

Wednesday 20th August, 2014

Potash West – Farm-in to German potash project/meeting with management – Speculative Buy

Potash West (ASX: PWN, Share Price: \$0.043, Market Cap: \$6m) has been the sole emerging potash company within our coverage and we have followed the stock via our Watch-list for the past several years. The company has to this point been entirely focused on its Dandaragan Trough fertiliser project in Western Australia's Perth Basin, where it has identified a large-scale resource. Previous exploration indicates glauconite sediments are widespread for more than 150km along strike and 30km in width. The project is well situated in relation to infrastructure, with close access to rail, power and gas.

The company recently announced that it is earning into an advanced potash project in Germany, whereby it has the right to earn up to a 55% stake in the joint venture by funding early exploration worth \$0.35m.



Market Significance

Potash West's share price performance reflects the general malaise impacting junior exploration companies over the past 12 months, but things are beginning to change. The resource potential at Dandaragan in Western Australia is huge and underwrites a potentially long-life production asset. The company's foray into Germany has the potential to accelerate its move to production status via a project with an advanced exploration history, situated in a historic production region with abundant infrastructure.

Announcement Detail

I had the opportunity to meet on Wednesday afternoon with Managing Director Patrick McManus and Corporate Affairs Head Peter Nesveda. The rationale for the meeting was to provide an overview of the company's strategic farm-in to an advanced potash opportunity in Germany. Potash West has the right to earn up to a 55% stake in the joint venture project by funding exploration activity.

The Joint Venture group (East Exploration Pty Ltd [EE] and its 100% owned subsidiary, East Exploration GmbH, [EEG]), have applied for exploration licences in the South Harz potash district, a historic region where potash has been mined since 1896 - and is still being produced. In fact, more than 500 million tonnes of potash ore has been extracted from the South Harz region, producing more than 100 million tonnes of potash fertilizer.



The joint venture has applied for two exploration licence areas, both of which have historical drilling that intersected potash mineralisation over large areas. The drilling was carried out prior to the reunification of Germany in 1990 and potash production ceased in these areas during 1992, driven largely by depressed potash prices. Since then, potash prices have risen more than three-fold.

Potash West has paid \$100,000 to earn a 25% stake in EE, and a further \$200,000 will be paid to earn a further 25% of EE. Those funds will be used to gain the licences and allow Ercosplan and EE to review

the significant amount of geological data that exists from work carried out in previous decades. Potash West then has the right to proceed to 55% ownership via the payment of a further \$50,000.

PWN will keep the market updated as to the progress and status of the application and further work being conducted by ERCOSPLAN.

Technical Significance

The farm-in deal provides the ideal opportunity for Potash West to expand its global presence by establishing a foothold in the European potash market. Germany has a long and successful history of potash production, being a pioneer of extraction from buried evaporite beds. ERCOSPLAN is a world-recognised consultant in potash and has had an association with the South Harz field dating over 50 years. They are the logical partners for EEG to develop an exploration and operating project in the region.

The development complements the company's very large Dandaragan Trough project in Western Australia. It remains committed to the development of its Dinner Hill project within the Dandaragan Trough and is working to complete the feasibility study on its phosphate project as the next stage of that program.

Project Background

Potash West is focused on developing potassium-rich glauconite deposits in West Australia's Perth Basin. The company's aim is to define a substantial resource base and investigate how best to recover potash from the mineral. The project is well situated in relation to infrastructure, with good access to rail, power and gas.

The updated Scoping Study that was released during April 2014 featured a reduction in operating costs from \$285/t of product to \$241/t and increased EBITDA from \$33m to \$48m annually, which in turn increased project NPV from \$218m to \$331m.

The Dandaragan Trough project has unique advantages of excellent connectivity to transport facilities, infrastructure and proximity to local and regional markets. The Dinner Hill resource is located less than 200km from two major bulk export ports, Kwinana and Geraldton and is well situated in relation to major project infrastructure.

Summary

Potash West continues to make steady progress in terms of highlighting the vast resource potential that lies within its Dandaragan Trough project in Western Australia. Looking ahead, the company aims to have its Feasibility Study completed by Q4 2015, completion of construction by Q4 2017 and start-up of full-scale production during mid-2018.

The attraction of the new German farm-in project is that it has the potential to accelerate the company's move to production status, as infrastructure is abundant in a historic potash producing region. Any product produced would be consumed within the domestic European market. We will have further detail with respect to both projects in the very near future, but we believe now is the time to upgrade Potash West to Speculative Buy status around \$0.043.

Publishing Note: The MineLife Weekly Report will be published on Thursday.

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