

Date of issue

24.09.09

Company Update

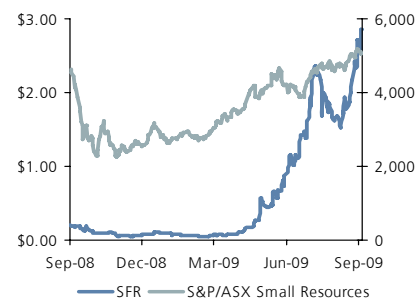
INVESTMENT DATA

Share Price	\$2.86
Issued Capital	
Ordinary Shares	95.2m
Options + Other	22.4m
Fully Diluted	117.6m
Market Capitalisation	\$336m
52 Week Low/High	\$0.05 / \$2.99
Valuation (base case)	\$3.97
Price Target (12 months)	\$4.00
Major shareholders	
POSCO	17.5%
Founders & Board	15.6%

Top 20 shareholders hold 60% of issued shares.

PRELIMINARY ASSESSED VALUE

	\$m
Doolgunna Cu - Au project (100%)	283
Doolgunna exploration	93
Other projects - nominal	25
Cash (August 09)	13
Options	8
Corporate Overheads	-13
SFR NPV	409
SFR capitalisation earnings	524
AVG assessed value	467
AVG assessed value per share	\$3.97



Sandfire Resources (SFR)

Spec Buy

Further drilling success at Doolgunna

Drilling continues to expand the exciting high grade copper-gold discoveries at Doolgunna, with results extending mineralisation both along strike at down plunge. Although evaluation of the DeGrussa and Conductor 1 discoveries is at a formative stage, we are prepared to take an early view that the discoveries are likely to become economic, subject to delineation of a JORC resource and completion of a Feasibility Study.

Drilling in proximity to discovery hole delivers another spectacular intersection

Drilling in proximity to the discovery hole DGDD001 has delivered another outstanding intersection in drill hole DGDD007 of 50.1m grading 8.4% Cu, and 2.9g/t Au (on the DeGrussa zone); and 8.9m grading 5.0% Cu and 1.5g/t Au (on the Conductor 1 zone). The intersection in drill hole DGDD007 is 80m down dip of discovery hole DGDD001.

Drilling extends mineralisation at depth and along strike

Deeper drilling, which we view as testing for the down plunge extension of mineralisation, has intersected 24.6m of massive sulphides within a 34.7m interval in hole DGDD019. The intersection is interpreted to be on the Conductor 1 zone, and is 475m below the ground surface and 100m below the previous deepest mineralised drill hole (in DGDD015).

Drill hole DGDD021, 200m to the west of discovery hole DGDD001, has intersected 35.2m of massive sulphides, and extends the Conductor 1 zone over an east-west strike length of over 400m, and remains open along strike. Infill and step-out drilling is continuing with three drill rigs currently operating at Doolgunna.

Another zone of mineralisation discovered in footwall of known mineralisation

Step-out drilling has also intersected what appears to be a new mineralised zone 200m to the east of discovery hole DGDD001, and approximately 100m below the Conductor 1 zone (down hole and in the footwall). This new zone has been named the Footwall zone. The intersections include 2.1m grading 4.5% Cu & 1.3g/t Au, and 3.5m grading 5.1% Cu & 1.1g/t Au (both intersections in DGDD005), and 4.0m of massive sulphides (in DGDD016) (assays awaited).

We maintain Speculative Buy recommendation and raise price target to \$4.00

Incorporating the additional drilling results we have raised our assessed value to \$3.97 (previously \$3.38), and we now set a 12 month price target at \$4.00 (previously \$3.40). We continue to highlight the strong growth potential of the Doolgunna mineralisation, and we would expect our assessed value to increase accordingly as drilling continues. In addition, our assessed value has significant leverage to a stronger outlook for the copper market, with our assessed value increasing to an upside case of \$6.04 if we use a copper price of US\$3.00/lb in line with the current spot price.

In view of the early stage of the Doolgunna copper-gold project, where a JORC resource or formal Feasibility Study has not been carried out to demonstrated economic viability, an investment in SFR remains speculative in nature and more suitable for investors with a higher tolerance for risk.

