Nickel, Copper & Gold: Developer / Explorer

SIRIUS RESOURCES NL (SIR)

SIR.asx

Buy

8 Nov 2013

Share Price	$2.500
Valuation	$3.06
Price Target - 12 months	$3.49

Exploration Appeal on Multiple Fronts

Sirius Resources NL, while continuing with its Nova-Bollinger development studies, is looking to replicate its exploration success with the discovery of more base and precious metal mines. The Company continues to report significant exploration results from the Fraser Range JV Project (SIR 70%), and from the Polar Bear Gold Project (SIR 100%), south of Kalgoorlie.

Fraser Range- New Ni-Cu Mineralisation Outside the Eye

Recently completed drilling at Fraser Range has identified a new intrusive complex ~3km to the west of Nova, with nickel and copper mineralisation intersected in Nova-style host rocks. This new prospect (Western Trend) forms one of three new targets outside the Eye Intrusion (but within the mining lease application) which could provide the next discovery.

The intersection of nickel and copper mineralisation to the west of Nova is the first time nickel and copper mineralisation has been found outside the “Eye” intrusive structure. The “Western Trend” was originally outlined by elevated nickel and copper bedrock geochemistry with the first diamond hole (436) into this feature intersecting shallow nickel-copper sulphides. Follow-up exploration including DHEM and more detailed bedrock drilling is underway with the next diamond hole to be drilled in the coming weeks.

In addition to the Western Trend, Sirius has another two near-Nova targets outside the Eye. All three of these targets are planned to be drill-tested in the coming months.

Polar Bear– New Gold Bearing Palaeochannel and Ridge

At Polar Bear, three new supergene gold anomalies have been confirmed over the Lake Cowan salt lake. Recently completed geochemical drilling at the Nanook prospect has returned some of the highest grade gold intercepts yet with **13m @ 23.9g/t Au** from 44m (incl. 4m @ 74.7g/t Au) reported from quartz gravels within a palaeochannel. Just to the west of this channel, drilling has also defined a buried ridge which contains quartz-veined altered bedrock, which could potentially be the primary source of the gold. Further drilling is planned, with another five gold targets to test.

We have a nominal value for Polar Bear of ~$20m, included within our exploration value; this will be revisited as results come to hand.

Exploration Remains a Key Value Driver

We currently assign an exploration value of ~$100m in our Sirius NAV which we see as conservative given the proven prospectivity of the Fraser Range ground and potential now being demonstrated at Polar Bear. A recently completed equity raise, positions Sirius in a very strong cash position (~$110m) to accelerate exploration and/or fund some project development costs.

The cash could also be used as a component to partly fund the Nova-Bollinger project acquisition (should JV partner Creasy be a seller). Sirius already has a proven track record of exploration success and with further encouragement in 100%-owned ground increases the likelihood that more scrip could potentially be used when negotiating the purchase of the remaining 30% project interest.

We continue to recommend Sirius as a Buy with a price target of $3.49/s.

Brief Business Description:
Nickel, copper and gold explorer/developer.

Hartleys Brief Investment Conclusion
Major nickel-copper discoveries (Nova and Bollinger). Robust scoping study delivered providing operating costs in the lowest 20% of nickel producers globally. Exploration upside within Fraser Range and Polar Bear.

Chairman & MD
Jeff Dowling (Non-Exec Chairman)
Mark Bennett (CEO & Managing Director)

Top Shareholders est	
Yandal Investments (Mark Creasy)	17.3%
Commonwealth Bank of Australia	5.1%

Company Address
Unit 5, 5 Mumford Place
Balcatta, WA, 6021

Issued Capital	261.9m
- fully diluted	297.8m
Market Cap	A$654.8m
- fully diluted	A$744.6m
Cash (est)	A$111.0m
Debt (est)	A$0.0m
EV	A$543.8m

	FY16e	FY17e	FY18e
Payable NiEq (Kt)	3.4	21.1	24.9
Cash Costs ($/lb)	2.5	2.5	2.5
Op Cash Flw	20	168	222
NPAT	-2.0	145.6	200.6
CF/Share (cps)	5.8	54.7	76.3
EPS (cps)	-0.7	48.5	66.6
P/E	-381.4	5.2	3.8
	Ni	*Cu*	*NiEq*
Resources (Kt) -100%	325	134	365
Resources (Kt) -70%	228	94	256

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Hartleys has assisted in capital raisings in the past 12 months for Sirius for which it has earned fees. Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Sirius, for which it earns fees. The analyst has a beneficial interest in SIR shares.

SUMMARY MODEL

Sirius Resources NL | **SIR** | **Share Price $2.500** | **8 November 2013** | **Buy**

Key Market Information	
Share Price	**$2.500**
Market Capitalisation - ordinary	A$655m
Net Debt (cash)	-$111m
Market Capitalisation - fully diluted	A$745m
EV	A$614m
Issued Capital	261.9m
Options	35.9
Issued Capital (fully diluted inc. all options)	297.8m
Issued Capital (fully diluted inc. all options and new capital)	338.3m
Valuation	$3.06
12month price target	**$3.49**

P&L	Unit	30 Jun 13	30 Jun 14	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19
Net Revenue	**A$m**	**0.0**	**0.0**	**0.0**	**48.8**	**319.3**	**389.2**	**383.7**
Total Costs	**A$m**	**-49.0**	**-39.7**	**-23.7**	**-27.6**	**-138.2**	**-164.5**	**-164.2**
EBITDA	A$m	-49.0	-39.7	-23.7	21.2	181.1	224.7	219.4
- margin		-	-	-	43%	57%	58%	57%
Depreciation/Amort	A$m	-0.1	-0.1	-0.1	-20.4	-31.6	-32.5	-33.3
EBIT	**A$m**	**-49.1**	**-39.8**	**-23.8**	**0.8**	**149.5**	**192.2**	**186.1**
Net Interest	A$m	1.3	5.3	5.3	-2.7	-3.9	8.4	23.5
Pre-Tax Profit	**A$m**	**-47.7**	**-34.6**	**-18.4**	**-2.0**	**145.6**	**200.6**	**209.7**
Tax Expense	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	**A$m**	**-47.7**	**-34.6**	**-18.4**	**-2.0**	**145.6**	**200.6**	**209.7**
Abnormal Items	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported Profit	A$m	-47.7	-34.6	-18.4	-2.0	145.6	200.6	209.7
Minority	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Profit Attrib	**A$m**	**-47.7**	**-34.6**	**-18.4**	**-2.0**	**145.6**	**200.6**	**209.7**

