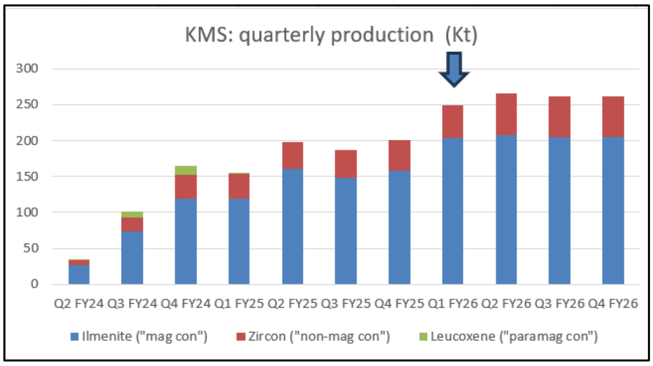
Dr Chris Baker
October 2025

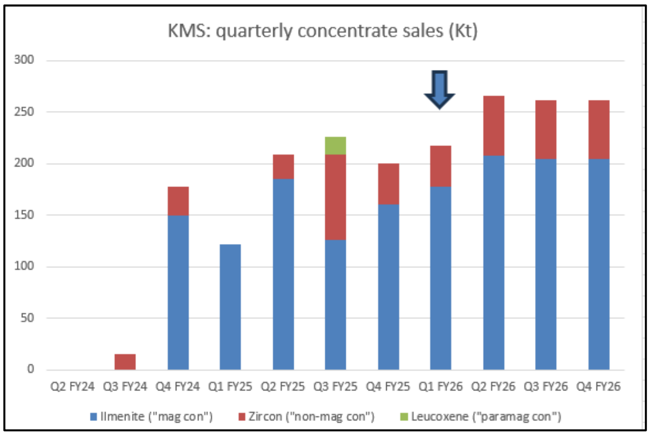
SHEFFIELD RESOURCES LTD (SFX AU, $0.115/sh. Market cap A$45m)

Record mine (+5%) and concentrate production (+24%) for September qtr.
Costs down 12% but zircon sales flat and prices down. EBITDA and profit down for '26.

- SFX had already released summary production statistics for the September quarter, which highlighted a very strong ramp up in concentrate production. **Concentrate production totalled some 249kt, up around 24%** on the previous quarter. This is based on a mining rate of approximately 3Mt for the quarter, up 5% on June, and up 16% YoY. **This result continues to demonstrate that the business improvement plan is proving effective in improving the productivity of the Thunderbird mine.**



- **In this quarter, the proportion of ilmenite was well ahead of the last two quarters at around 82% of total VHM.** Historically this proportion ranges from around 73% to 82% (with the balance the more valuable zircon). This appears to be reflecting the natural variability of the orebody and that the section mined in the quarter contained particularly high ilmenite grades.
- **Zircon concentrate production was 46kt** (against our estimates of 54kt and at the lower end of guidance: 45-55kt); ilmenite production was 203kt (a record and well above 170-190kt guidance and our estimates).
- **Zircon sales** were lower than our estimates and company guidance at 39kt. (Guidance was 50-60kt). As we saw a year ago the September quarter appears to be the weakest quarter of the year, and recall that in 1Q25F there were no zircon sales recorded. Volume rebounded strongly over the following 2 quarters. **The zircon market appears oversupplied, and the company is unable to provide guidance for the current quarter.**
- **Zircon sales prices reflected this deteriorating environment with the US$ price achieved down 7% on the previous quarter. The price achieved for ilmenite concentrate was also down slightly on the previous quarter.**
- **Ilmenite shipments** were below guidance at 178kt. The shortfall was less than a single shipment which will unwind the current quarter.



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Mine costs

- **C1 costs down significantly. Capex a little higher than we expected**. As shown below, unit costs have dropped dramatically. This is partly a reflection of the increased mining rate, but largely due to a reduction in aggregate mining and processing costs which were down 13% and 15% respectively. Lower shipments translated to lower logistics costs. Impressively site G&A was down nearly 50% to $1.5m for the quarter.

