

SHEFFIELD RESOURCES LIMITED (SFX)

All of a sudden the world needs ilmenite again

Ilmenite prices have had a significant rally recently and anecdotes are for continuing rising pigment prices.

Sheffield Resources Ltd (SFX) has perhaps one of the best undeveloped mineral sands projects globally. It is well located in WA, which means low sovereign risk (most other large new mineral sands projects are in Africa), with a very long mine life, well located to port and with a large proportion of high value products (zircon and leucogene) as well as significant volumes of high quality ilmenite, which means it could be strategically important.

At the early 2016 lows in mineral sands prices we estimate that Thunderbird was not attractively economic to develop (it would have had positive cash flow, but taken too long to recover capital). At current spot ilmenite prices though (US\$250-280/t), it all of a sudden becomes very viable.

BFS completed

SFX recently released a BFS. The Company estimates a pre-tax NPV10 of \$676m (startup capex \$324m, plus \$194m expansion capex). The Company estimated valuation is based on mineral sands prices at the upper end of consensus (zircon US\$1381/t, ilmenite \$183/t). We note though, that spot ilmenite prices are well above US\$250/t, and hence potentially consensus will upgrade. Using ilmenite prices of \$280/t, our funded valuation is ~\$1.60/s.

Using our price assumptions (zircon ~US\$1200/t, ilmenite ~\$185/t), our valuation is ~78cps (assuming ~275m new shares for development funding).

Offtakes arriving already, more expected

The project has five main product streams, which all require offtakes. The zircon appears an excellent product, but volumes are large at 76ktpa (initially ~50ktpa). The lower grade zircon concentrate volume is ~68ktpa (initially ~50ktpa). Ilmenite volumes of ~390ktpa (initially 265ktpa) are also large volumes to be placed into the market. SFX is already advanced in offtake discussions, and has signed several non-binding MoUs for combined ~70% of zircon and ~45% of the zircon concentrate. We expect further announcements over the coming months.

Move to Speculative Buy (from Buy)

The Thunderbird project is very large, and with improving confidence in mineral sands prices there should be renewed interest in the stock.

We are moving our recommendation to Speculative Buy (from Buy). We are only in the early stages of the mineral sands recovery, and the Company is still unfunded for construction. The upside potential is significant for those with a positive view on zircon and ilmenite prices, and the speculative aspect is the risk around financing.

Fig. 1: Thunderbird reserve assemblage

Ore Reserve Category	Ore Tonnes (millions)	In-situ HM Tonnes (millions)	HM Grade (%)	Mineral Assemblage ³					Slimes (%)	Osize (%)
				Zircon (%)	HiTi Leuc (%)	Leuc (%)	Ilmenite (%)			
Proved	235.8	31.4	13.3	7.5	2.2	1.9	26.7	16.5	13.7	
Probable	444.8	45.4	10.2	7.8	2.5	2.6	28.0	15.2	11.0	
Total	680.5	76.8	11.3	7.7	2.4	2.3	27.4	15.7	12.0	

Source: SFX

Share Price	\$0.57
Valuation	\$0.78
Price Target (12 month)	\$1.02

Brief Business Description:

Significant mineral sands developer (Thunderbird project in WA), plus a multi-commodity exploration portfolio (eg Fraser Range Ni).

Hartleys Brief Investment Conclusion

The Thunderbird project is large. On spot prices (ilmenite) it is now compelling.

Chairman & MD

Will Burbury (Non-Exec Chairman)
Bruce Mcfadzean (MD)

Top Shareholders

Blackrock	9.0%
Walter Yovich	6.0%

Company Address

Level 2, 41-47 Colin Street
West Perth, WA 6005

Issued Capital

	181.0m
- fully diluted (itm)	197.1m

Market Cap

	A\$103.2m
- fully diluted	A\$112.4m

Cash (31 Mar 17a)

	A\$11.0m
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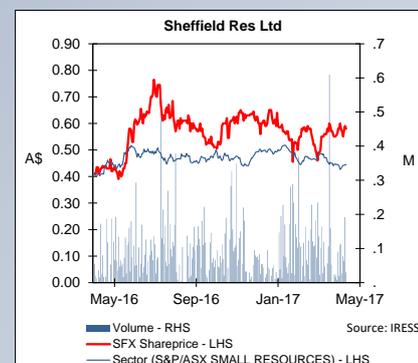
Debt (31 Mar 17a)

	A\$0.0m
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EV

	A\$92.2m
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	FY19e	FY20e	FY21e
EBITDA	-9.3	50.2	89.4
Op Cash Flw	-19.3	26.3	67.9
Norm NPAT	-32.5	13.0	48.8
CF/Share (cps)	-4.4	6.0	15.6
EPS (cps)	-7.4	3.0	11.2
P/E	-7.7	19.1	5.1



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Hartleys has assisted in the completion of a capital raising for Sheffield Resources Limited ("Sheffield") in the last 12 months for which it has earned fees.