Balance Sheet	Unit	30 Jun 13	30 Jun 14	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19
Cash	**A$m**	**41.4**	**98.5**	**97.1**	**15.5**	**119.0**	**287.7**	**469.6**
Other Current Assets	A$m	0.9	6.5	3.9	5.2	27.1	32.4	32.3
Total Current Assets	**A$m**	**42.3**	**105.0**	**101.0**	**20.7**	**146.1**	**320.1**	**501.9**
Property, Plant & Equip.	A$m	0.3	0.2	94.6	317.5	292.9	267.4	241.1
Exploration	A$m	13.5	24.5	32.2	37.5	41.7	45.9	50.1
Investments/other	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tot Non-Curr. Assets	**A$m**	**13.8**	**24.7**	**126.8**	**355.0**	**334.6**	**313.3**	**291.2**
Total Assets	**A$m**	**56.2**	**129.7**	**227.8**	**375.6**	**480.7**	**633.4**	**793.1**
Short Term Borrowings	A$m	-	-	-	-	-	-	-
Other	A$m	2.6	3.5	2.1	2.5	11.5	13.7	13.7
Total Curr. Liabilities	**A$m**	2.6	3.5	2.1	2.5	11.5	13.7	13.7
Long Term Borrowings	A$m	-	-	100.0	248.2	198.2	148.2	98.2
Other	A$m	-	-	-	-	-	-	-
Total Non-Curr. Liabil.	**A$m**	**-**	**-**	**100.0**	**248.2**	**198.2**	**148.2**	**98.2**
Total Liabilities	**A$m**	**2.6**	**3.5**	**102.1**	**250.7**	**209.8**	**161.9**	**111.9**
Net Assets	**A$m**	**53.5**	**126.3**	**125.7**	**124.9**	**270.9**	**471.5**	**681.1**
Net Debt	A$m	-41.4	-98.5	2.9	232.8	79.2	-139.5	-371.4

Cashflow	Unit	30 Jun 13	30 Jun 14	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19
Operating Cashflow	A$m	-26.4	-44.5	-22.4	20.2	168.3	221.5	219.5
Income Tax Paid	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest & Other	A$m	1.0	5.3	5.3	-2.7	-3.9	8.4	23.5
Operating Activities	**A$m**	**-25.4**	**-39.3**	**-17.0**	**17.4**	**164.4**	**229.9**	**243.1**
Property, Plant & Equip.	A$m	0.0	0.0	-94.5	-243.3	-7.0	-7.0	-7.0
Exploration and Devel.	A$m	-8.2	-11.0	-7.7	-5.3	-4.2	-4.2	-4.2
Other	A$m	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Investment Activities	**A$m**	**-8.5**	**-11.0**	**-102.2**	**-248.5**	**-11.2**	**-11.2**	**-11.2**
Borrowings	A$m	0.0	0.0	100.0	148.2	-50.0	-50.0	-50.0
Equity or "tbc capital"	A$m	73.8	107.4	17.9	1.2	0.4	0.0	0.0
Dividends Paid	A$m	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Activities	**A$m**	**73.6**	**107.4**	**117.9**	**149.4**	**-49.6**	**-50.0**	**-50.0**
Net Cashflow	**A$m**	**39.7**	**57.1**	**-1.4**	**-81.6**	**103.6**	**168.7**	**181.9**

Shares	Unit	30 Jun 13	30 Jun 14	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19
Ordinary Shares - End	m	224.9	265.3	297.3	299.2	301.2	301.2	301.2
Ordinary Shares - Weighted	m	200.3	245.1	281.3	298.3	300.2	301.2	301.2
Diluted Shares - Weighted	m	236.2	281.0	301.2	301.2	301.2	301.2	301.2

Ratio Analysis	Unit	30 Jun 13	30 Jun 14	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19
Cashflow Per Share	A$ cps	-12.7	-16.0	-6.1	5.8	54.7	76.3	80.7
Cashflow Multiple	x	-19.7	-15.6	-41.3	42.8	4.6	3.3	3.1
Earnings Per Share	A$ cps	-23.8	-14.1	-6.6	-0.7	48.5	66.6	69.6
Price to Earnings Ratio	x	-10.5	-17.7	-38.1	-381.4	5.2	3.8	3.6
Dividends Per Share	AUD	-	-	-	-	-	-	-
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt / Net Debt + Equity	%	-341%	-354%	2%	65%	23%	-42%	-120%
Interest Cover	X	36.6	7.6	4.4	0.3	38.6	na	na
Return on Equity	%	na	na	na	na	54%	43%	31%

Directors	Company Information
Jeff Dowling (Non-Exec Chairman)	254 Balcatta Road
Mark Bennett (CEO & Managing Director)	Balcatta, WA, 6021
Jeff Foster (Technical Director)	+61 8 6241 4200
Anna Neuling (Exec Director-Corporate and Commercial)	+61 8 6241 4299
Terry Grammer (Non-Exec Director)	
Neil Warburton (Non-Exec Director)	www.siriusresources.com.au
David Craig (Non-Exec Director)	

Top Shareholders	m shares	%
Yandal Investments Pty Ltd (Mark Creasy)	45.258m	17.3%
Commonwealth Bank of Australia	13.096m	5.1%

Reserves & Resources		Mt	Ni%	Cu%	Co%	Ni eq %
Nova	JORC	10.2	2.4%	1.0%	0.08%	2.7%
Bollinger	JORC	4.4	1.8%	0.7%	0.07%	2.0%
Combined Nova-Bollinger		**14.6**	**2.2%**	**0.9%**	**0.08%**	**2.5%**
Nova-Bollinger	*Mining Inventory*	***13.9***	***2.0%***	***0.82%***	***0.07%***	***2.3%***