A$/t concentrate	Q4 FY24	Q1 FY25	Q2 FY25	Q3 FY25	Q4 FY25	**Q1 FY26a**	*Change*	Q2 FY26f
Mining	139	176	163	172	177	**128**	*-28%*	128
Processing	39	44	45	56	47	**37**	*-21%*	37
Outbound logistics	78	60	69	87	70	**47**	*-33%*	47
Site G&A	96	80	20	13	14	**6**	*-57%*	6
Total	352	360	297	328	308	**218**	*-29%*	218
Inventory	-15	-172	-24	184	-6	**-17**		0
Total	688	548	290	512	302	**201**	*-33%*	218
A$/t processed*								
Mining	22.0	8.6	19.8	28.0	23.0	**20.1**	*-13%*	23.5
Processing	9.3	10.5	9.7	12.4	12.4	**10.5**	*-15%*	11.9
Outbound logistics	3.5	3.5	3.5	4.0	3.3	**3.3**	*0%*	3.4
Site G&A	6.9	4.8	4.0	6.3	4.9	**4.2**	*-15%*	4.3
Total	41.7	27.4	37.0	50.7	43.6	**38.0**	*-13%*	43.0
A$m*								
Mining	23.1	27.2	23.8	32.3	35.6	**31.9**	*-10%*	34.0
Processing	6.5	6.8	8.6	10.5	9.5	**9.2**	*-3%*	9.8
Outbound logistics	12.8	9.3	9.8	16.3	14.1	**11.7**	*-17%*	12.5
Site G&A	15.6	12.2	15.4	2.4	2.8	**1.5**	*-47%*	1.6
Total	58.0	55.5	57.6	61.5	62.0	**54.3**	*-12%*	57.9
*Excludes inventory adjustment								

- **In total, costs were down 12%** toward the lower end of the earlier $50-60m guidance range at $54m. This is a mine that is clearly cost focussed!
- Going forward, we look to continued low unit costs, but with total site costs (in $ millions) increasing as the mining rate continues to rise.
- **Capex was up during the quarter at $10m**, related to the construction of in-pit tailings storage. This level of capex it likely to continue into mid next year. We have bumped up our capex estimates.

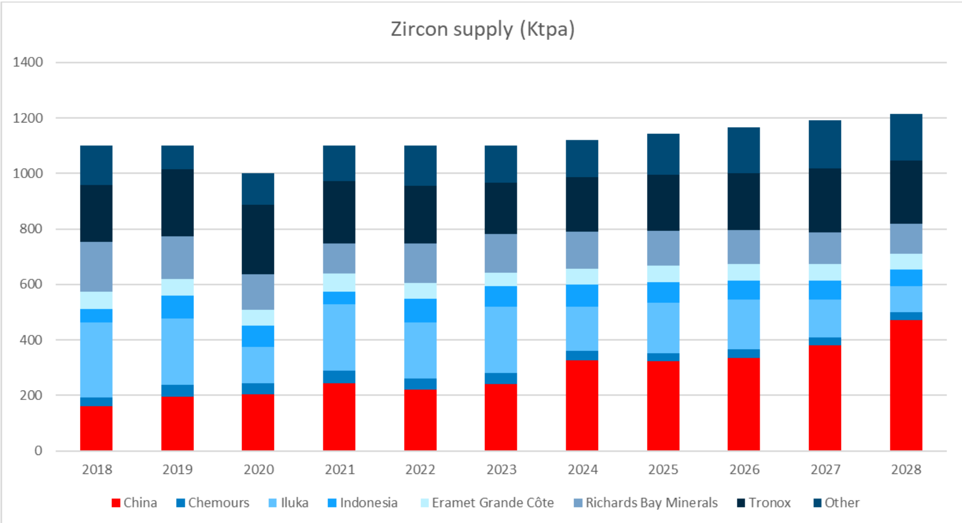
Changes to our earnings/cashflow estimates

- **We have pulled back our cost estimates**, now more in line with the impressive unit costs from the September quarter. This has been somewhat offset by a higher capex estimate for the next 3 quarters.
- **Disappointingly zircon sales were at the bottom level of guidance and together with a disappointing price realisation, revenues were significantly lower than expected**. This was not helped by a slightly delayed ilmenite shipment which will report to the current quarter.
- As discussed below, 50% partner Yansteel stepped into the picture again and undertook a $13m pre-payment for zircon concentrate. This takes Yansteel pre-payments to over $45m.
- **This enabled KMS to report a $9m positive operating cashflow for the quarter.**
- SFX stated in the quarterly that **it is unable to provide sales guidance** for the current quarter due to the uncertain (but oversupplied) zircon market in China. Further details are likely following the company's AGM likely in late November.
- We have therefore had to take the view that while production is likely to be up, sales of zircon concentrate and price might be flat into the next two quarters before ramping up into early 2026C. No change to sales volumes for ilmenite concentrate (which is subject to a take-or-pay contract).
- This implies that KMS zircon inventories will continue to build from 30kt at the end of September perhaps to 50kt by the end of the year. How this inventory is dealt with is discussed below.
- **Bottom line: we now have SFX with an EBITDA of $25m (previously $40m) assisted by lower costs, but offset by higher D&A and interest charges, resulting in an estimate of a $19m loss.**
- **Cash at quarters end for KMS was $3.3m,** which includes the $13m Yansteel pre-payment, but excludes an ilmenite shipment delayed into early October (and likely to be worth A$9-10m to KMS).