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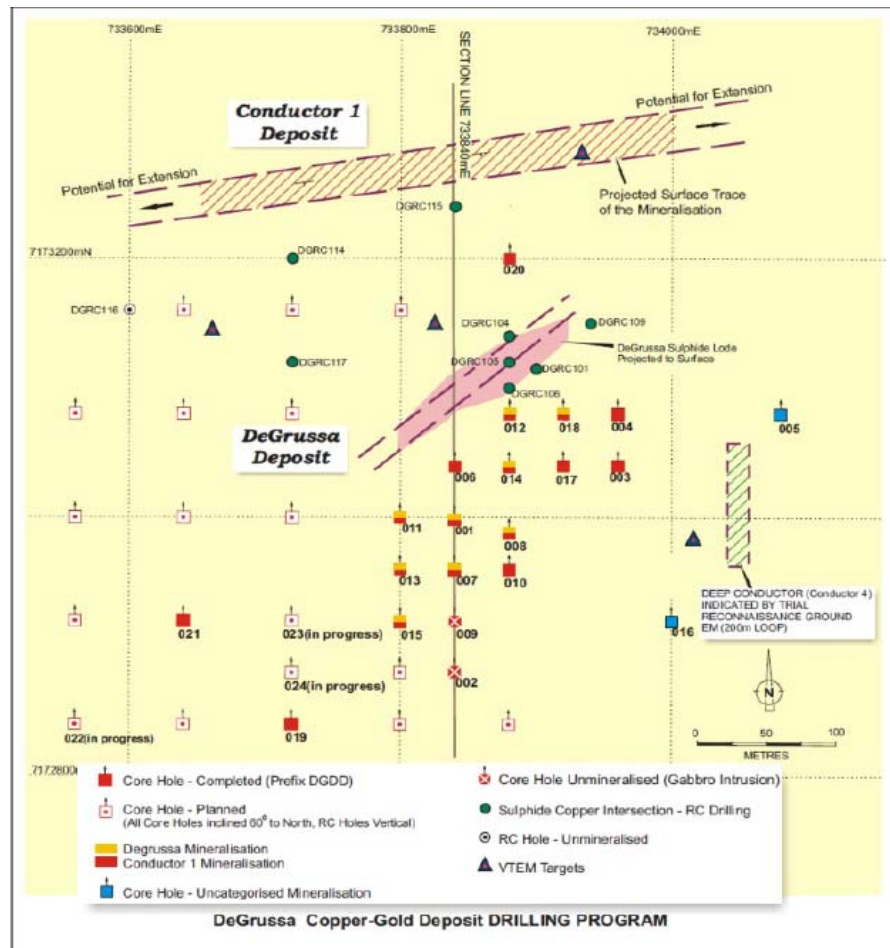
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Figure 1 - Updated Doolgunna drill hole location plan



Source: Company

Drilling in proximity to discovery hole delivers another spectacular intersection

Drilling in proximity to the discovery hole has delivered another outstanding intersection in drill hole DGDD007 of 50.1m grading 8.4% Cu, and 2.9g/t Au (on the DeGrussa zone); and 8.9m grading 5.0% Cu and 1.5g/t Au (on the Conductor 1 zone). The intersection in drill hole DGDD007 is collared 80m to the south of discovery hole DGDD001 (refer to Figure 1).

