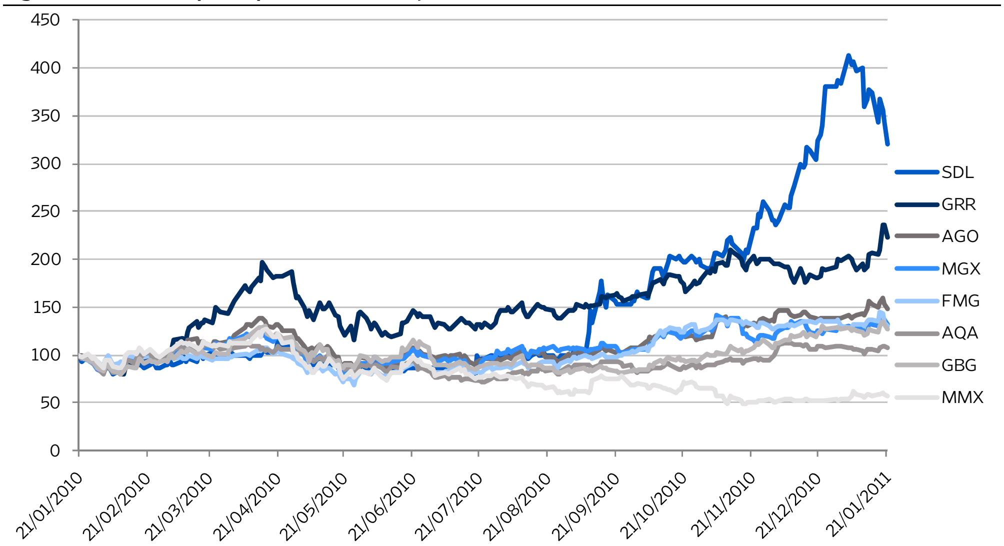
SOURCE: SOUTHERN CROSS ESTIMATES

Rating and Target Price

We have set our price target at $0.81, underpinned by our diluted 2011 valuation, and set a Buy rating. Our analysis suggests that there is considerable upside once Mbalam begins production, or at higher prices, but with project financing and execution risk ahead, we have set a conservative target in the short term.

SDL was an average iron ore performer in 2010, but project progress throughout the year, marketing by the company, high iron ore prices, and M&A in the sector, have led to out-performance recently. We expect progress towards FID this year to drive the next leg of out-performance.

Figure 26 – Iron ore peers performance – 1 year



SOURCE: IRESS

Sundance Resources

Company Description

SDL is an Australian developer with a plan to produce 35Mtpa of iron ore from its tenements in Cameroon and Congo. The project is in the final stages of a DFS, financing and offtake agreements, with construction scheduled to begin in late 2011. The project involves building a mine, simple crush and screen facilities, a 500km rail line, and a deep water port on the coast suitable for 300kt super capes. Hematite resources are capable of underpinning a 10+ year operation. Beneath the hematite cap lies itabirite which can be beneficiated into a concentrate, adding a further 20+ years minelife to the operation. SDL's infrastructure may attract 3rd party users which are currently stranded. It is estimated that the Mbalam project could be managing 100Mtpa of exports from the region.

Investment Strategy

We rate SDL a Buy. The project resources are world scale, and the potential to ship 35Mtpa, would place SDL in the top 10 iron ore exporters. High grade 62.5% Fe hematite, and low strip ratios makes the project high margin. There is a substantial budget for infrastructure, but at current prices we estimate a payback period of <3 years. We believe there is minimal resource risk, and current management can overcome financing and offtake risk. Country risk may be a concern for some investors, but the signing of the project convention early in 2011 should show the government's commitment, and be a key catalyst.

Valuation

Our base case DCF gives SDL a valuation of $1.10. However we have assumed some dilution from selling part of the project at a discount to our valuation and raising some further equity sometime in 2011. Our 12 month valuation is $0.81 which forms the basis of our price target. Our 4 year valuation is $1.14/share.

We are using long term assumptions of 100US¢/dltu for fines and an 80¢ currency. Our 12 month valuation rises to $3.35 at spot prices.

Shareholders

Talbot Group (16%), Capital Group (5.4%), UBS Nominees (4.6%), Deutsche Bank (5.1%). Free float is considered 80.5%.