- **We estimate that KMS's cashflow will be largely break-even for 2026F but this is strongly dependent on zircon sales.**
- SFX's own cash position was $5.2m at the end of September.

Chinese imports result in significant short-term oversupply of zircon (and ilmenite)

- In our last report (October 2025) we discussed the changing nature of the zircon supply side, now evolving into a partially integrated supply chain within China. China is becoming an increasingly important part of the supply side, as illustrated in the following chart. China's demand currently stands at between 40-45% of the global zircon market.



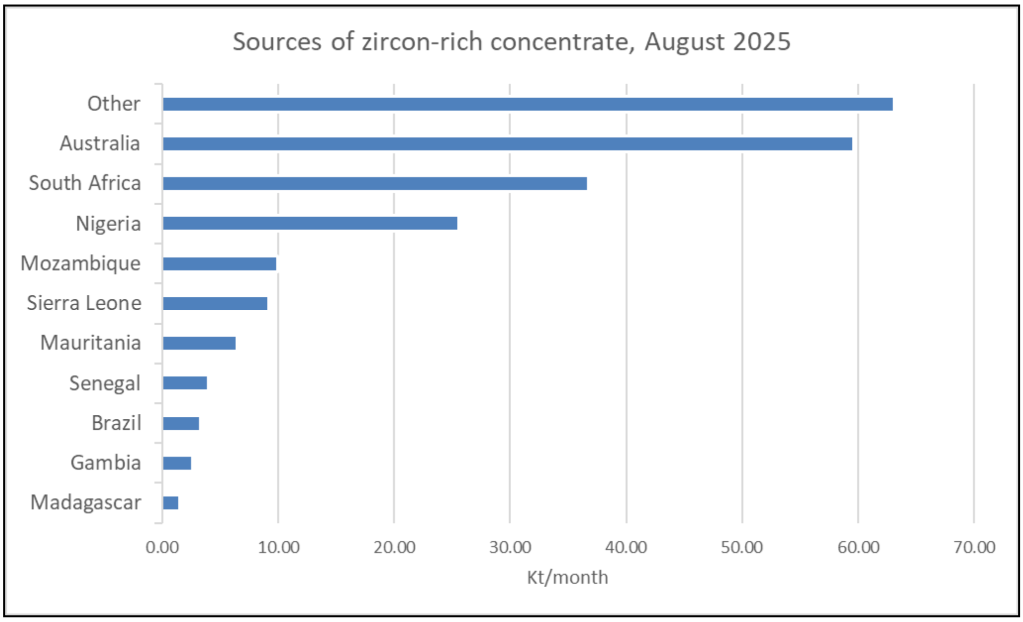
Source: Company reports, TZMI, BSCP estimates

- Digging deeper, we have seen that Chinese imports of zircon (in a variety of concentrate forms) has been well ahead of last year, as shown in the following chart:

- This has led one of the trade journals to comment recently that the Chinese zircon market is "in chaos". The following reasons are given by Ferroalloynet (from 9 October):

1. The continued large amount of imported zircon ore is affecting companies' market outlook;
2. Limited demand support has led to cautious downstream operations;
3. Differing views among some companies on the future market have led to some low-price transactions, affecting the mainstream price.

- Higher zircon prices and possibly lower volumes from traditional sources have incentivised the Chinese concentrators to obtain alternative suppliers. As we noted in our last report, it is surprising to see significant volumes coming from Africa, and non-traditional sources in Africa, such as Nigeria.



Source: Data from Ferroalloynet

- There is therefore little short-term optimism regarding the mineral sand commodities. TiO_2 feedstock prices (ilmenite, synthetic rutile and rutile) are weak, which has seen the recent, possibly temporary closure of Iluka's last remaining mine in WA, Cataby, demonstrating the oversupply of pigment feedstock. ILU blames macroeconomic uncertainty, continued high interest rates and ongoing geopolitical conflicts together with lower priced Chinese exports for this subdues market.
- As well, we've seen recent reduction in guidance from African ilmenite/zircon producer Kenmare. One of its customers is in administration and is not taking feedstock nor paying bills. As Iluka highlighted in its recent call, ILU estimates *"around 20 small to mid-size sulphate pigment plants, around half a million tonnes per annum capacity have been put into care and maintenance, and exports of pigment from China have declined around 10% to 15% when compared to the same time last year. The rest of the world response to that over capacity has included anti-dumping duties targeting Chinese imports and the closure of some pigment plants, both of which have occurred against a backdrop of low demand."* This industry is in pretty poor shape.
- So, the eventual closure of high-cost mineral sand operations will not only restrict the supply of ilmenite, but also of zircon by-product. However, the wind-down of the supply side will take time, and producer inventories will need to be depleted as well. The next 6 months could be tough. We hope that this is now reflected in our commodity price forecasts.

