

## SHEFFIELD RESOURCES LIMITED (SFX)

### Mineral sands prices rising...good for financing

Consensus expectations for mineral sands prices have been increasing, and we have adjusted our estimates accordingly. The consequence is a meaningful increase to our Sheffield Resources Ltd (SFX) valuation. Rising tightness in the market also suggests financing risk is lower as industry and financiers view Thunderbird development as increasingly profitable operation.

### Remaining finance seems digestible

Late last year, SFX announced a US\$200m debt facility with Taurus (still conditional on due diligence and equity). The package comprises a US\$175m term loan facility and US\$25m contingent instrument facility.

We estimate that Thunderbird requires ~A\$150m of additional financing, which we assume is new ordinary equity. However, it could be new secured debt (eg against power station infrastructure) or a project level sell-down.

### Offtakes almost all done.

The project has five main product streams, which all required offtakes. SFX now has 50% of Stage 1 forecast ilmenite revenue and 100% of Stage 1 forecast zircon revenue under binding offtake agreement (combined 75% of Stage 1 project revenue). The zircon appears an excellent product, and 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. The meaningful size of the project in the current tight market means Thunderbird has strategic value.

### Native Title resolution imminent

The mining licence has been approved to be issued, but has not been enacted by SFX due to a subsequent appeal by a Native Title claimant. To date, previous appeals by the claimant have been dismissed, and it appears SFX is in a strong position. The National Native Title Tribunal determination is scheduled for the next few months and Final Federal environmental approval also expected in Q3 2018. We assume construction can begin early CY19.

### Maintain Speculative Buy

Our base case valuation (\$1.26) assumes no project sell down, and we assume ~175m new shares. Our spot price valuation is \$1.58. We use NPV12, while an industry player could use NPV8. Given the mine life, the discount rate assumption has a big upside impact on potential valuation under a takeover scenario. We have a twelve month price target of \$1.47.

Fig. 2: SFX offtakes

Product (% BFS Revenue )	Binding Agreement (% of Stage 1 output)	Offtake Parties
Premium Zircon (43%)	100%	Sukaso, Ruby Ceramics, RZI, Qingyuan Jinsheng, Minchem, CFM, Others
Zircon Concentrate (19%)	100%	Hainan Wensheng, RZI
LTR Ilmenite (29%)	50%	Bengbu, Others
HiTi-88 (5%)	In Progress	
Titano-magnetite (4%)	In Progress	

Source: SFX

Share Price	\$0.86
Valuation	\$1.26
Price Target (12 month)	\$1.47

#### Brief Business Description:

Significant and advanced mineral sands development project (Thunderbird project in WA).

#### Hartleys Brief Investment Conclusion

The Thunderbird project is large. With a debt package now agreed, and rising mineral sands prices, it appears compelling.

#### Chairman & MD

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

#### Top Shareholders

Blackrock	5.9%
Colonial First State	5.9%
Walter Yovich	5.9%

#### Company Address

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

#### Issued Capital

229.0m

- fully diluted (itm) 244.4m

#### Market Cap

A\$196.9m

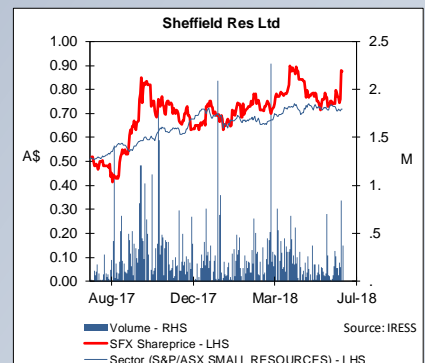
- fully diluted A\$210.2m

Cash (30 Jun 18a) A\$23.0m

Debt (30 Jun 18a) A\$0.0m

EV A\$173.9m

	FY19e	FY20e	FY21e
EBITDA	-9.3	-9.7	105.9
Op Cash Flw	-13.6	-25.4	66.0
Norm NPAT	-19.4	-42.7	59.4
CF/Share (cps)	-4.3	-6.3	16.3
EPS (cps)	-6.1	-10.6	14.7
P/E	-14.0	-8.1	5.8