Drilling extends mineralisation at depth and along strike

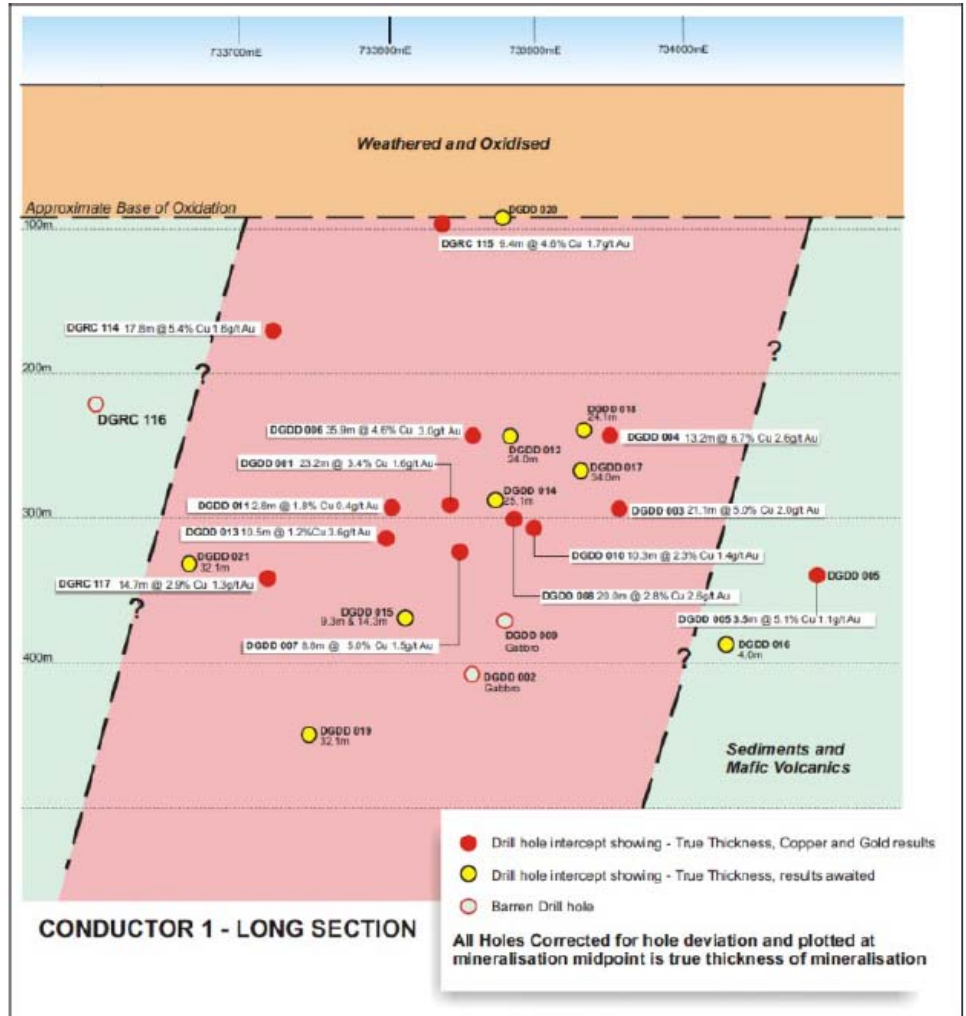
Deeper drilling, which we view as testing for the down plunge extension of mineralisation, has intersected 24.6m of massive sulphides intersected within a 34.7m interval in hole DGDD019 (refer to Figure 1 and 2). The intersection is interpreted to be on Conductor 1 and is 475m below the ground surface and 100m deeper than the previous deepest mineralised drill hole (in DGDD015).

Drill hole DGDD021, 200m to the west of discovery hole DGDD001 has intersected 35.2m of massive sulphides, which extends Conductor 1 mineralisation over an east-west strike length of over 400m, and is open along strike. Infill and step-out drilling is continuing with three drill rigs currently operating at Doolgunna.

Another zone of mineralisation discovered in footwall of known mineralisation

Ongoing step-out drilling has also intersected what appears to be a new mineralised zone 200m to the east of discovery hole DGDD001 and approximately 100m below Conductor 1 (down hole and in the footwall). The intersections include 2.1m grading 4.5% Cu, and 1.3g/t Au, and 3.5m @ 5.1% Cu, 1.1g/t Au (DGDD005), also 4.0m of massive sulphides (in DGDD016) (assays awaited). Refer to Figure 1.

Figure 2 - Long section of Conductor 1 mineralisation



Source: Company

Resource definition drilling is ongoing.

Drilling to define the lateral extent and level of continuity of the mineralisation is continuing. SFR is targeting an initial JORC resource for DeGrussa & Conductor 1 by the end of 2009.