SFX outlook and investment view

- *SFX's 50%-owned Kimberley Mineral Sands (KMS) is demonstrating that the Thunderbird Business Improvement Initiative is gaining traction. This had been put in place to deal with the unexpected oversize issue, higher costs and lower than expected zircon prices. We are impressed that the new business plan has required little additional capital. Hats off to management.*

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- *Disappointingly, zircon sales appear to have hit a wall, and we await guidance at the AGM. The company has managed to reduce its unit costs which will ultimately assist in driving up margins, but times ahead will be tough if the current oversupply of zircon and the buyers strike continues for a long period.*
- *What is the short-term future for KMS zircon? Thunderbird cannot survive on ilmenite sales alone: zircon makes up some 60-65% of revenue in a "normal year". For the first time we've seen Yansteel purchase zircon from KMS and we wonder whether the company might ultimately become a major customer of KMS. And to what end? Yansteel, an iron and steel producer has already diversified into pigment production. Perhaps it will look to becoming a concentrate upgrader in China. Whatever the outcome, it is hugely positive for KMS to have such a strong partner. Without Yansteel, KMS might not be able to survive a commodity down-cycle.*
- *Even if zircon sales and prices recover, it seems unlikely that KMS will be able to meet its US$20m principal repayment at the end of this year. SFX state that "KMS continues to progress and advance negotiations with senior secured lenders, however there can be no certainty that any amendments to the senior secured loan facilities will be successfully completed during the near term. Sheffield and Yansteel remain sponsors and guarantors to the senior secured loan facilities." We are pretty sure Orion and NAIF do not want to take over management of KMS, so we'd think that the debt repayment schedule will be renegotiated.*
- *On the positive side, production and costs, really the only levers KMS can pull, are moving in the right direction.*
- *SFX remains a deep value play. The heavily discounted share price says to us that the market is waiting for a recovery in zircon sales and the successful outcome of the rescheduling of debt repayments.*

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FINANCIAL SUMMARY — Sheffield Resources Limited (SFX.AX)

Share Price	A$/sh	0.115
Shares on Issue	m	393
Market Cap (A$m)	A$m	45
Net Debt / (Cash) (A$m)	A$m	(5)
Enterprise Value (A$m)	A$m	40

Target Price	-
Upside / (Downside)	-
Dividend Yield	0%
Total Return Forecast	-

Our SFX forecasts are based on a 50% equity share of KMS which owns 100% of the Thunderbird project. The data displayed represents 50% of all components of the production, P&L, cashflow and balance sheet (adding assets as at December 2021). Accounting standards will require SFX to equity account its interest in KMS, which will therefore report dividend and interest income and overhead costs only. This standard provides limited transparency and so we have decided to proceed with this more visible reporting method.

Profit & Loss	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Sales and Other Income	A$m	36	122	146	191	199
Expenses	A$m	(48)	(101)	(121)	(134)	(136)
EBITDA	A$m	**(12)**	**20**	**25**	**57**	**63**
D&A	A$m	(9)	(15)	(21)	(23)	(23)
EBIT	A$m	**(21)**	**6**	**5**	**34**	**40**
Financing Costs	A$m	(19)	(14)	(15)	(14)	(10)
Tax	A$m	-	-	-	-	-
NPAT	A$m	**(40)**	**(10)**	**(10)**	**21**	**29**

Cashflow	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Cash From Operations	A$m	(29)	9	25	57	63
Interest	A$m	(13)	(24)	(15)	(14)	(10)
Tax	A$m	-	-	-	-	-
Working Capital	A$m	-	-	-	-	-
Net Cash From Operations	A$m	**(42)**	**(16)**	**11**	**44**	**52**
Capex	A$m	(46)	(12)	(11)	(4)	(4)
Exploration & Other	A$m	(1)	(0)	-	-	-
Free Cash Flow	A$m	**(89)**	**(28)**	**(0)**	**40**	**48**
Borrowings	A$m	49	13	(3)	(28)	(32)
Equity	A$m	8	-	-	-	-
Dividend	A$m	-	-	-	-	-
Net Increase / (Decrease) in Cash	A$m	**(33)**	**0**	**(3)**	**12**	**17**

