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SHEFFIELD RESOURCES LTD (SFX AU, \$0.445. Market cap A\$154m)

Finalisation of debt for the world's largest zircon reserve.

SFX is a deeply undervalued company in a +ve commodity price environment

- Sheffield announced the finalisation of a US\$110m facility with Orion Resource Partners. Together with the previously approved NAIF debt there is ca. A\$317m in debt funding now available. Refer to our August 2022 report for details of the debt facilities and funding of Thunderbird.
- Together with equity raised with the 50% sell-down of Thunderbird (held in Kimberley Mineral Sands/KMS) to Yansteel, the two debt facilities and a modest equity input from SFX (\$36m. SFX holds \$40m in cash with nil debt) will allow full funding of the project. The project's construction is already underway (funded by equity) and is now over 40% complete. First production is due in late 2023 and first shipments in 1Q24.
- During September, KMS executed several key agreements, such as a power purchase agreement (with binding gas supply) and a mining contract with well-regarded mineral sands earthmover Piacentini. The move to FID now seems little more than a formality.
- As presented in our August report our valuation is now \$2.25/share, assisted by a change in our FX assumptions (AUDUSD now 0.70, previously 0.75) offset by our estimate of increasing operating costs (+10%, largely driven by fuel and labour costs in WA). Our zircon price assumption remains unchanged at US\$1,600/t (FOB).

Sum-of-the-Parts	A\$m	Equity	Risk	A\$m	A\$/share
Thunderbird	1,484	50%	100%	742	2.10
Exploration	74	50%	100%	37	0.10
Corporate Costs	(18)	100%	100%	(18)	(0.05)
Net Cash (Debt)	40	100%	100%	40	0.11
Total	1,581			802	2.25
WACC					8.0%
FPO Shares					347
Options					2
Performance Rights					5
Fully Diluted SOI					354

- SFX remains a deeply undervalued company, despite the fact that it is now positioned to emerge as one of the preeminent suppliers of zircon to global markets.
- In the following pages we present an overview of zircon markets and how very little has changed in the 6 years since we started our coverage of SFX. In 2016 we classified the broader mineral sands industry as 'mature', undercapitalised and with several of the major producers having done a pretty poor job of aggregating a resource inventories.
- Zircon prices have moved up steadily over the course of 2022, in response to flat to declining production levels at major operations. Premium zircon prices are now around US\$2300/t FOB (or a remarkable A\$3500/t).
- The major zircon producers continue to send out strong messages to end users: inventories are low and grades are declining, so prices are on the rise. To us, this suggests that prices of mineral sand commodities zircon (together with ilmenite and rutile) will remain stronger for longer to incentivise new production. Yet another positive for SFX and a good environment in which to deliver new production.

Commodity outlook

In our initiation report on SFX, nearly 6 years ago, we said the following:

We read about other likely large sources of supply of feedstock and zircon, and with one exception, none stand out as short to medium term sources of supply. These include:

WIM150 (Australian Zircon). *Very large but low grade.*

Toliara (WTR), *a large medium grade deposit located in Madagascar controlled by a minnow. Hard to see how a +\$200m capex spend can be funded.*

Strandline Resources in Tanzania, *which might struggle to fund a project in East Africa.*

Coburn (Strandline). *Unlikely to be economic at current prices.*

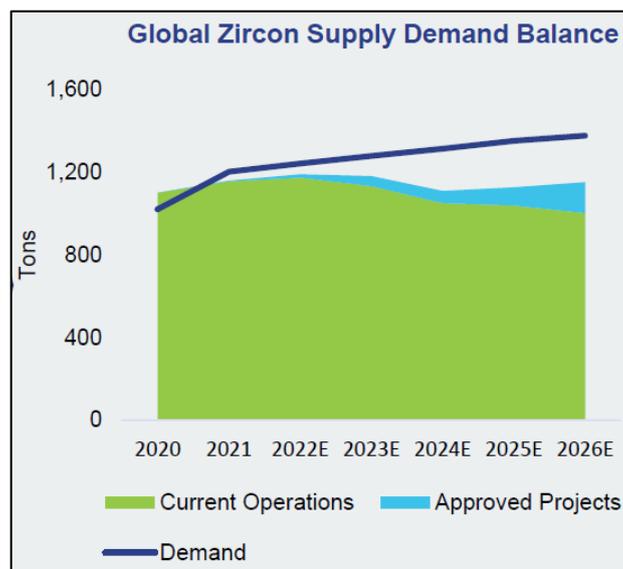
Moebase (Pathfinder). *Assets appear to have been illegally acquired by Mozambique investors.*

Fingerboards (Kalbar). *A large zircon-dominant deposit located in Gippsland, Victoria. A high grade zone may be developed to produce a zircon-rich concentrate for sale into Asia. This to us looks like it could generate strong returns.*

(Source: Pulse Markets report, 1 November 2016)

In the intervening period, only one of these projects, Coburn, has moved towards production. Now owned and operated by Strandline, the impact of higher commodity prices has allowed funding of the project. STA has wasted no time, and the wet plant is currently being commissioned. Others have stalled due largely due to permitting issues.