Figure 3 - Summary of available Doolgunna drill results

TABLE 1								
SUMMARY OF NEW ASSAY RESULTS FOR DIAMOND CORE DRILLING – DOOLGUNNA PROJECT								
Hole Number	Deposit	Interval (down hole)			Copper	Gold	Zinc	Silver
		From (m)	To (m)	Total (m)	(Cu) (%)	(Au) (g/t)	(Zn) (%)	(Ag) (g/t)
DGDD-005	Footwall	481.9	484.0	2.1	4.5	1.3	0.5	18.6
	Footwall	502.5	506	3.5	5.1	1.1	0.3	13.8
DGDD-007	DeGrussa	242.5	292.6	50.1	8.4	2.9	1.6	30.8
	Conductor 1	378.1	387	8.9	5.0	1.5	1.4	26.8
DGDD-010	Conductor 1	370.8	383.0	12.2	2.3	1.4	2.4	21.0
DGDD-011	DeGrussa	279.2	281.0	1.8	3.1	1.6	0.9	9.0
	Conductor 1	335.0	338.0	3.0	1.8	0.4	-	4.9
DGDD-013	DeGrussa	202.3	212.6	10.3	5.9	1.8	2.4	34.9
	Conductor 1	358.0	363.0	5.0	1.2	3.6	0.3	12.2

(Note: all intervals are down-hole)

Source: Company

TABLE 2								
SUMMARY OF ALL ASSAY RESULTS TO DATE FOR DIAMOND CORE DRILLING DOOLGUNNA PROJECT								
Hole Number	Deposit	Interval (down hole)			Copper	Gold	Zinc	Silver
		From (m)	To (m)	Total (m)	(Cu) (%)	(Au) (g/t)	(Zn) (%)	(Ag) (g/t)
DGDD-001	DeGrussa	146.1	207.8	53.2	17.3	2.5	-	-
	Conductor 1	319.0	356.3	25.1	3.4	1.6	1.5	16.7
DGDD-003	Conductor 1	322.2	344.1	21.9	5.0	2.0	1.8	14.9
DGDD-004	Conductor 1	267.8	281.5	13.7	6.7	2.6	2.2	26.2
DGDD-005	Footwall	481.9	484.0	2.1	4.5	1.3	0.5	18.6
	Footwall	502.5	506	3.5	5.1	1.1	0.3	13.8
DGDD-006	Conductor 1	283.0	323.7	40.7	4.6	3.0	0.9	18.8
DGDD-007	DeGrussa	242.5	292.6	50.1	8.4	2.9	1.6	30.8
	Conductor 1	378.1	387	8.9	5.0	1.5	1.4	26.8
DGDD-008	Conductor 1	347.4	363.0	15.6	3.1	2.5	3.6	24.3
	DeGrussa	245.0	287.0	42.0	6.6	2.4	1.4	20.5
DGDD-010	Conductor 1	370.8	383.0	12.2	2.3	1.4	2.4	21.0
DGDD-011	DeGrussa	279.2	281.0	1.8	3.1	1.6	0.9	9.0
	Conductor 1	335.0	338.0	3.0	1.8	0.4	-	4.9
DGDD-013	DeGrussa	202.3	212.6	10.3	5.9	1.8	2.4	34.9
	Conductor 1	358.0	363.0	5.0	1.2	3.6	0.3	12.2

(Note: all intervals are down-hole)

Source: Company

Our Assessment and Valuation

Our view on underlying value

Although at an early stage we regard the Doolgunna mineralisation as a high value copper-gold discovery, with a high probability of being economic to develop, subject to delineation of a JORC resource and completion of a formal Feasibility Study. We have an updated assessed value of \$3.97 (previously \$3.38), based on the average of a net present value of cash flows from potential development of an underground mining operation at the Doolgunna project (\$409m or \$3.48 a share), and value based on capitalisation of projected earnings (\$524m or \$4.46 a share).

Our assessment includes estimates of project physicals

We have made our own preliminary estimate of the size and grade of the DeGrussa and Conductor 1 mineralisation. We also carry out a "desk top" review of a potential underground mine, with the production of copper-gold concentrates at the Doolgunna project (refer to Figure 4).

We have used a manual polygonal approach, where we considered the average thicknesses of mineralisation and weighted average values of copper & gold mineralisation at Doolgunna. We highlight that our estimate is preliminary in nature, and not prepared in accordance with JORC guidelines, and likely to be revised as more drill results come to hand.