Sheffield Res Ltd SFX					Share Price \$0.570		15 May 2017 Speculative Buy					
Key Market Information							Directors					
Share Price						\$0.570	Company Information					
Market Capitalisation - ordinary						A\$103m	Level 2, 41-47 Colin Street					
Net Debt (cash)						-\$11m	West Perth, WA 6005					
Market Capitalisation - fully diluted						A\$112m	+61 8 6424 8440					
EV						A\$94m	www.sheffieldresources.com					
EV inc. assumed new capital						A\$464m	Top Shareholders					
Issued Capital						181.0m	m shares %					
Options						16.1	Blackrock 16.3 9.0%					
Issued Capital (fully diluted inc. all options)						197.1m	Walter Yovich 10.9 6.0%					
Issued Capital (fully diluted inc. all options and new capital)						475.3m	Reserves & Resources					
Valuation						\$0.78	Thunderbird (cut-off >3%) Bt Grade Metal (Mt) Attr.					
12month price target						\$1.02	- high grade (cut-off >7.5%) 3.24 6.9% 223.6 100.0%					
P&L							Production Summary					
	Unit	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21		Unit	Jun 18	Jun 19	Jun 20	Jun 21	
Net Revenue	A\$m	0.0	0.0	125.7	204.4		Mill Throughput	Mt	0.00	0.00	8.50	8.50
Total Costs	A\$m	-8.8	-9.3	-75.5	-115.0		Strip Ratio	x		nm	0.20	0.2
EBITDA	A\$m	-8.8	-9.3	50.2	89.4		HM grade	%		-	15.0%	15.0%
- margin		-	-	40%	44%		Zircon Recovery	%		0.0%	75.0%	75.0%
Depreciation/Amort	A\$m	-3.5	-13.1	-23.0	-25.6		Total VHM production	kt			218.8	354.3
EBIT	A\$m	-12.3	-22.3	27.2	63.8		Zr production	kt			32.5	52.6
Net Interest	A\$m	-3.9	-10.1	-14.1	-15.0		Zr concentrate				28.2	45.6
Pre-Tax Profit	A\$m	-16.2	-32.5	13.0	48.8		Leuc. / Hi-Ti production	kt			6.1	9.9
Tax Expense	A\$m	0.0	0.0	0.0	0.0		Sulph. Ilmenite production	kt			180.2	291.8
Normalised NPAT	A\$m	-16.2	-32.5	13.0	48.8		Magnetite	kt			118.1	191.3
Abnormal Items	A\$m	0.0	0.0	0.0	0.0		Total product volumes				365.1	591.1
Reported Profit	A\$m	-16.2	-32.5	13.0	48.8		Revenue to Cost ratio	yr			2.1	2.1
Minority	A\$m	0.0	0.0	0.0	0.0		Mine Life	Mt			54.5	53.5
Profit Attrib	A\$m	-16.2	-32.5	13.0	48.8		Costs					
Balance Sheet							Unit Jun 18 Jun 19 Jun 20 Jun 21					
Cash	A\$m	286.0	30.7	24.4	86.5		Rev milled tonne	\$A/t		14.8	24.0	
Other Current Assets	A\$m	0.7	0.8	26.9	43.1		Cost per milled tonne	\$A/t		10.6	10.6	
Total Current Assets	A\$m	286.8	31.5	51.3	129.6		EBITDA / tonne milled ore	\$A/t		5.9	10.5	
Property, Plant & Equip.	A\$m	57.7	276.7	318.1	295.5		C1: Operating Cash Cost = (a)	\$A/t final product		283	278	
Exploration	A\$m	34.3	38.3	41.4	44.2		(a) + Royalty = (b)	\$A/t final product		300	296	
Investments/other	A\$m	0.0	0.0	0.0	0.0		C2: (a) + depreciation & amortisation = (c)	\$A/t final product		388	350	
Tot Non-Curr. Assets	A\$m	92.1	315.0	359.6	339.8		(a) + actual cash for development = (d)	\$A/t final product		283	278	
Total Assets	A\$m	378.9	346.5	410.8	469.4		C3: (c) + Royalty	\$A/t final product		406	368	
Short Term Borrowings	A\$m	-	-	-	-		(d) + Royalty	\$A/t final product		300	296	
Other	A\$m	2.3	2.4	18.7	28.5		Price Assumptions					
Total Curr. Liabilities	A\$m	2.3	2.4	18.7	28.5		AUDUSD	AS/US\$	0.75	0.76	0.76	0.77
Long Term Borrowings	A\$m	166.2	166.2	201.2	201.2		Ilmenite	US\$/t		185	185	
Other	A\$m	-	-	-	-		Zircon	US\$/t		1138	1183	