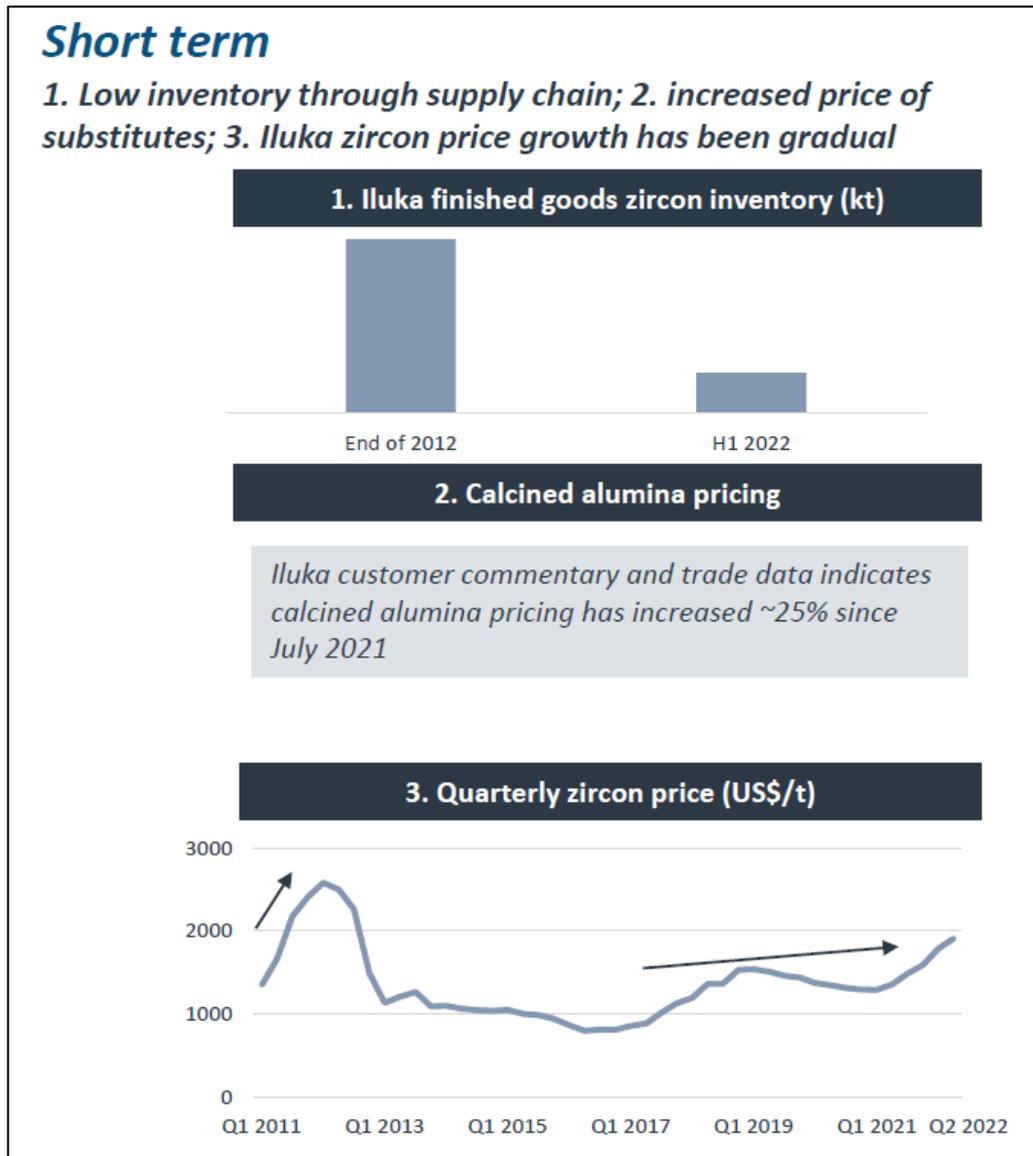
The lack of new supply has left an emerging supply gap, which has largely been filled by swing production from Indonesia and with the reprocessing of tailings from Iluka's Eneabba mine. This supply gap was an important point stressed by Tronox (the world's second largest producer of zircon) in its mid-year market update.



Source: Tronox Investor day, June 2022.

More recently Iluka at its half yearly presentation (August 2022) focussed on the tightness of the zircon market and commented on tightness in its major markets, including Europe, Brazil and Mexico. Chinese tile production had been impacted by COVID restrictions.