Production Summary	Unit	Jun 16	Jun 17	Jun 18	Jun 19
Mill Throughput	Mt	0.20	1.25	1.50	1.50
Mined grade Ni	%	2.0%	2.0%	2.0%	2.0%
Mined grade Cu	%	0.8%	0.8%	0.8%	0.8%
Mined grade Ni eq	%	2.3%	2.3%	2.3%	2.3%
Payable Nickel	Kt	2.7	17.0	20.4	20.4
Payable Copper	Kt	1.4	9.1	10.9	10.9
Payable Nickel Equiv	Kt	3.4	21.1	24.9	24.6
Resource Conversion	%	95%	95%	95%	95%
Mine Life	yr	10.0	9.0	8.0	7.0
Assumed Reserve	Mt	13.7	12.5	11.0	9.5
Assumed Reserve - Ni grade	%	2.1%	2.1%	2.1%	2.1%
Assumed Reserve - Cu grade	%	0.9%	0.9%	0.9%	0.9%

Costs	Unit	Jun 16	Jun 17	Jun 18	Jun 19
Cost per milled tonne	$A/t	132	132	132	132
EBITDA / tonne milled ore	$A/t	106	145	150	146
Total Cost - PnL	$A/lb Ni eq	3.7	3.0	3.0	3.0
C1: Operating Cash Cost = (a)	$A/lb Ni eq	2.5	2.5	2.5	2.6
(a) + Royalty = (b)	$A/lb Ni eq	2.8	2.8	2.9	2.9
C2: (a) + depreciation & amortisation = (c)	$A/lb Ni eq	5.2	3.2	3.1	3.2
(a) + actual cash for development = (d)	$A/lb Ni eq	35.8	2.7	2.7	2.8
C3: (c) + Royalty	$A/lb Ni eq	5.5	3.5	3.4	3.5
(d) + Royalty	$A/lb Ni eq	36.1	3.0	3.1	3.1

Price Assumptions	Unit	Jun 16	Jun 17	Jun 18	Jun 19
AUDUSD	A$/US$	0.94	0.91	0.90	0.90
Nickel	US$/lb	8.4	8.8	9.0	9.0
Copper	US$/lb	3.2	3.2	3.0	2.8
Cobalt	US$/lb	14.9	15.1	14.1	13.2

Hedging	Unit

Sensitivity Analysis	Valuation	FY16 NPAT
Base Case	**3.06**	**-2.0**
Spot Prices	1.45 (-52.6%)	-11.5 (487.2%)
Spot USD/AUD 0.95, Nickel $6.4/lb,Copper $3.2/lb,Cobalt $12.4/lb.		
AUDUSD +/--10%	2.64 / 3.56 (-13.7% / 16.5%)	-6.4 / 3.6 (227.8% / -285.0%)
Nickel +/--10%	3.43 / 2.68 (12.3% / -12.4%)	2.0 / -5.9 (-203.8% / 199.7%)
Copper +/--10%	3.12 / 3.00 (2.0% / -2.0%)	-1.2 / -2.7 (-39.6% / 39.4%)
Cobalt +/--10%	3.08 / 3.04 (0.6% / -0.6%)	-1.7 / -2.2 (-12.2% / 12.2%)
Production +/--10%	3.06 / 3.06 (0.0% / 0.0%)	-2.0 / -2.0 (0.0% / 0.0%)
Operating Costs +/--10%	3.06 / 3.06 (0.0% / 0.0%)	-2.0 / -2.0 (0.0% / 0.0%)

Unpaid Capital				
Year Expires	No. (m)	$m	Avg price	% ord
30-Jun-14	0.0	0.0	0.00	0%
30-Jun-15	32.0	17.9	0.56	12%
30-Jun-16	2.0	1.2	0.60	1%
30-Jun-17	2.0	0.4	0.20	1%
30-Jun-18	0.0	0.0	0.00	0%
TOTAL	**35.9**	**19.4**	**0.54**	**14%**

Valuation		
70% Nova-Bollinger (pre-tax NAV at disc. rate of 12%)	922.6	2.73
Other Assets/Exploration	100.0	0.30
Forwards	0.0	0.00
Corporate Overheads	-44.9	-0.13
Net Cash (Debt)	111.0	0.33
Tax (NPV future liability)	-70.6	-0.21
Options & Other Equity	16.5	0.05
Total	**1034.7**	**3.06**

Analyst: Mike Millikan
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Last Updated: 08/11/2013

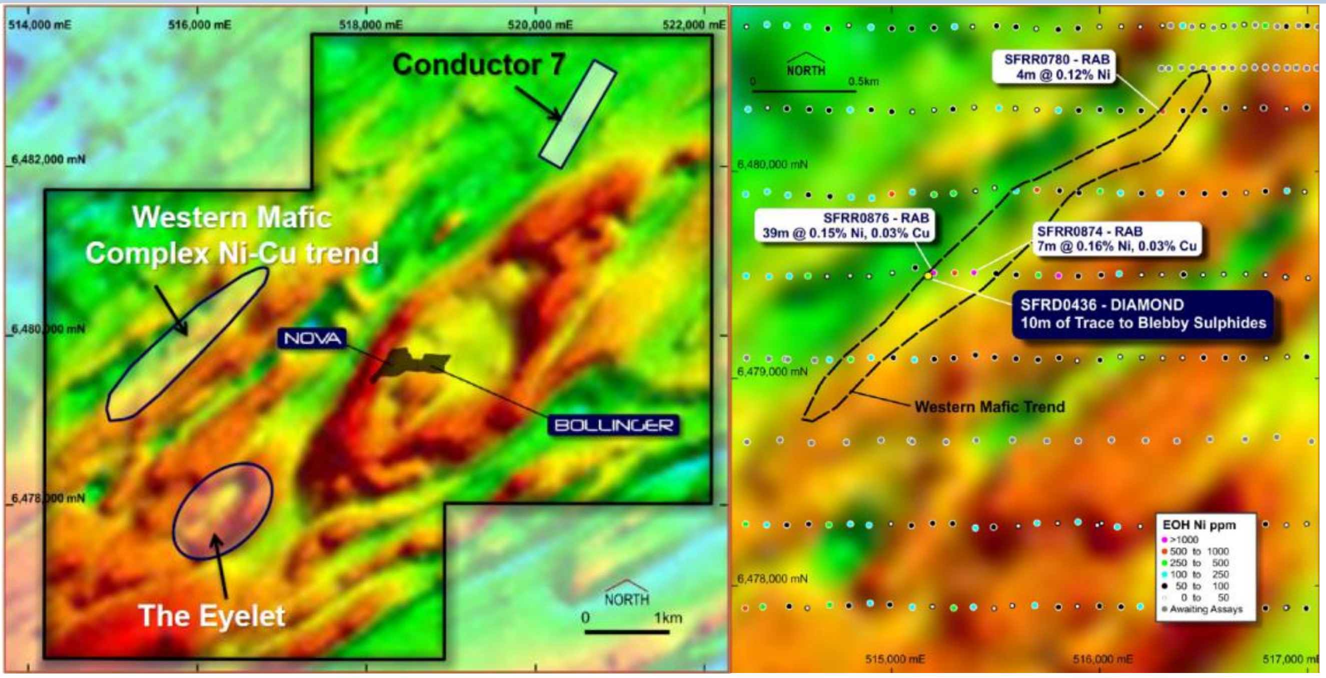
"tbc capital" could be equity or debt. Our valuation is risk-adjusted for how this may be obtained.