SWOT

STRENGTHS

Management. George Jones resumed as Chairman in June 2010 and re-built the board, and recently appointed a new CEO. He is driving the project convention negotiations, financing and offtake agreements, such that the project can be approved in 2011. Relationships forged through a long association with China, and previous experience setting up the JV with Ansteel for GBG, mean this process is progressing quickly, and there is competitive tension for a partner. Mr Jones has suggested he may retire, for the second time, following FID.

The board and management team have a strong mix of home-grown Australian geology and mining knowledge, West African experience and international management expertise.

Large long life resource. The resource can already support a life of >30 years at 35Mtpa. Only Mbarga in Cameroon has JORC itabirite resources, but Nabeba is expected to have underlying itabirite as well, which should extend the life of the project.

Low Costs. Mining costs are extremely low due to the low strip ratios involved. FOB costs of c.US$22/t pre-royalties for the DSO hematite operation, would put this project in the lowest quartile on the cost curve.

First Mover Advantage. SDL will have first mover advantage in a regional iron ore province with its integrated infrastructure solution.

Takeover potential. The large, longlife, low cost nature of this project should be attractive to miners looking to increase their iron ore exposure, or steel mills looking to secure supply.

WEAKNESSES

Greenfield project. SDL is entering a new iron province to develop a greenfield project, a move which often increases the investment risk. However, Cameroon and Congo are supportive of this project and are offering internationally competitive investment terms, and several other international companies are investing in the region.

Infrastructure requirement. The need to build a 500km rail line and new port brings the capex requirement to over US$3bn. However the project should be supported by an offtake partner who takes equity in the project and arranges debt funding. Our modelling suggests that the payback period is <3 years.

OPPORTUNITIES

Resource increase. Further resource increases could increase both the life of the DSO and itabirite components of this project.

Other deposits. There are other known iron ore deposits in relatively close proximity to Mbalam, however they are not large enough to justify their own infrastructure. SDL could offer an infrastructure solution for these stranded deposits, either via production JV's, third party access agreements or mine gate sales. A precedent is FMG taking 50% of BCI's project in exchange for infrastructure access.

Consolidation of ordinary shares number. With a large number of shares outstanding, a share consolidation should be considered.

Export options. Cameroon is close to the European market, but is most likely to find support from Asian customers. Freight rates are lower from Cameroon than from Brazil to Asia.

THREATS

Commodity price and exchange rate fluctuations. Similar to other commodity producers, SDL is subject to fluctuations in prices. SDL is a price taker and its revenues are dependent upon the iron ore price.

Execution risk. This is a major project incorporating several components and like other new mines, will be subject to potential timing delays.

Political risk. The signing of a mining convention will write into law the fiscal terms under which the project will operate.

Talbot group holding – The Talbot group is the largest individual shareholder in SDL at 16%. The group is supportive of the project, but has sold stakes in companies following significant value uplift in the past.

Board and Management

DIRECTORS

GEORGE JONES (CHAIRMAN)

Mr George Jones was, until 31 August 2009, Chairman of Sundance and has a comprehensive understanding of the company and its assets. He resumed this position in June 2010, and re-established the board following the plane crash which killed the entire Board of Directors.

Mr Jones has more than 35 years experience in the mining, banking and finance industries and has been a Director of a number of private and publicly listed companies, including Gindalbie Metals Ltd, where he is currently Chairman.

GIULIO CASELLO (MANAGING DIRECTOR/CEO)

Mr Giulio Casello is a highly experienced executive with national and global exposure in manufacturing environments for blue chip organisations. Backed by almost 30 years of experience, he has a track record of success with operations, business development and corporate strategy.

He joins the company from his role as Chief Operating Officer for iron ore miner Sinosteel Midwest where he led its development from an exploration company to a producer. He previously worked at Century Aluminum Company in the United States, as Senior Vice President, Business Development. He has also held a number of significant positions in Alcoa spanning across 20 years, including Director of WA Operations, General Manager Alcoa World Chemicals and Kwinana Alumina Refinery Location Manager.

MICHAEL BLAKISTON (NON EXECUTIVE DIRECTOR)

Mr Michael Blakiston is a solicitor with substantial legal experience in the resources sector. He is a partner of the corporate and resource law firm Blakiston and Crabb. Mr Blakiston has extensive commercial experience both in advisory and directorial capacities having been involved in project assessment, structuring and financing, joint ventures and strategic alliances in the resource industry.