Not only are customer inventories low, ILU noted, but so are those of the suppliers. This is illustrated in the following chart.



Source: ILU, August 2022

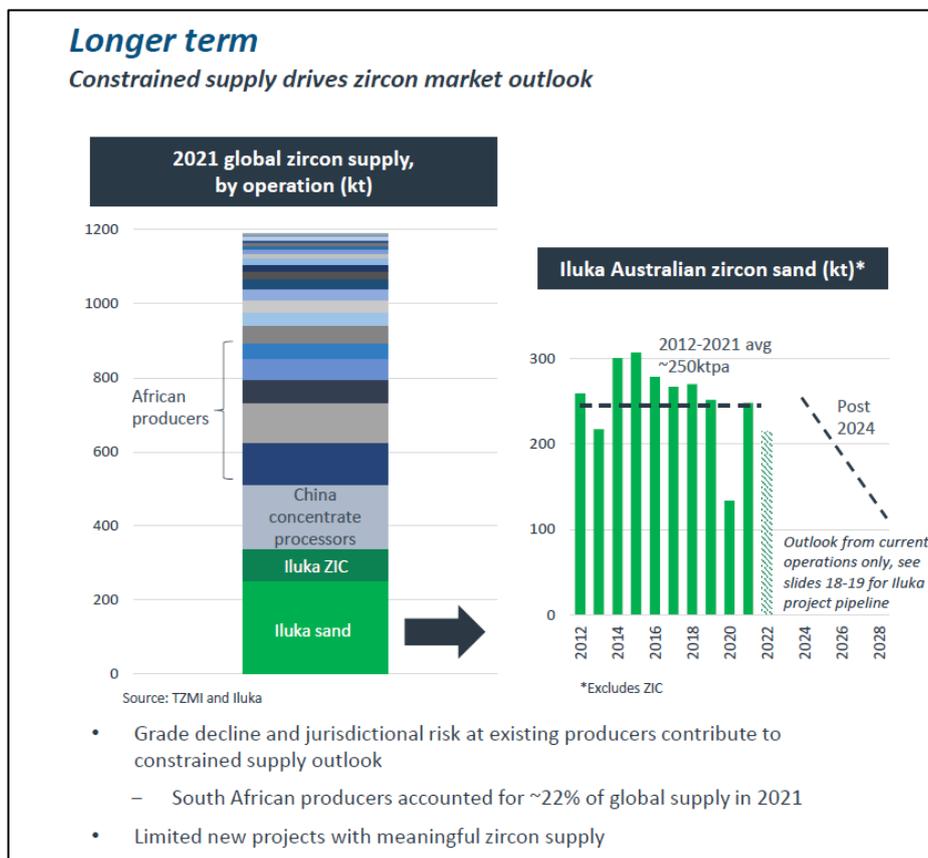
The major suppliers have done an excellent job in ‘managing’ the price response, by flagging modest future price increases to end users. This allowed the ceramics industries to in turn manage their costs and allow them to pass through price increases to their customers. No one wants a repetition of the very rapid and highly disruptive price increases seen in 2011, highlighted in the chart above.

Industry insiders are of the view that zircon prices have peaked for the short term and are expected to come off somewhat in the forthcoming quarters. However the drop is not expected to be rapid as supply is tight and inventories are low. Much of this is being felt from

the swing producers in Indonesia where prices for premium zircon achieved eye-watering levels (but for relatively small parcels).



ILU also focussed on the longer term and confirms that supply remains constrained by a lack of new projects, with a dramatic fall in its own production post 2023 (admittedly excluding new projects, few of which are committed).



Source: ILU, August 2022

Beyond the new Coburn project (around 60ktpa zircon) new supply will now come from the Thunderbird project (around 150ktpa pure zircon basis, or around 8-10% of global supply). These two projects are essential to fill the supply/demand gap. Thunderbird Stage 2, in our view, could well be brought forward if justified by demand.

Beyond these two projects there appears to be few new projects in the medium term. The Murray Basin of Victoria should become the world's next major source of zircon (together with titanium dioxide feedstock and monazite) but permitting issues are certainly causing delays. The next most likely project is WIM Resources' Avonbank project (ca. 150ktpa) which may be in production in 2025/26. Here the company is dealing with the final issues associated with the EES, and it is not yet funded. Other significant projects in Victoria appear to have stalled due to permitting or technical issues. Outside Australia, we see no change to the status of the massive Zulti South project and permitting issues continuing for the Toliara project in Madagascar.

In summary, we see a robust price environment for zircon into the ramp up of the Thunderbird project into late 2023 and 2024.

As a reminder, zircon makes up over 60% of the mine's revenue.

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Appendix 1

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