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Sheffield Res Ltd		Share Price				27 Jul 2018	
SFX		\$0.860				Speculative Buy	
<b>Key Market Information</b>							
Share Price		\$0.860					
Market Capitalisation - ordinary		A\$197m					
Net Debt (cash)		-\$23m					
Market Capitalisation - fully diluted		A\$210m					
EV		A\$181m					
EV inc. assumed new capital		A\$510m					
Issued Capital		229.0m					
Options		15.4					
Issued Capital (fully diluted inc. all options)		244.4m					
Issued Capital (fully diluted inc. all options and new capital)		419.0m					
Valuation		\$1.26					
12month price target		\$1.47					
<b>P&amp;L</b>	<b>Unit</b>	<b>30 Jun 19</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>		
Net Revenue	A\$m	0.0	0.0	209.4	236.6		
Total Costs	A\$m	-9.3	-9.7	-103.5	-116.3		
EBITDA	A\$m	-9.3	-9.7	105.9	120.3		
- margin		-	-	51%			
Depreciation/Amort	A\$m	-5.8	-17.3	-25.6	-26.1		
EBIT	A\$m	-15.0	-27.0	80.3	94.2		
Net Interest	A\$m	-4.4	-15.7	-21.0	-18.9		
Pre-Tax Profit	A\$m	-19.4	-42.7	59.4	75.3		
Tax Expense	A\$m	0.0	0.0	0.0	-12.2		
Normalised NPAT	A\$m	-19.4	-42.7	59.4	63.1		
Abnormal Items	A\$m	0.0	0.0	0.0	0.0		
Reported Profit	A\$m	-19.4	-42.7	59.4	63.1		
Minority	A\$m	0.0	0.0	0.0	0.0		
Profit Attrib	A\$m	-19.4	-42.7	59.4	63.1		
<b>Balance Sheet</b>	<b>Unit</b>	<b>30 Jun 19</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>		
Cash	A\$m	223.7	91.2	124.0	205.1		
Other Current Assets	A\$m	0.8	0.8	42.9	48.5		
Total Current Assets	A\$m	224.4	92.0	166.9	253.5		
Property, Plant & Equip.	A\$m	114.9	329.6	311.2	288.1		
Exploration	A\$m	38.3	42.3	45.1	47.9		
Investments/other	A\$m	0.0	0.0	0.0	0.0		
Tot Non-Curr. Assets	A\$m	153.2	372.0	356.4	336.1		
Total Assets	A\$m	377.7	463.9	523.3	589.6		
Short Term Borrowings	A\$m	-	-	-	-		
Other	A\$m	2.4	2.5	25.6	28.8		
Total Curr. Liabilities	A\$m	2.4	2.5	25.6	28.8		
Long Term Borrowings	A\$m	171.6	300.4	277.3	277.3		
Other	A\$m	-	-	-	-		
Total Non-Curr. Liabil.	A\$m	171.6	300.4	277.3	277.3		
Total Liabilities	A\$m	174.0	303.0	303.0	306.1		
Net Assets	A\$m	203.7	161.0	220.3	283.5		
Net Debt	A\$m	-52.1	209.3	153.4	72.3		
<b>Cashflow</b>	<b>Unit</b>	<b>30 Jun 19</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>		
Operating Cashflow	A\$m	-9.2	-9.7	86.9	117.9		
Income Tax Paid	A\$m	0.0	0.0	0.0	-12.2		
Interest & Other	A\$m	-4.4	-15.7	-21.0	-18.9		
Operating Activities	A\$m	-13.6	-25.4	66.0	86.9		
Property, Plant & Equip.	A\$m	-118.0	-232.0	-7.3	-3.0		
Exploration and Devel.	A\$m	-4.0	-4.0	-2.8	-2.8		
Other	A\$m	0.0	0.0	0.0	0.0		
Investment Activities	A\$m	-122.0	-236.0	-10.1	-5.8		
Borrowings	A\$m	171.6	128.9	-23.1	0.0		
Equity or "bc capital"	A\$m	164.7	0.0	0.0	0.0		
Dividends Paid	A\$m	0.0	0.0	0.0	0.0		
Financing Activities	A\$m	336.3	128.9	-23.1	0.0		
Net Cashflow	A\$m	200.7	-132.5	32.8	81.1		
<b>Shares</b>	<b>Unit</b>	<b>30 Jun 19</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>		
Ordinary Shares - End	m	403.6	403.6	403.6	403.6		
Ordinary Shares - W'ted	m	316.3	403.6	403.6	403.6		
Diluted Shares - W'ted	m	316.3	403.6	403.6	403.6		
<b>Ratio Analysis</b>	<b>Unit</b>	<b>30 Jun 19</b>	<b>30 Jun 20</b>	<b>30 Jun 21</b>	<b>30 Jun 22</b>		
Cashflow Per Share	A\$ cps	-4.3	-6.3	16.3	21.5		
Cashflow Multiple	x	-20.0x	-13.7	5.3	4.0		
EV (+ cap.)/EBIT	x	-33.9x	-18.9x	6.4x	5.4x		
EV (+ cap.)/EBITDA	x	-55.1x	-52.4x	4.8x	4.2x		
Earnings Per Share	A\$ cps	-6.1	-10.6	14.7	15.6		
Price to Earnings Ratio	x	-14.0x	-8.1	5.8	5.5		
Dividends Per Share	AUD	-	-	-	-		
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%		
Net Debt / Net Debt + Equity %	%	-34%	57%	41%	20%		
Interest Cover	X	na	na	3.8	5.0		
Return on Equity	%	na	na	27%	22%		
<b>Directors</b>							
Will Burbury (Non-Exec Chairman)				Level 2, 41-47 Colin Street			
Bruce Mcfadzean (MD)				West Perth, WA 6005			