Sources: IRESS, Company Information, Hartleys Research

Three New Near-Nova Target Outside the Eye

Recent exploration within the Nova-Bollinger mining lease application has identified three new near-Nova targets that are located outside of the Eye Intrusion.

Fig. 1: Near Nova Targets Outside the Eye (LHS); Western Trend Anomaly (RHS)

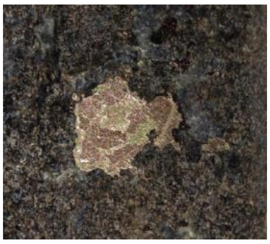


Source: Sirius Resources NL

The intersection of nickel and copper mineralisation to the west of Nova is the first time nickel and copper mineralisation has been found outside the "Eye" intrusive structure

The most advanced of these targets is the ***"Western Trend"***, which is located some 3kms west of Nova. The Western Trend was first identified through RAB geochemical drilling, which returned an elevated nickel-copper anomaly over 2.5km in length. Follow-up diamond drilling (Hole 436) intersected Nova-style host rocks and shallow (from ~55m) nickel-copper sulphides (10m of disseminated and blebby sulphides; assays pending at the time of writing).

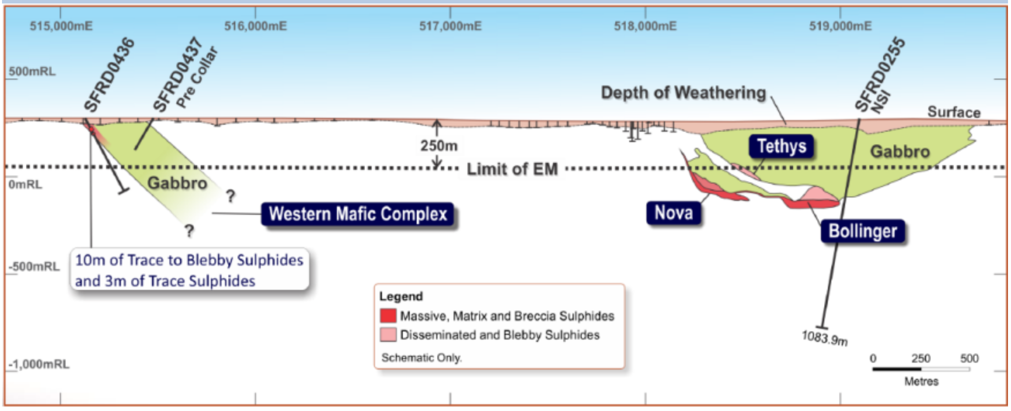
Proposed exploration activities include more detailed RAB infill drilling (which is underway), DHEM and more detailed diamond drilling. The RC pre-collar in preparation of the next diamond hole (437) has already confirmed the presence of a thick intrusive unit (+120m) which would appear to be dipping beneath the Nova-Bollinger system to the east. Diamond drilling is expected to commence as early as next week.



Ni-Cu sulphides in Hole 436; assays pending

Diamond drilling is expected to commence in the coming weeks

Fig. 2: Western Trend- Mafic Complex and Nova-Bollinger



Source: Sirius Resources NL

3 new near-Nova targets to test

In addition to the Western Trend, Sirius has another two near-Nova targets outside the Eye. The **"Eyelet"**, located to the south-west, where intrusive rocks have been identified, and a new priority EM target **"Conductor 7"**, located to the north-east, which has a modelled depth of ~300-400m. Sirius plans to drill these targets upon completion of activities at the Western Trend.

100% owned projects adding value

Buningonia Walk-Up Drill Targets 100% Owned

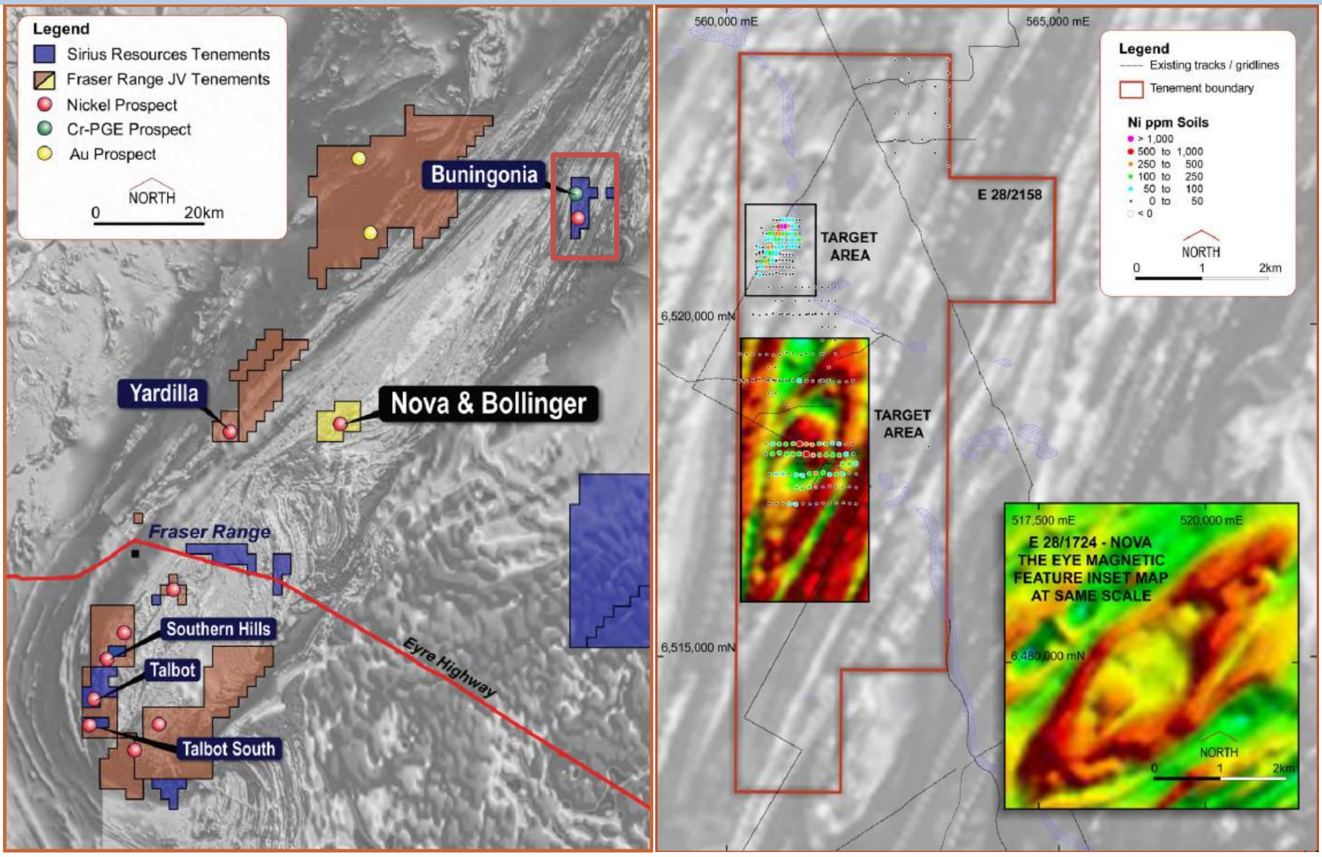
Buningonia contains an intrusive structure which is considered highly prospective for Ni-Cu-PGM and chromite deposits