Total Non-Curr. Liabil.	A\$m	166.2	166.2	201.2	201.2		Rutile	US\$/t		918	952	
Total Liabilities	A\$m	168.5	168.6	220.0	229.7		Leucoxene	US\$/t		551	571	
Net Assets	A\$m	210.3	177.9	190.9	239.7		Avg selling price / VHM produced	AS\$/t		574	577	
Net Debt	A\$m	-119.8	135.5	176.8	114.7		Sensitivity Analysis					
Cashflow							Unit 30 Jun 18 30 Jun 19 30 Jun 20 30 Jun 21					
Operating Cashflow	A\$m	-8.8	-9.2	40.4	82.9		Base Case					
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0		Valuation 0.78 FY20 NPAT 13.0					
Interest & Other	A\$m	-3.9	-10.1	-14.1	-15.0		Spot Prices 1.60 (105.3%) 39.7 (204.9%)					
Operating Activities	A\$m	-12.6	-19.3	26.3	67.9		Spot USD/AUD 0.74, Ilmenite \$280/t, Zircon \$1150/t, Rutile \$840/t.					
Property, Plant & Equip.	A\$m	-61.0	-232.0	-64.5	-3.0		AUDUSD +/-10% 0.37 / 1.22 (-53.0% / 56.3%) 1.9 / 26.7 (-85.8% / 104.8%)					
Exploration and Devel.	A\$m	-2.0	-4.0	-3.1	-2.8		Ilmenite +/-10% 0.92 / 0.64 (18.0% / -18.8%) 17.4 / 8.6 (33.8% / -33.8%)					
Other	A\$m	0.0	0.0	0.0	0.0		Zircon +/-10% 1.00 / 0.55 (27.9% / -30.1%) 19.7 / 6.3 (51.4% / -51.4%)					
Investment Activities	A\$m	-63.0	-236.0	-67.6	-5.8		Rutile +/-10% 0.78 / 0.78 (0.0% / 0.0%) 13.0 / 13.0 (0.0% / 0.0%)					
Borrowings	A\$m	166.2	0.0	35.0	0.0		Leucoxene +/-10% 0.80 / 0.76 (2.8% / -2.8%) 13.5 / 12.6 (3.5% / -3.5%)					
Equity or "bc capital"	A\$m	203.2	0.0	0.0	0.0		Operating Costs +/-10% 0.54 / 1.00 (-30.7% / 28.5%) 6.8 / 19.3 (-47.9% / 47.9%)					
Dividends Paid	A\$m	0.0	0.0	0.0	0.0		Unpaid Capital					
Financing Activities	A\$m	369.4	0.0	35.0	0.0		Year Expires No. (m) \$m Avg price % ord					
Net Cashflow	A\$m	293.8	-255.3	-6.3	62.1		30-Jun-17 1.2 0.0 0.00 1%					
Shares	Unit	30 Jun 18	30 Jun 19	30 Jun 20	30 Jun 21		30-Jun-18 0.0 0.8 0%					
Ordinary Shares - End	m	436.6	436.6	436.6	436.6		30-Jun-19 1.9 1.5 0.81 1%					
Ordinary Shares - W'ted	m	309.1	436.6	436.6	436.6		30-Jun-20 7.7 2.7 0.35 4%					
Diluted Shares - W'ted	m	309.1	436.6	436.6	436.6		30-Jun-21 5.3 2.1 0.39 3%					
Ratio Analysis							30-Jun-22 0.0 0.0 0.00 0%					
Cashflow Per Share	A\$ cps	-4.1	-4.4	6.0	15.6		30-Jun-23 0.0 0.0 0.00 0%					
Cashflow Multiple	x	-14.0x	-12.9x	9.5	3.7		TOTAL 16.1 7.1 0.44 9%					
EV (+ cap.)/EBIT	x	-37.7x	-20.8x	17.1x	7.3x		Valuation					
EV (+ cap.)/EBITDA	x	-52.5x	-50.0x	9.2x	5.2x		\$m /shr					
Earnings Per Share	A\$ cps	-5.2	-7.4	3.0	11.2		100% Eneabba (pre-tax NAV at disc. rate of 12%) 0 0.00					
Price to Earnings Ratio	x	-10.9x	-7.7x	19.1	5.1		100% Dampier (pre-tax NAV at disc. rate of 12%) 538 1.13					
Dividends Per Share	AUD	-	-	-	-		100% McCalls (pre-tax NAV at disc. rate of 14%) 0 0.00					
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%		Other Assets/Exploration 5 0.01					
Net Debt / Net Debt + Equity %		-132%	43%	48%	32%		Forwards 0 0.00					
Interest Cover	X	na	na	1.9	4.3		Corporate Overheads -70 -0.15					
Return on Equity	%	na	na	7%	20%		Net Cash (Debt) 11 0.02					
Analyst: Trent Barnett							Tax (NPV future liability) -114 -0.24					
+61 8 9268 3052							Options & Other Equity 2 0.00					
"bc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.							Total 372 0.78					
Sources: IRESS, Company Information, Hartleys Research							Last Updated: 07/04/2017					