David Archer (Technical Director)				+61 8 6424 8440			
Bruce McQuitty (Non-exec. Director)				www.sheffieldresources.com			
<b>Top Shareholders</b>							
Blackrock		6%					
Colonial First State		6%					
Walter Yovich		6%					
<b>Reserves &amp; Resources</b>							
		<b>Bt</b>	<b>Grade</b>	<b>Metal (Mt)</b>	<b>Attr.</b>		
Thunderbird (cut-off >3%)		3.24	6.9%	223.6	100.0%		
- high grade (cut-off >7.5%)		1.09	11.9%	129.7	100.0%		
- Reserve		0.68	11.3%	76.9	100.0%		
Eneabba		0.30	2.2%	6.6	100.0%		
- high grade		0.17	3.0%	5.2	100.0%		
McCalls		4.43	1.2%	53.2	100.0%		
<b>Production Summary</b>							
	<b>Unit</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	<b>Jun 22</b>		
Mill Throughput	Mt	0.00	0.00	8.50	8.50		
Strip Ratio	x			0.2	0.2		
HM grade	%			15.0%	15.0%		
Zircon Recovery	%			75.0%	75.0%		
Total VHM production	kt			307.4	354.3		
Zr production	kt			45.6	52.6		
Zr concentrate				39.5	45.6		
Leuc. / Hi-Ti production	kt			8.6	9.9		
Sulph. Ilmenite production	kt			253.2	291.8		
Magnetite				165.9	191.3		
Total product volumes				512.9	591.1		
Revenue to Cost ratio	yr			2.4	2.4		
Mine Life	Mt			54.3	53.3		
<b>Costs</b>							
	<b>Unit</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	<b>Jun 22</b>		
Rev milled tonne	\$/t			24.6	27.8		
Cost per milled tonne	\$/t			10.6	10.6		
EBITDA / tonne milled ore	\$/t			12.5	14.2		
C1: Operating Cash Cost = (a)	\$/t final product			28.1	27.8		
(a) + Royalty = (b)	\$/t final product			30.3	29.9		
C2: (a) + depreciation & amortisation = (c)	\$/t final product			36.5	35.2		
(a) + actual cash for development = (d)	\$/t final product			28.1	27.8		
C3: (c) + Royalty	\$/t final product			38.7	37.3		
(d) + Royalty	\$/t final product			30.3	29.9		
<b>Price Assumptions</b>							
	<b>Unit</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	<b>Jun 22</b>		
AUDUSD	A\$/US\$	0.75	0.76	0.77	0.79		
Ilmenite	US\$/t	193	203	204	204		
Zircon	US\$/t	1451	1494	1481	1475		
Rutile	US\$/t	1010	1048	1097	1136		
Leucosene	US\$/t	606	629	658	681		
Avg selling price / VHM produced	A\$/t			681	668		
<b>Sensitivity Analysis</b>							
		<b>Valuation</b>				<b>FY21 NPAT</b>	
<b>Base Case</b>		<b>1.25</b>				<b>59.4</b>	
Spot Prices		1.58 (26.8%)				57.0 (-4.0%)	
Spot USD/AUD 0.74, Ilmenite \$175/t, Zircon \$1450/t, Rutile \$1000/t.							
AUDUSD +/-10%		0.84 / 1.73 (-32.4% / 38.3%)		43.9 / 85.2 (-26.0% / 43.5%)			
Ilmenite +/-10%		1.40 / 1.10 (11.8% / -11.9%)		69.2 / 55.8 (16.6% / -6.1%)			
Zircon +/-10%		1.49 / 1.01 (18.9% / -19.2%)		74.4 / 50.6 (25.4% / -14.8%)			
Rutile +/-10%		1.25 / 1.25 (0.0% / 0.0%)		62.5 / 62.5 (5.3% / 5.3%)			
Leucosene +/-10%		1.27 / 1.22 (1.9% / -1.9%)		63.2 / 61.8 (6.5% / 4.0%)			
Operating Costs +/-10%		1.02 / 1.47 (-18.4% / 18.0%)		53.8 / 71.2 (-9.4% / 20.0%)			
<b>Unpaid Capital</b>							
<b>Year Expires</b>	<b>No. (m)</b>	<b>\$m</b>	<b>Avg price</b>	<b>% ord</b>			
30-Jun-19	1.9	1.5	0.81	1%			
30-Jun-20	7.0	2.7	0.39	3%			
30-Jun-21	4.1	2.1	0.50	2%			
30-Jun-22	2.4	0.0	0.00	1%			
30-Jun-23	0.0	0.0	0.00	0%			
<b>TOTAL</b>	<b>15.4</b>	<b>6.3</b>	<b>0.41</b>	<b>7%</b>			
<b>Valuation</b>							
		<b>\$m</b>	<b>/shr</b>				
100% Eneabba (pre-tax NAV at disc. rate of 12%)		0	0.00				
100% Thunderbird (pre-tax NAV at disc. rate of 12%)		637	1.52				
100% McCalls (pre-tax NAV at disc. rate of 14%)		0	0.00				
Other Assets/Exploration		50	0.12				
Forwards		0	0.00				
Corporate Overheads		-70	-0.17				
Net Cash (Debt)		23	0.05				
Tax (NPV future liability)		-121	-0.29				
Options & Other Equity		5	0.01				
<b>Total</b>		<b>528</b>	<b>1.26</b>				
Analyst: Trent Barnett							
+61 8 9268 3052							
"bc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.							
Sources: IRESS, Company Information, Hartleys Research							
Last Updated: 26/07/2018							