BARRY ELDRIDGE (NON EXECUTIVE DIRECTOR)

Mr Barry Eldridge has over 40 years industry experience both in Australia and overseas. Following a 20 year career in the coal industry in Queensland and NSW, Mr Eldridge moved to Western Australia in 1988 where he has been involved in a number of management roles in the mining industry.

FIONA HARRIS (NON EXECUTIVE DIRECTOR)

Ms Fiona Harris has extensive experience as a Non-Executive Director over the past 15 years with iron ore companies, Portman Mining Ltd and Territory Resources Ltd, Alinta Limited, Burswood Limited, Evans & Tate and various other organisations.

ROBIN MARSHALL (NON EXECUTIVE DIRECTOR)

Mr Robin Marshall is an experienced mining executive with an impressive track record of international experience in the development and management of major resource projects. Mr Marshall has also spent a number of years in Africa in Senior Positions in both project and operational areas.

NEIL HACKETT (COMPANY SECRETARY)

Mr Hackett is a professionally qualified ASX200 Senior Executive and Company Secretary with 18 years practical experience with diversified industrials, financial services, mineral explorers and the ASIC.

MANAGEMENT

PETER CANTERBURY (CFO)

Mr Canterbury was previously employed as CFO of Dadco Europe, a privately-owned group based in the UK. Dadco operates an alumina refinery in Germany as well as holding bauxite investments in Guinea, West Africa. Prior to this, Peter spent 12 years working with Alcoa in various financial and commercial positions.

ROB LONGLEY (GENERAL MANAGER GEOLOGY)

Mr Rob Longley joined Sundance from international iron ore explorer, Sphere Investments, where he very successfully managed resource definition activities at the El Aouj Magnetite Deposit in Mauritania, West Africa. He has over 20 years of industry experience focused on iron ore, including at Rio Tinto and BHP.

PAUL DE NARDI (GENERAL MANAGER FINANCE AND COMMERCIAL)

Mr De Nardi has over 20 years experience in mining business development, project financing, corporate advisory and engineering construction. Prior to Sundance Resources Paul spent 9 years at Rio Tinto Iron Ore most recently as General Manager Global Development Iron Ore. Paul has also spent 11 years working in project and corporate finance within various investment banks.

TERRY QUAIFE (PROJECT DIRECTOR)

Mr Quaife has over 30 years experience in project development in mining and power generation industries in Australia, Africa and Indonesia. Terry is a qualified Mechanical Engineer with additional studies in Applied Finance and Investment.

DAVID MORGAN (GENERAL MANAGER MINING)

Mr David Morgan joined Sundance in October 2007. He has more than 25 years experience in both mechanical and mining engineering, with expertise in commodities including iron ore, coal, gold and nickel. His career has included working with WMC, Rio Tinto and Equigold. He was most recently the general manager mining of the Karara Iron Project for Gindalbie Metals.

STEN SODERSTROM (GENERAL MANAGER PROCESS AND PLANT)

Mr Soderstrom has over 25 years of international project management, construction and development experience in the mining and mineral process industry covering iron ore, gold, polymetallic and base metal projects. His iron ore experience includes feasibility study management for the Aquila JV West Pilbara 30Mtpa Project, the Sinosteel Midwest DSO project and the UMC 'Railway Prospect' Project in the Pilbara.

JIM TYLER (MANAGER ENVIRONMENT AND COMMUNITY)

Mr Tyler has 28 years of site-based Environmental and Community Relations Management experience in the mining industry with Rio Tinto, BHP and Newmont, and was most recently Environmental Manager with Barrick at the Porgera Gold Mine in Papua New Guinea.

ROGER BOGNE (CEO, CAMIRON)

Mr Roger Bogne is a founding director and shareholder of CamIron SA. He is a Cameroonian national residing in Yaounde, the capital of Cameroon. Roger was responsible for locating and securing Exploration Permit No. 92 held by CamIron SA. He established CamIron SA for the purpose of developing the iron ore deposits identified in previous exploration by the UNDF. Mr Bogne has recruited the Company's Cameroon based management team and is responsible for local operations, particularly in respect of Government and community relations, and support of all field programs.