Figure 4 - Summary of desk top study of potential Doolgunna development

Doolgunna copper-gold discoveries - Preliminary Assessment	
Resource Estimates :	Bell Potter internal estimates (Not in compliance with JORC)
DeGrussa Zone	2.8mt grading 7.9% Cu (& 2.2g/t Au) for 220kt Cu (195k oz Au)
Conductor 1 Zone	3.1mt grading 3.8% Cu (& 1.8g/t Au) for 120kt Cu (180k oz Au)
Total Resource (Non JORC)	6.0mt grading 5.7% Cu (& 2.0g/t Au) for 340kt Cu (375k oz Au)
<i>(Source is Bell Potter manual polygonal estimate of ASX drill results to 23/09/09 :)</i>	
<i>(DeGrussa Zone dimensions - 160m strike length, 200m dip length and average true thickness of 20m, SG 3.8)</i>	
<i>(Conductor 1 Zone dimensions - 240m strike length, 270m dip length and average true thickness of 14m, SG 3.8)</i>	
Project sizing	Processing 1.0mtpa grading 5.7% Cu for ~50kt Cu (& 55-60k oz Au)
<i>(Assumes decline underground extraction of entire resource from 90m to 360m depth)</i>	
Project capital cost	\$200m (pre cash flow) - UG development, plant & infrastructure
Project operating costs	US\$1.05/lb Cu after Au & Ag credits
<i>(assumes 100% recovery of resource at 1.0Mtpa over a 6 year mine life = LOM)</i>	
Project LOM op surplus	\$1,155m
Project LOM Net Cash Flow	\$514m (SFR 100% interest)
Project LOM NPV (12% DR)	\$283m (excludes exploration) - we ascribe \$93m to project exploration
Assumptions	LOM Cu & Au prices of US\$2.50/lb & US\$750/oz. LOM FX of 0.80

Assumptions of our valuation

We have a positive outlook for both the copper and gold price. We assume a flat life of mine (LOM) copper price of US\$2.50/lb, a gold price of US\$750/oz, and a AUD:USD exchange rate of 0.80. In view of the strong potential project cash flows we assume that SFR is able to 100% debt fund the estimated project capital costs of \$200m.

Risks

Management team has track record of mine development

At this early stage of project evaluation there are substantial areas of technical and financial risk. However, the SFR management team has a track record of project development and operations, at the Macraes gold mine in NZ and at the Ellendale diamond mine in the Kimberleys in WA.

The metallurgy of the DeGrussa and Conductor 1 discoveries

The dominant sulphide mineralisation at Doolgunna comprises chalcopyrite, pyrite and sphalerite. We expect the copper and gold contained in the DeGrussa and Conductor 1 mineralisation to be recovered to a chalcopyrite concentrate through conventional treatment at the Doolgunna project site. The concentrate would then be transported to the nearest port for loading and shipping to customers. At this stage no metallurgical test work has been carried out to determine the amenability and levels of recovery of copper and gold by conventional treatment through to production of sulphide concentrates.

We also note that the grade of copper mineralisation in a number of drill holes is unusually high for traditional chalcopyrite copper sulphide mineralisation. We are inclined to attribute this to a small content of supergene minerals such as chalcocite and covellite, in some of the drill holes, where small or trace amounts of these high grade copper minerals can enhance the overall copper grade significantly. At this stage no whole rock geochemistry or polished thin section petrography work has been carried out to determine the mineralogy of the copper-gold mineralisation. The presence of supergene copper minerals such as chalcocite and covellite would have some implications for metallurgical recoveries of copper to copper concentrates. As such we have used a lower copper recovery of 85% to allow for this possibility in our modelling).

A program of whole rock geochemistry should also determine if any deleterious elements are present in the mineralisation. Although, we do not expect any deleterious elements in what looks like straightforward chalcopyrite mineralisation, we note that historically the concentrate from the Horseshoe Lights copper-gold operation, along strike to the west and also hosted in the Naracotta volcanics, had some issues with high mercury in its concentrate. This attracts penalties at the point of sale of concentrate to customers.

Funding of project development

On a preliminary basis we estimate the capital cost of Doolgunna project development would be approximately \$160m (pre cash flow). This would comprise full capital works for an underground operation and a conventional treatment plant (and associated infrastructure) at the Doolgunna site. The source of this funding is not clear at this stage, but we hasten to add that our "desk top" review of potential project development indicates strong net cash flow generation which would facilitate a high level of project debt funding.

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