**Fig. 2: Price change assumptions**

Assumptions for valuations														
	Unit	Spot	FY19e	FY20e	FY21e	FY22e	FY23e	Long run	FY19e	FY20e	FY21e	FY22e	FY23e	Long run
			yr avg	yr avg	yr avg	yr avg	yr avg	assump.	yr avg	yr avg	yr avg	yr avg	yr avg	assump.
US\$/A\$	/A\$	0.742	0.75	0.76	0.77	0.78	0.78	0.77	-1.4%	-0.6%	-0.1%	0.9%	0.5%	-1.9%
Zircon (US\$)	/tonne	1,450	1,451	1,494	1,484	1,475	1,415	1,234	20.9%	21.9%	18.1%	15.2%	14.5%	15.4%
Zircon (A\$)	/tonne	1,953	1,938	1,969	1,932	1,883	1,804	1,613	22.7%	22.7%	18.3%	14.2%	13.9%	17.7%
Rutile (US\$)	/tonne	1,000	1,010	1,048	1,081	1,128	1,121	1,031	14.7%	8.0%	3.3%	3.4%	3.6%	4.9%
Rutile (A\$)	/tonne	1,347	1,348	1,381	1,407	1,440	1,430	1,348	16.4%	8.6%	3.4%	2.4%	3.1%	7.0%
Ilmenite (US\$)	/tonne	175	193	203	203	204	201	188	4.3%	9.9%	10.0%	10.4%	8.5%	1.6%
Ilmenite (A\$)	/tonne	236	258	268	265	261	256	246	5.8%	10.6%	10.1%	9.4%	8.0%	3.6%

Source: Hartleys Research Estimates

## PRICE TARGET

Our price target is \$1.47 (from \$1.02 previously).