Located ~45km north-east of Nova

Outside of the Fraser Range JV, Sirius has seven tenements which are wholly owned. Five of these are currently awaiting grant and one recently granted tenement contains the **"Buningonia"** intrusion, which is an Eye-like structure, similar in scale to the Nova-Bollinger host, some 45kms to the south-west.

Sirius considers Buningonia to be highly prospective for nickel-copper-platinum group metal (PGM) and chromite deposits. Soil sampling completed over the intrusion has already identified two strong nickel-copper-chrome-platinum-palladium anomalies, each over 1km in length. With rock chip samples collected from chromite seams also have platinum values of up to 1 g/t. The Company recently completed a ground-based electromagnetic (EM) survey which is now being processed and interpreted. Generated conductive anomalies (indicative of massive sulphides) will be tested by drilling, likely in the New Year. Over 6 areas have already been cleared and approved for drilling.

Fig. 3: Buningonia Project Location (LHS); Target Area (RHS)



Source: Sirius Resources NL

Polar Bear– New Gold Bearing Palaeochannel and Ridge

100% owned by SIR

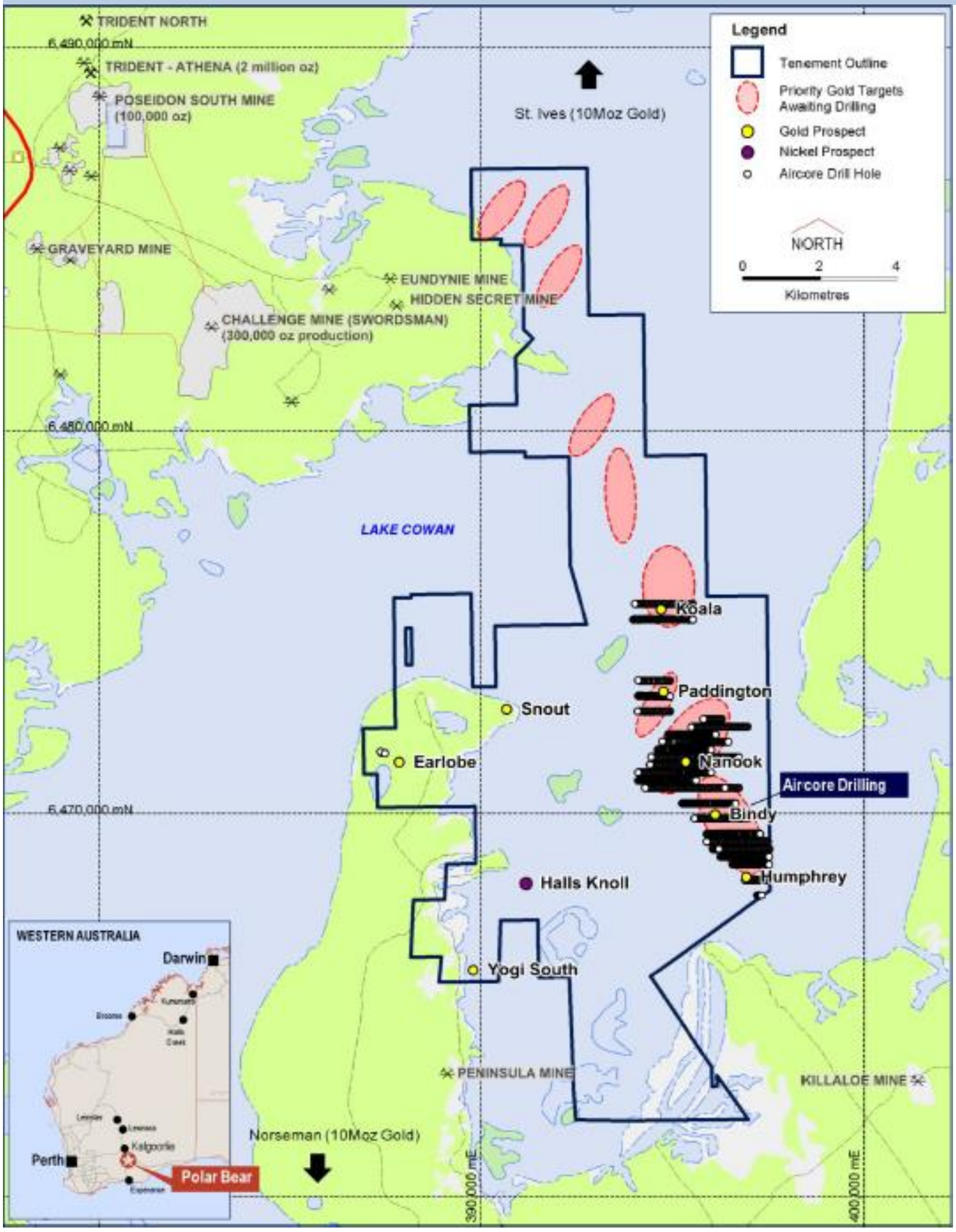
At Polar Bear, Sirius has confirmed three new supergene gold anomalies over the Lake Cowan salt lake. Supergene gold anomalism and gold dispersion blankets are generally associated with underlying or proximal primary mineralisation, which is Sirius' main target.