Sundance Resources
as at 25 January 2011

Recommendation	Buy
Price	$0.46
Target (12 months)	$0.81

Table 1 - Financial summary

Sundance (SDL)		Share price:	$ 0.46
As at	24/01/2011	Market Cap:	$ 1,247
		Recom:	Buy

PROFIT AND LOSS					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
Sales revenue	0	0	0	0	0
EBITDA	-8	-20	-20	-20	-20
Depreciation	-3	0	0	0	0
EBIT	-11	-20	-20	-20	-20
Net Interest Expense	3	3	31	12	-56
Pre-tax profit	-11	-17	11	-8	-76
Tax	0	5	-3	2	23
Net Profit	-11	-12	8	-5	-53
Adjustments	0	0	0	0	0
SCEQ adj profit	**-11**	**-12**	**8**	**-5**	**-53**
One-off items	-19	0	0	0	0
Reported net profit	**-30**	**-12**	**8**	**-5**	**-53**

CASHFLOW					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
Receipts from customers	0	2	0	0	0
Payments to suppliers	-7	-24	-20	-20	-20
Net interest	2	3	31	12	-56
Tax paid	0	5	-3	2	23
Other	0	0	0	0	0
Operating cashflow	**-5**	**-14**	**8**	**-5**	**-53**
Capex	-4	0	-257	-859	-1297
Investments	0	0	0	0	1
Asset sales	0	0	0	0	0
Other	-20	-30	0	0	0
Investing cashflow	**-24**	**-30**	**-257**	**-859**	**-1297**
Change in borrowings	0	0	0	700	1050
Equity raised	86	750	10	5	2
Dividends paid	0	0	0	0	0
Other	0	0	0	0	0
Financing cashflow	**86**	**750**	**10**	**705**	**1052**
Net change in cash	**56**	**706**	**-239**	**-160**	**-298**
Cash at end of period	**77**	**783**	**544**	**384**	**87**

BALANCE SHEET					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
Cash	77	783	544	384	87
Receivables	2	0	0	0	0
Inventories	3	0	0	0	0
Investments	0	0	0	0	0
Other	0	33	33	33	33
Current assets	82	816	577	417	120
PPE	7	7	264	1123	2420
Investments	0	0	0	0	0
Intangibles	98	98	98	98	98
Other	0	0	0	0	0
Non-current assets	105	105	362	1221	2518
Total assets	187	921	939	1639	2638
Payables	8	4	4	4	4
Debt	0	0	0	700	1750
Provisions	0	0	0	0	0
Other	0	0	0	0	0
Total liabilities	8	4	4	704	1754
Shareholders' equity	180	917	935	935	884
Minorities	0	0	0	0	0
Total shareholders funds	180	917	935	935	884
Total funds employed	103	134	391	1250	2547
W/A diluted shares on issu	2710	2988	3293	3327	3338

VALUATION DATA					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
Net profit adj ($m)	-11	-12	8	-5	-53
EPS (c)	-1	0	0	0	-2
EPS growth (%)	N/A	63%	-159%	-168%	885%
P/E ratio (x)	N/A	-113	192	-285	-29
CFPS (c)	0	0	0	0	-2
Price/CF (x)	-232	-111	195	-284	-29
DPS (c)	0	0	0	0	0
Yield (%)	0	0	0	0	0
Franking (%)	0	0	0	0	0
EV/EBITDA	9	39	27	-16	-83
EBITDA margin (%)	N/A	N/A	N/A	N/A	N/A

12 month valuation per share:	0.81
A$ Target price (12 mth):	**0.81**
Total Return (including yield)	**76%**

PROFITABILITY RATIOS					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
EBITDA/sales (%)	N/A	N/A	N/A	N/A	N/A
EBIT/sales (%)	N/A	N/A	N/A	N/A	N/A
Return on assets (%)	-16	-1	1	0	-2
Return on equity (%)	-17	-1	1	-1	-6
Return on funds empl'd (%)	-29	-9	2	0	-2
Dividend cover (x)	0	0	0	0	0
Effective tax rate (%)	0	30	30	30	30