**Fig. 3: SFX price target**

Price Target Methodology	Weighting	Today	12 mth out
NPV <sub>12</sub> base case prices	70%	\$1.26	\$1.43
NPV <sub>12</sub> at spot commodity and fx prices	10%	\$1.58	\$1.80
Takeover (20% disc. to NPV, no more dilution)	5%	\$1.26	\$1.44
8.0x FY20 (EV + capital) / EBIT Stage 1	3%	\$1.03	\$1.03
8.0x FY25 (EV + capital) / EBIT Stage 2	3%	\$2.71	\$2.71
NPV <sub>8</sub> base case prices	5%	\$1.94	\$2.13
Net cash backing	4%	\$0.10	\$0.10
<b>Risk weighted composite</b>		<b>\$1.32</b>	
<b>12 Months Price Target</b>		<b>\$1.47</b>	
Shareprice - Last		\$0.860	
<b>12 mth total return</b>		<b>71.4%</b>	

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 CY20 for Thunderbird	High	Moderate	This appears reasonable provided funding is arranged.
Zircon prices rise, ilmenite prices flat	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 65:35 debt/equity	Moderate	Moderate	With the conditional debt package with Taurus now agreed, and mineral sands prices improving, the financing risk appears to be diminishing.
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 funds the equity component with new equity. We also have a scenario whereby there is a sell down
Modest value for other projects	High	Upside	Our valuation is overwhelmingly base on the Thunderbird project. With rising commodity prices the other development assets could be valuable.

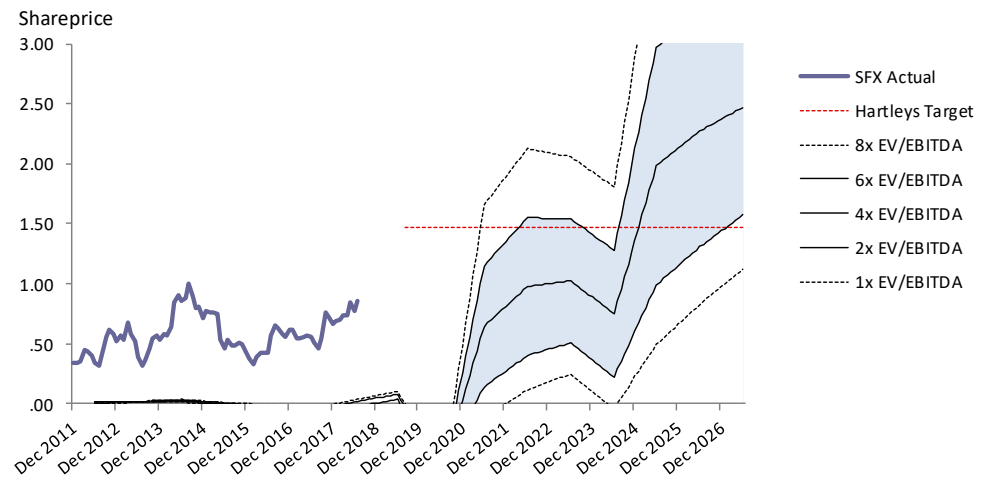
Conclusion

We view an investment in SFX as Speculative given it is still pre-funding.

Source: Hartleys

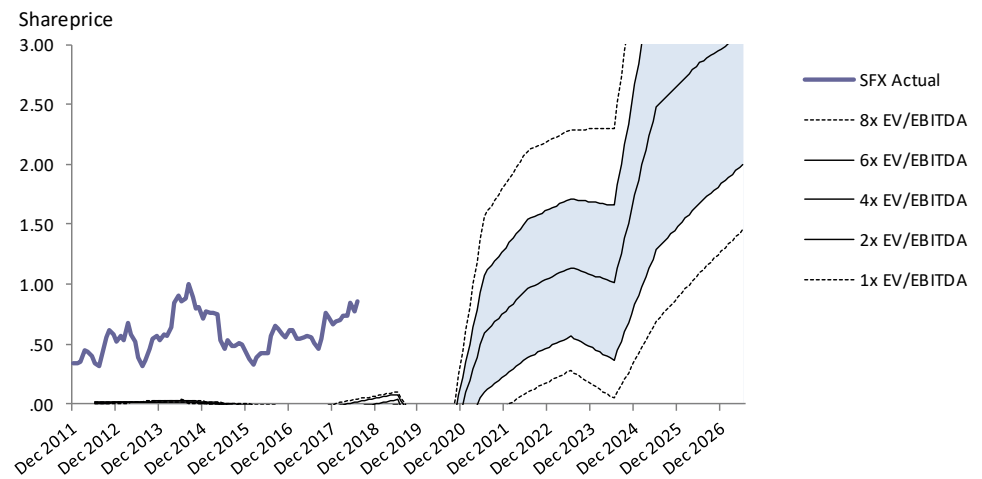
## EV/EBITDA BANDS

**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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