Situated near the gold mining districts of St Ives (~7Moz) Higginsville (~2Moz) and Norseman (~10Moz)

Considered prospective for gold and nickel mineralisation, with the project area largely unexplored, as the tenure covers the salt lake of Lake Cowan, and wind-blown sediments of the Polar Bear Peninsula

SIR has multiple gold targets to follow-up, with 3 supergene gold anomalies confirmed

Fig. 4: Polar Bear Gold Project Location, south of Kalgoorlie



Source: Sirius Resources NL

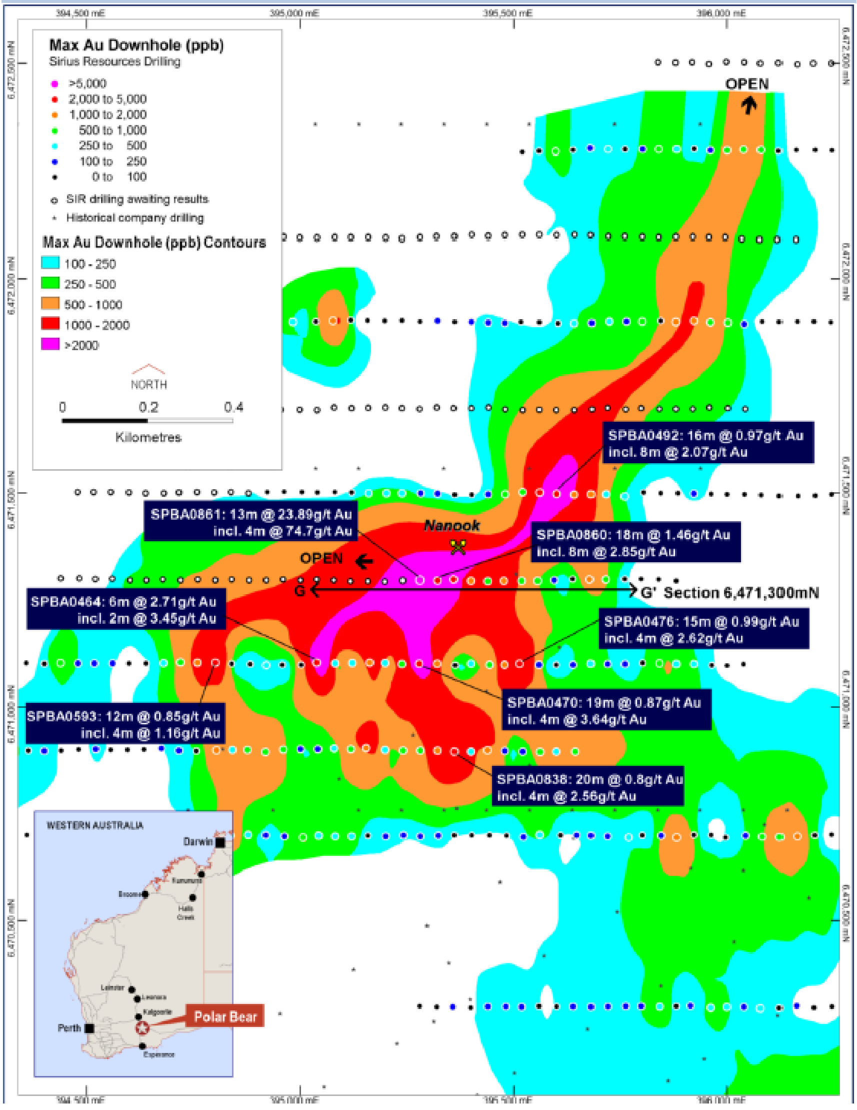
Recently completed geochemical drilling at the **Nanook prospect** has returned some of the highest grade gold intercepts yet with **13m @ 23.9g/t Au** from 44m (incl. 4m @ 74.7g/t Au) reported from quartz gravels within a palaeochannel. The full extent of the mineralisation is at this stage unknown as results are pending for half of the completed infill drilling. The palaeochannel deposit consists of a north-northeast trending lens which extends ~2km along an ancient valley (now covered by the salt lake), which is up to 700m wide and up to 15m thick. The new zone remains open to the northeast and southwest.

The Nanook prospect has returned some of the highest grade gold intercepts yet with ***13m @ 23.9g/t Au*** *from 44m, including* ***4m @ 74.7g/t Au***

Supergene and regolith deposits have been mined successfully within the goldfields; notably at the neighbouring Higginsville operation from the Challenger/Swordsman palaeochannel (+300koz of gold extracted from open pits at average grades above 2g/t). If we use very rough dimensions of the palaeochannel to be ~1,000m long, width of ~300m and thickness of ~11m, and assume an average grade of 2g/t Au (accounting for the poddy nature of such deposits) then Sirius may have already uncovered a similar size deposit (+300Koz). This of course assumes mineralised grade continuity and deposit morphology which is yet to be fully delineated by drilling.

The palaeochannel deposit consists of a north-northeast trending lens which extends ~2km, up to 700m wide and up to 15m thick, it remains open to the northeast and southwest

Fig. 5: Nanook Prospect, Polar Bear



Source: Sirius Resources NL

To the west of the palaeochannel, SIR has defined a buried ridge which contains gold-bearing quartz-veined altered bedrock, which could potentially be the primary source of the gold

Importantly, just to the west of this channel, drilling has also defined a buried ridge which contains quartz-veined altered bedrock, with results received to date over the ridge including **6m @ 1.97g/t Au** from 36m and 6m @ 0.65g/t Au from 44m. The ridge extends ~1.6km, up to 700m wide and is positioned ~50m above the old channel. The ridge could potentially be the primary source of the gold. Further drilling is planned, with the 200m spaced lines to be infill drilled down to 100m spaced lines and with the zones of higher grade mineralisation and areas with primary potential to be followed up with more detailed diamond drilling.