LIQUIDITY AND LEVERAGE RATIOS					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
Net debt/(cash) ($m)	-77	-783	-544	316	1663
Net debt/equity (%)	-43	-85	-58	34	188
Net interest cover (x)	0	8	1	2	0
Current ratio (x)	11	204	144	104	30
Inventory turnover	N/A	N/A	N/A	N/A	N/A
Inventory/sales	N/A	N/A	N/A	N/A	N/A

VALUATION					
	$M	$/sh	+1yr	+2yr	+3yr
SUNDANCE RESOURCES					
Mbarga DSO	1337	0.48	0.26	0.33	0.51
Nabeba DSO	1252	0.45	0.25	0.31	0.48
Mbarga Itabirite	327	0.12	0.06	0.07	0.08
Nabeba Itabirite	307	0.11	0.06	0.07	0.07
Corporate	-200	-0.07	-0.06	-0.06	-0.06
Cash	40	0.01	0.23	0.16	-0.09
Total	**3062**	**1.10**	**0.81**	**0.89**	**0.98**

PRODUCTION					
Base Case Production	2010a	2011f	2012f	2013f	2014f
Iron Ore					
DSO	0.0	0.0	0.0	0.0	0.0
Itabirite	0.0	0.0	0.0	0.0	0.0

ASSUMPTIONS					
Y/e June 30	2010a	2011f	2012f	2013f	2014f
A$	0.88	0.97	0.96	0.91	0.85
Iron Ore Fine (US¢/%Fe)	128	223	222	201	181

SOURCE: SOUTHERN CROSS EQUITIES ESTIMATES

Recommendation structure

Spec Buy: Expect >30% total return on a 12 month view but carries significantly higher risk than its sector

Buy: Expect >15% total return on a 12 month view

Accumulate: Expect total return between 0% and +15% on a 12 month view

Reduce: Expect -15% and 0% total return on a 12 month view

Sell: Expect <-15% total return on a 12 month view

Fleur Grose
Analyst Authorisation

Johan Hedstrom
Authorisation

Southern Cross Equities

Limited Incorporated ACN 071 935 441
Level 32, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 8224 2811
Facsimile +61 2 9231 0588
Email general@sceq.com.au
www.sceq.com.au

Research Team

Steve Goldberg
Head of Research
T 612 8224 2809
E sgoldberg@sceq.com.au

Peter Chapman
Senior Resources Analyst
Oil/Gas/Gold
T 612 8224 2847
E pchapman@sceq.com.au

Johan Hedstrom
Senior Resources Analyst
Energy
T 612 8224 2859
E jhedstrom@sceq.com.au

Fleur Grose
Resources Analyst
Iron Ore/Coal/Diversifieds
T 612 8224 2845
E fgrose@sceq.com.au

Chris Whitehead
Associate Analyst
Resources/Energy
T 612 8224 2838
E cwhitehead@sceq.com.au

Mathan Somasundaram
Quantitative Analyst
Head of Quant & Data Services
T 612 8224 2825
E mathan@sceq.com.au

Janice Tai
Quantitative & System Analyst
T 612 8224 2833
E jtai@sceq.com.au

Joel Weiss
Quantitative Analyst
T 612 8224 2895
E jweiss@sceq.com.au

Emma Sellen
Executive Assistant
T 612 8224 2853
E esellen@sceq.com.au

TS Lim
Financials Analyst
Banks/Regionals
T 612 8224 2810
E tslim@sceq.com.au

Lafitani Sotiriou
Analyst
Financials/Industrials
T 613 9235 1668
E lsotiriou@sceq.com.au

Stuart Roberts
Senior Industrial Analyst
Healthcare/Biotech
T 612 8224 2871
E sroberts@sceq.com.au

Judith Kan
Industrial Analyst
Infrastructure
T 612 8224 2844
E jkan@sceq.com.au

Daniel Blair
Industrial Analyst
Telco/Media
T 612 8224 2886
E dblair@sceq.com.au

Paresh Patel
Industrial Analyst
Retail/Beverages
T 612 8224 2894
E ppatel@sceq.com.au

Jonathan Snape
Senior Industrial Analyst
Emerging Growth
T 613 9235 1601
E jsnape@sceq.com.au

Hamish Perks
Industrial Analyst
Emerging Growth
T 612 8224 2804
E hperks@sceq.com.au

Southern Cross Equities Ltd and its associates hold 1,700,00 shares in SDL as at the date of this report. This position is subject to change without notice..