Fig. 2: Company BFS assumptions

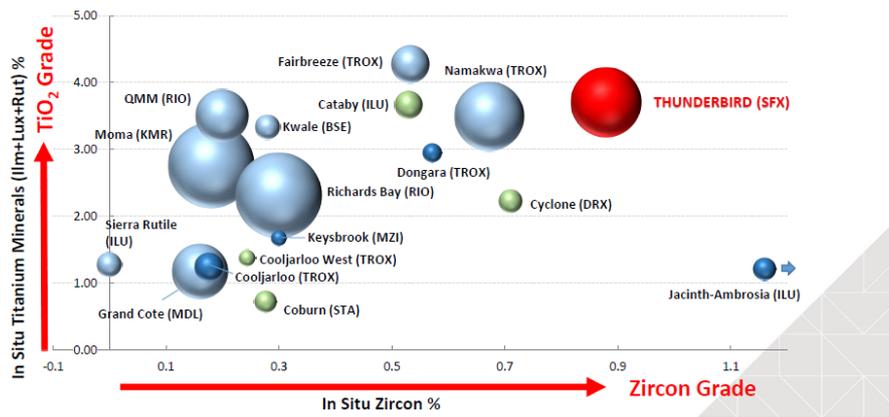
Production (Average tonnes per annum)	Financial Year 2019 – 2023 ^e	Financial Year 2024 – 2033 ^e	LOM ^g
Premium Zircon	51,500	88,700	76,100
Zircon Concentrate	49,100	80,100	68,500
LTR Ilmenite	264,500	481,600	387,800
Hi-Ti88	12,800	23,000	20,300
Titano-magnetite	156,600	285,300	229,800

Commodity Prices (US\$) ⁴	Financial Year 2019 – 2023 ^e	Financial Year 2024 – 2033 ^e	LOM ^g
Premium Zircon	1,282	1,387	1,381
Zircon Concentrate	659	677	676
LTR Ilmenite	183	183	183
Hi-Ti88	500	500	500
Titano-magnetite	48	48	48