In addition to the drilling at Nanook, Sirius also have another five gold targets to systematically test over the project tenements.

Valuation – Nova-Bollinger

Our Nova-Bollinger valuation is based on information supplied in the scoping study, which highlights a compelling project development with low technical risk.

We still see potential in the surrounding targets around Nova-Bollinger to add more tonnes to the mining inventory

Underground mining will predominantly use sublevel open stoping mining, which we would estimate costs ~$30/t with use of paste fill (stabilised backfill) to enable full ore body extraction which we would estimate costs of ~$25/t, with a +5% contingencies built into the cost estimates (in-line with $58/t reported). The low mining costs are factor of the bulk mining method, very good ground conditions (very competent rocks in the HW and FW positions) and high tonnes per vertical metre at Nova-Bollinger (ave 900t Ni/vm). The mine plan provided in the Scoping Study assumes the systematic development of the main part of the deposit with 3-4 large stopes on line at any one time, with some stopes up to 75m high. We expect the mining schedule will be optimised as part of the DFS work.

We use a discount rate of 12%

Fig. 6: Nova-Bollinger Cost Estimates LOM

LOM Cost Est		
Mining Method	*Type*	*UG, sub-level open stope*
Mining	$/t	58
Processing	$/t	38
Admin	$/t	12
Mine Opex	$/t	108
Transport	$/t	24
Mine Opex + Conc Transport	**$/t**	**132**

Source: Sirius Resources NL

Our sum of parts Sirius valuation is A$1,034m or $3.06/share which is based on a fully funded model at a 70:30 Debt to Equity mix for the Fraser Range (Nova-Bollinger) development

Fig. 7: Nova-Bollinger Modelling Assumptions

Assumptions		
Resource	Mt	14.6
Mining Inventory (est)	Mt	13.9
Nickel Grade (ave)	%	2.0%
Copper Grade (ave)	%	0.82%
Mine Scale	Mtpa	1.5
Mine Life	Years	10
Recoveries – Ni	%	93%
Recoveries – Cu	%	95%
Prod Nickel (ave)-100%	Ktpa	28
Prod Copper (ave)-100%	Ktpa	12
Payabilities – Ni	%	72%
Payabilities – Cu	%	93%
Payable Nickel (ave)-100%	Ktpa	20
Payable Copper (ave)-100%	Ktpa	11
Capex - 100%	$m	480
Sus Capex - 100%	$m	110
C1 cash costs	$/lb NiEq	~2.50
Total cash	$/lb NiEq	~3.00
First Ore	Date	Q2 2016

Source: Hartleys Research

We use pre-production capex of A$480m, and sustaining LOM capex of A$110m and assume first production mid-CY2016. We would expect to see a high proportion of debt funding of the capex but maintain our 70:30 D:E split, with some of the equity component provided by the recent raise.

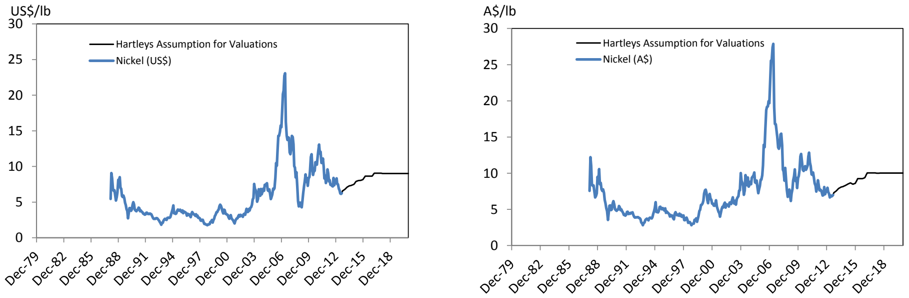
There is considerable upside to our modelling if the remaining 30% project interest can be acquired from JV partner Creasy at a sensible price

We still assume at this stage project interest will be 70% at the mining stage but this may change before or after the BFS is delivered. The price at which JV partner Creasy may sell is the biggest unknown, our Nova-Bollinger project value (100%) is ~$1.3b which assumes higher nickel and copper prices than current spot. We imply value of close to ~$400m for 30%, but this would need to be further discounted for the development costs, commodity price risk and other assets including additional exploration value (now being demonstrated) outside the Nova-Bollinger JV ground on 100% SIR ground.

Sirius' current market cap provides current "look-through" project valuation, which already discounts for development and current commodity price outlook/sentiment risks. The market, in our opinion, is assigning little value for projects outside of Nova-Bollinger at this stage. On current market cap measures the remaining Nova-Bollinger project acquisition (30%) is worth ~$180m, after adjusting for cash and other assets. We see a mix of cash and scrip to be the likely outcome for the remaining project interest, should it become available.

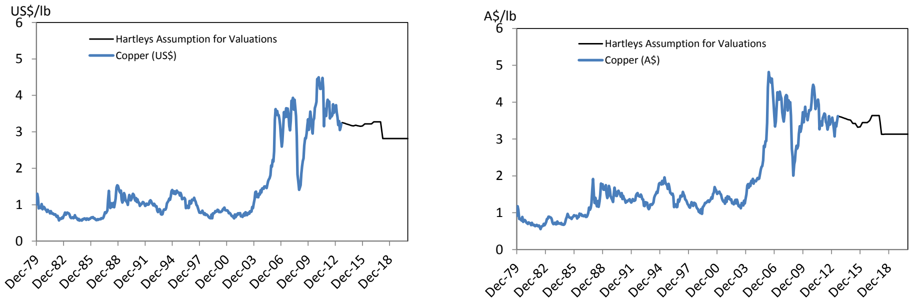
Fig. 8: Nickel and Copper Price Assumptions