Balance Sheet	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Cash	A$m	8	7	5	8	23
Receivables	A$m	12	2	12	16	16
Inventory	A$m	17	17	7	10	10
PP&E	A$m	262	331	224	205	186
Other	A$m	65	1	61	61	61
Assets	A$m	**364**	**358**	**300**	**299**	**296**
Creditors	A$m	15	23	18	24	25
Borrowings	A$m	124	128	177	149	118
Provisions	A$m	15	19	10	10	10
Other	A$m	59	108	59	59	59
Liabilities	A$m	**262**	**276**	**264**	**242**	**211**
Net Assets	A$m	**102**	**56**	**36**	**57**	**85**

Liquidity & Leverage	Units	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Borrowings	A$m	124	128	177	149	118
Net Debt / (Cash)	A$m	117	120	172	141	95
Gearing: Net Debt / (Net Debt + Equity)	%	53%	68%	83%	71%	53%
Net Debt / EBITDA	x	(9.8)x	5.9x	6.8x	2.5x	1.5x
EBIT Interest Cover	x	(1.1)x	0.4x	0.3x	2.6x	3.8x

Non-mag con = zircon rich concentrate
Mag con = ilmenite rich concentrate
Paramag con = Leucoxone rich concentrate

Per Share Data	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Shares Out (m)	393	393	393	393	393
EPS (¢)	(10.1¢)	(2.6¢)	(2.5¢)	5.3¢	7.5¢
Dividend (¢)	-	-	-	-	-
Payout Ratio (%)	0%	0%	0%	0%	0%
Book Value (A$/share)	0.26	0.14	0.09	0.15	0.22
Operating Cash Flow (A$/share)	(0.11)	(0.04)	0.03	0.11	0.13
Free Cash Flow (A$/share)	(0.23)	(0.07)	(0.00)	0.10	0.12
EBITDA (A$/share)	(0.03)	0.05	0.06	0.15	0.16

Valuation Metrics	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
P/E (x)	(1.1)x	(4.4)x	(4.7)x	2.2x	1.5x
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
EV / Sales	1.1x	0.3x	0.3x	0.2x	0.2x
EV / EBITDA	(3.3)x	1.9x	1.6x	0.7x	0.6x
EV / EBIT	(1.9)x	7.0x	8.2x	1.2x	1.0x
FCF Yield (%)	-196.3%	-62.8%	-0.9%	87.5%	106.8%

Operating Metrics (%)	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
EBITDA Margin	-33%	17%	17%	30%	32%
EBIT Margin	-58%	5%	3%	18%	20%
Net Profit Margin	-110%	-8%	-7%	11%	15%
ROIC	-10%	3%	2%	17%	22%
Return on Assets	-11%	-3%	-3%	7%	10%
Return on Equity	-39%	-18%	-27%	37%	35%
Effective Tax Rate	0%	0%	0%	0%	0%

Key Assumptions	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Non-mag Concentrate (US$/t)	621	548	536	609	706
Mag Con (US$/t)	120	129	120	120	120
Paramagnetic Concentrate (US$/t)	-	20	20	20	20
AUDUSD	0.68	0.63	0.65	0.68	0.70

Production - 100% Basis	Jun-24e	Jun-25e	Jun-26e	Jun-27e	Jun-28e
Mag Con (kt)	150	594	796	891	917
Non-mag Concentrate (kt)	44	144	176	249	238
Paramagnetic Concentrate (kt)	-	18	-	-	-

Valuation	A$m	Equity	Risk	A$m	A$/share
Kimberly Mineral Sands (KMS)					
Thunderbird Stage 1	702	50%	100%	351	0.89
Thunderbird Stage 2	720	50%	25%	90	0.23
Exploration	50	50%	100%	25	0.06
Debt	(324)	50%	100%	(162)	(0.41)
Cash, receivables	5	50%	100%	3	0.01
SFX					
Corporate Costs	(26)	100%	100%	(26)	(0.07)
Debt	-	100%	100%	-	-
Cash	5	100%	100%	5	0.01
Exploration	10	100%	100%	10	0.02
Total	**1,142**			**286**	**0.76**
Totsl, excl Stage 2	**422**			**196**	**0.50**
Discount rate					**8.0%**
FPO Shares					393
Options					2
Performance Rights					5
Fully Diluted SOI					**400**

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Appendix 1

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