Source: SFX

Fig. 3: Deserves to be developed in next mineral sands cycle

WORLD CLASS, HIGH GRADE ORE RESERVE



Source: SFX

Fig. 2: Model assumptions

	DFS Study (Mar 2017)	PFS Study (14 October 2015)	PFS Study (14 May 2015)	Scoping Study (14 April 2014)	Hartleys New Base Case	Hartleys using spot prices
Mining inventory						
Mining inventory	680.5Mt	685.0Mt	580.0Mt	669.0Mt	944.1Mt	
Mining inventory grade	11.3%	11.3%	11.7%	10.2%	11.0%	
Mining & processing						
Average Mining Rate	16.0Mt pa	17.1Mt pa	18.0Mt pa	20.8Mt pa	17.2Mt pa	
Peak Mining Rate	17.0Mt pa	18.0Mt pa	18.0Mt pa	20.8Mt pa	18.0Mt pa	
Strip ratio LOM	0.78x	0.66x	0.68x	0.64x		
Mine Life	42.0yrs	40.0yrs	32.0yrs	32.0yrs	55.0yrs	
HMC processed	1831kt pa	1935kt pa	2121kt pa	2132kt pa	1886kt pa	
Production Zircon	76.1kt pa	100.2kt pa	114.0kt pa	118.2kt pa	74.9kt pa	
Production Zircon Con.	68.5kt pa				64.9kt pa	
Production Leuc./HiTi	20.3kt pa	26.2kt pa	30.0kt pa	21.7kt pa	23.6kt pa	
Production Ilmenite	387.8kt pa	396.4kt pa	439.0kt pa	545.0kt pa	398.1kt pa	
Production Titano-magnetite	229.8kt pa				272.4kt pa	
Total production saleable product	782.5kt pa	522.8kt pa	583.0kt pa	684.9kt pa	834.0kt pa	
Financials						
Zircon selling price	US\$1381/t	US\$1371/t	US\$1375/t	US\$1475/t	US\$1199/t	US\$1150/t
Zircon Con. Selling price	US\$676/t				US\$587/t	US\$563/t
Leuc/HiTi selling price	US\$500/t	US\$700/t	US\$580/t	US\$870/t	US\$579/t	US\$504/t
Ilmenite selling price	US\$183/t	US\$183/t	US\$155/t	US\$185/t	US\$185/t	US\$280/t
Titano-magnetite	US\$48/t				US\$50/t	US\$50/t
AUD/USD	0.75cents	0.74cents	0.78cents	0.90cents	0.78cents	0.74cents
Zircon contribution to revenue	62%	59%	68%	62%	56%	47%
- premium	43%				39%	33%
- zircon con.	19%				17%	14%
Leuc/HiTi contribution to revenue	9%	8%	3%	2%	12%	10%
Ilmenite contribution to revenue	29%	33%	29%	36%	32%	43%
- ilmenite	24%				26%	38%
- titano-magnetite	5%				6%	5%
LOM revenue	A\$12,779m	A\$11,829m	A\$9,479m	A\$10,010m	A\$16,145m	\$19,301m
Unit Revenue	\$388.8/t	\$565.7/t	\$508.1/t	\$456.7/t	\$352.0/t	\$420.8/t
EBITDA	A\$122.5 pa	A\$135.0 pa	A\$120.0 pa	A\$140.0 pa	A\$71.8 pa	\$129.1m
- first 10 years	n/a	n/a	\$148m pa	\$187m pa	\$136.5m	\$193.9m
- first 6 years	n/a	n/a	n/a	n/a	\$114.8m	\$162.1m
Unit cash costs	\$232.3/t	\$307.5/t	\$302.3/t	\$252.3/t	\$265.9/t	\$266.0/t
Unit cash costs / t ore	-\$11.2/t	-\$9.4/t	-\$9.7/t	-\$8.3/t	-\$12.9/t	-\$12.9/t
Unit cash costs	-\$182m pa	-\$161m pa	-\$176m pa	-\$173m pa	-\$222m pa	-\$222m pa
Unit EBITDA margins	40.3%	45.7%	40.5%	44.8%	24.5%	36.8%
Rev./Cost Ratio	1.7x	1.8x	1.7x	1.8x	1.3x	1.6x
Pre-production capex (inc conting. & studies)	\$348.0m	\$305.0m	\$409.0m	\$309.2m	\$380.2m	\$380.2m
Stage 2 Capex	\$195.0m	\$64.0m	nm	m	\$196.4m	\$196.4m

Source: SFX, Hartleys Research

PRICE TARGET

Fig. 3: SFX price target

Price Target Methodology	Weighting	Today	12 mth out
NPV ₁₂ base case prices	75%	\$0.78	\$0.86
NPV ₁₂ at spot commodity and fx prices	10%	\$1.60	\$1.81
Takeover (20% disc. to NPV, no more dilution)	5%	\$1.14	\$1.30
8.0x FY20 (EV + capital) / EBIT	3%	\$1.69	\$1.69
NPV ₈ base case prices	5%	\$1.34	\$1.45
Net cash backing	2%	\$0.06	\$0.06
Risk weighted composite		\$0.92	
12 Months Price Target		\$1.02	
Shareprice - Last		\$0.570	
12 mth total return		78.6%	