Nickel



We use commodity price forecasts that track Sell-side Consensus

Copper



Source: Hartleys Research Estimates; IRESS

Fig. 9: Price Target

Price Target Methodology	Weighting	8/11/2013	12 Month
Nova+Bollinger NPV@12% - Base Case	40%	$2.73	$3.06
Nova+Bollinger NPV@8% - Base Case	42%	$3.86	$4.38
Nova+Bollinger NPV@12% - Spot	7%	$1.45	$1.67
Nova+Bollinger NPV@8% - Spot	9%	$1.78	$2.00
Nova+Bollinger+Other Targets NPV@8% - 25Mt	2%	$5.61	$6.29
Risk weighted composite		**$3.08**	
12 Months Price Target		**$3.49**	
Shareprice - Last		$2.500	
12 mth total return (% to 12mth target + dividend)		**39%**	

Source: Hartleys Estimate

Risks

Key risks include defining ore reserve and progressing feasibility studies towards development at Nova-Bollinger

Key risks for Sirius include converting the Nova-Bollinger resources to ore reserves, progressing feasibility studies towards development of Nova-Bollinger (and the other targets yet to be drilled). The scoping study highlights that the project is economically viable at nickel prices below $4/lb. Assuming a feasible project, funding is required which adds more risk to the potential development. Key assumptions and risks for our valuation are summarised below.

Fig. 10:Key assumptions and risks for valuation

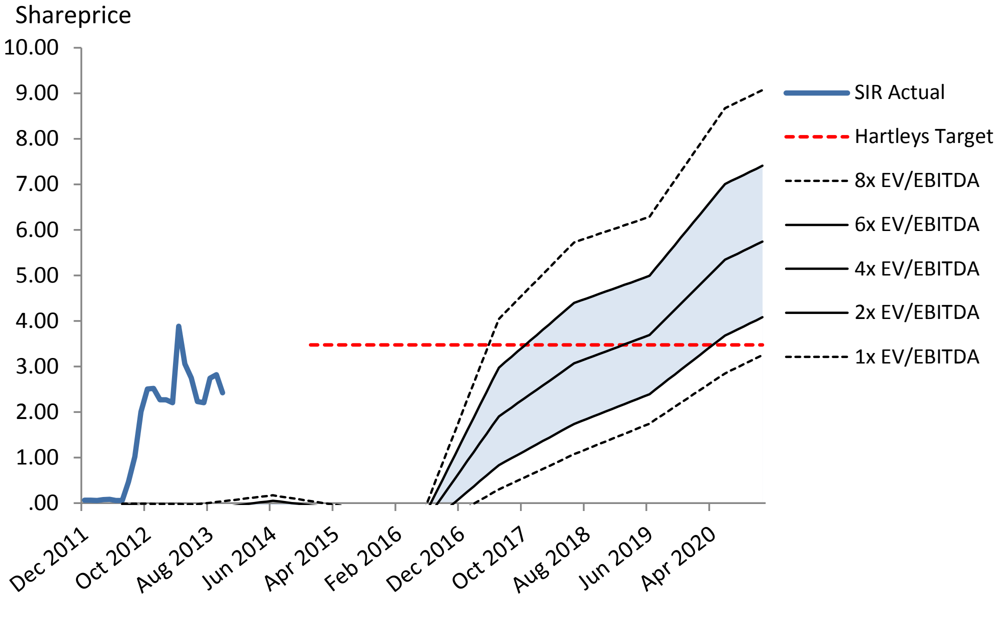
Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Mining Inventory Size and Grade	Low	Low	The scoping study uses a Mining Inventory which is predominantly calculated from Indicated resources with only a small component of Inferred used. Overall resource conversion to reserves is expected to be very high ~95%.
First Production mid-2016	Moderate	Moderate	We have adjusted our timeline until first production, which aligns with Company guidance. With the scoping study completed to such a high level (near PFS) and DFS expected to be released mid-2014, timeframes seem reasonable.
Good Recoveries and Payabilities	Low	Moderate	We expect favourable metallurgy, high recoveries and high payabilities (little or no penalties)
Significant capex requirement	Moderate	Moderate	Capital requirements are expected to be <$500m and there is some risk that SIR will not be able to fund the project development. Though we expect the FS will ultimately be Bankable.
Commodity prices will meet forecast	Moderate	Moderate - High	We use long-term consensus prices for our commodity price assumptions
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 Research

EV/EBITDA Bands

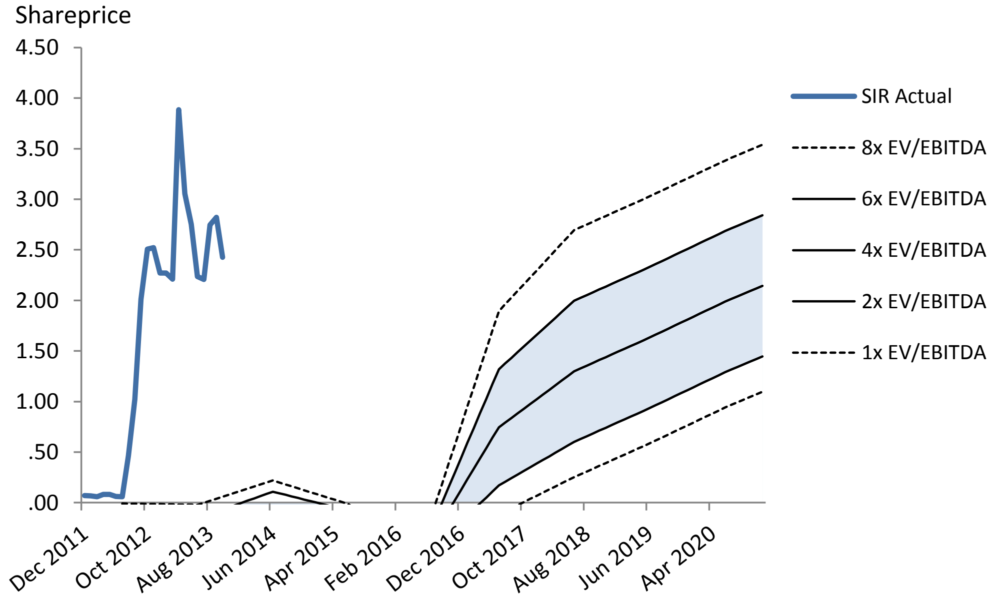
Significant upside to our price target should SIR successfully bring Nova-Bollinger into production and commodity prices ultimately improve as forecast

Fig. 11: Using Hartleys base case commodity forecasts



Source: Hartleys Research

Fig. 12: Using current Spot commodity prices



Source: Hartleys Research

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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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