Source: Hartleys Estimates

Fig. 4: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
First production in late CY19 for Thunderbird	High	Moderate	This appears reasonable provided funding is arranged.
Zircon prices rise, ilmenite prices fall	Moderate	Significant	There is a wide dispersion of consensus price forecasts at the moment.
55 year mine life	Moderate to high	Moderate	Seems reasonable given very large resource. We have a high strip ratio assumption in outer years and hence impact on valuation is low
Capex for Thunderbird is 50:50 debt/equity	Moderate	Moderate	Capital requirements are large for a company of this size and there is risk that SFX will not be able to raise sufficient funds.
Operating costs	Moderate	Moderate	We assume operating costs in line with the BFS.
No sell down in project interest to help fund capex	High	Upside	We assume SFX has to fund all the capex
No value for other projects	High	Upside	Our valuation is based only on the Thunderbird project

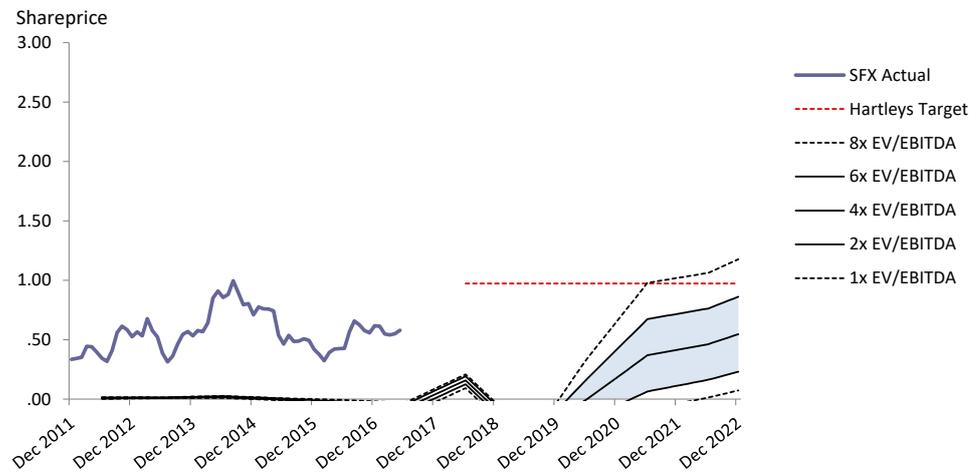
Conclusion

While the assumptions we have used are reasonable, we consider some assumptions as moderate to high risk and the consequential reduction to our valuation would be significant if they were not achieved.

Source: Hartleys

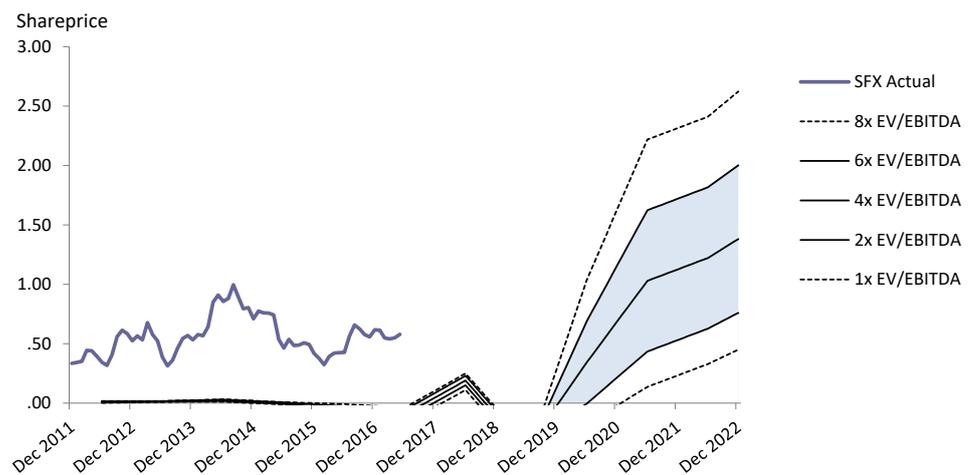
EV/EBITDA BANDS

Fig. 5: Using *Hartleys base case commodity forecasts*



Source: Hartleys Estimates, IRESS

Fig. 6: Using *spot commodity prices*



Source: Hartleys Estimates, IRESS

HARTLEYS CORPORATE DIRECTORY

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Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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