

Potash West NL (ASX:PWN)

POTASH IN GERMANY

PHOSPHATE PROJECT

POTASH TECHNOLOGY

COMPANY DATA

ASX Code	PWN
Recommendation	SPECULATIVE BUY
Share Price (A\$)	A\$0.066
Fully paid ord. shares on issue (m)	137.4
Partly paid ord. shares on issue (m)	35.9
Options on Issue (m)	13.0
Market Capitalisation (A\$m)	A\$9.1
Cash 30 Jun 14 + placement (A\$m)	A\$1.0
Debt	nil
Enterprise Value (A\$m)	A\$8.1

SHARE PRICE PERFORMANCE



BOARD & MANAGEMENT

Adrian Griffin	Non-Executive Chairman
Patrick McManus	Managing Director
Gary Johnson	Non-Executive Director
George Sakalidis	Non-Executive Director
Elizabeth Hunt	Company Secretary

MAJOR SHAREHOLDERS

Citicorp Nominees	11.4 %
UOB Kay Hian Private Limited	7.0 %
Robert Van der Laan	4.5 %
Adrian Griffin	3.7 %

INITIATION OF COVERAGE - SPECULATIVE BUY

Potash West – New Potash Endeavours in Germany

SUMMARY

Potash West has recently entered into a new joint venture whereby it can earn up to a 55% interest in 2 German potash exploration licences that have had extensive exploration drilling previously undertaken and are located in the heart of the prolific German potash producing district. The joint venture has exploration licence applications before the relevant authority. These licences are expected to be granted in 4Q 2014.

A thorough geological and drilling review has commenced utilising a renowned German-based potash expert firm, with the intention of moving the prior drilling work through to JORC status prior to the end of CY 2014. Helmsec understands there is potential for up to a 500 Mt (gross) resource at potentially attractive 10-15% K2O grade – this is an indicative estimate only and should not be relied upon.

Accordingly, Potash West has potential for significant **near-term value appreciation** to be driven upon delivery of **successful results in Germany of prior extensive drilling programme** being reflected in JORC Resources (if achieved up to the indicative levels and on the basis of the granting of the formal licences).

A broad comparison of Potash West to certain of its listed peers shows that Potash West, with a current modest market capitalisation reflecting among other things its pre-JORC status in Germany, is highly leveraged to the success case in Germany.

The activity levels proposed in Germany, the farm-in terms, ongoing work in the Dandaragan Trough, and the company’s existing cash balance, when combined with Potash West’s pre-production status means that investors should expect Potash West to undertake funding raising exercises from time to time.

Longer-term value appreciation will be driven by the potential for a **rapid delivery into potash production in Germany** and also by the **ongoing demonstration of attractiveness of its massive Dandaragan Trough** business in Western Australia, involving its Superphosphate (SSP) project and its K-Max technology/process (in effect, glauconite-to-potash).

This initiation research note focuses upon the German joint venture. Given the activity and pending results of the study currently underway, as well as the medium-term timeframes for the Dandaragan Trough projects, and Helmsec Global’s current role for Potash West (see disclaimer), a valuation has not been undertaken for this report.

Potash West is recommended as a **SPECULATIVE BUY**.

COMPANY STRATEGY

Potash West focuses upon the fertilizer market with a dual-pronged product approach:

- Potassium fertilizer (from Potash production); and
- Single Super Phosphate fertilizer (from Phosphate production),

in order to sell these products into both the Asian/Australian and European regions. This strategy is soundly based on the universally expected global food production explosion over coming years and decades, which is driven by a combination of expected global population increases, global efforts to reduce hunger/malnutrition, and changes to food preferences expected from socio-economic improvements.

Potash West's asset portfolio comprises 4 key assets:

- Brownfields Potash in Germany: the newly acquired East Exploration joint venture interest, comprising licence applications for the Kuellstedt and Graefentonna areas (K&G) in the prolific potash producing region of South Harz, Germany;
- Phosphate in WA: initial phase of the Dandaragan Trough project, WA, focussing on production from the phosphate nodules prevalent in the area ; and
- Potash from Glaucanite in WA: Potash West's K-Max technology provides a possible mechanism to produce potash from the massive glauconite deposits in the Dandaragan Trough, WA (and in glauconite deposits globally).
- IP relating to the K-Max process, which is in patent application.

The broad project timing proposed by Potash West is for the WA Phosphate project and the German Potash project to be progressed to commercialisation as rapidly as possible, and the Glaucanite-Potash project to be progressed after the K-Max technology pilot phases have been successfully undertaken and completed.

EXPERIENCED BOARD AND SENIOR MANAGEMENT

Adrian Griffin – Non-Executive Chairman

Mr Griffin has more than three decades of experience as a mining professional. He is the managing director of ASX-listed Midwinter Resources NL, a non-executive director of Northern Uranium Limited, a former chief executive officer of Dwyka Diamonds Limited, was a founding director of Washington Resources Limited, Empire Resources Limited, Ferrum Crescent Limited and Reedy Lagoon Corporation Limited.

Patrick McManus – Managing Director

Mr McManus has been a mining professional for more than 30 years. During that time, he has worked in operational, technical and corporate roles for Rio Tinto, RGC Limited and Bemax Resources Limited, and he was a founding director and managing director of ASX-listed Corvette Resources Limited.

George Sakalidis – Non-Executive Director

Mr Sakalidis is an exploration geophysicist of more than 20 years' standing. He was instrumental in the acquisition of the Image Resources exploration tenements, and the design and interpretation of the magnetic surveys that led to the discovery of the large mineral sands resources at the Dongara project of Magnetic Minerals NL, of which he was a founding director. He is also a director of Image Resources, Magnetic Resources and Meteoric Resources

Gary Johnson – Non-Executive Director

Gary Johnson is a metallurgist with more than 30 years of broad experience. Gary formed his own hydrometallurgical consulting company, which included working closely with LionOre Mining International to develop the Activox® process for treating sulphide concentrates. Today, Gary runs his own consulting company, which specialises in high-level metallurgical and strategic advice. He also holds several patents in the field of hydrometallurgy and is a director of the TSX-listed Hard Creek Nickel Corporation and ASX listed Antipa Resources.

PROJECTS OVERVIEW

German Potash Project

Potash West's newly acquired potash interest is focussed on the prolific South Harz region of Germany.

It is understood that Potash West can quickly and cheaply move this asset into a JORC resource status with the intention of rapidly pursuing a potash mining and processing operation. Potash West plans to have its review of geological data completed in a manner consistent with JORC reporting by the end of 2014. Accordingly, following licence granting there is near-term potential for market re-rating of Potash West and a rapid advancement into the status of a potash producer.



Figure 1: Potash West's German asset location. Source: Potash West

Dandaragan Trough

The Dandaragan Trough is a very large greenstone/glaucosite hosting geological feature in south-western WA, just north of Perth, with over 2,000km² of prospective area. Glaucosite is prevalent in the Trough with approximately 150 km along strike and over 20km wide with intersections to date of over 40 metres. Potash West has the dominant position in this massive resource area.

In addition to planning potassium fertilizer production using Potash West’s K-Max technology (akin to a glaucosite-to-potash process), there are also phosphate nodules hosted in chalk sediments in the Trough which Potash West plans to mine in order to produce a Single Super Phosphate (SSP) fertilizer product.

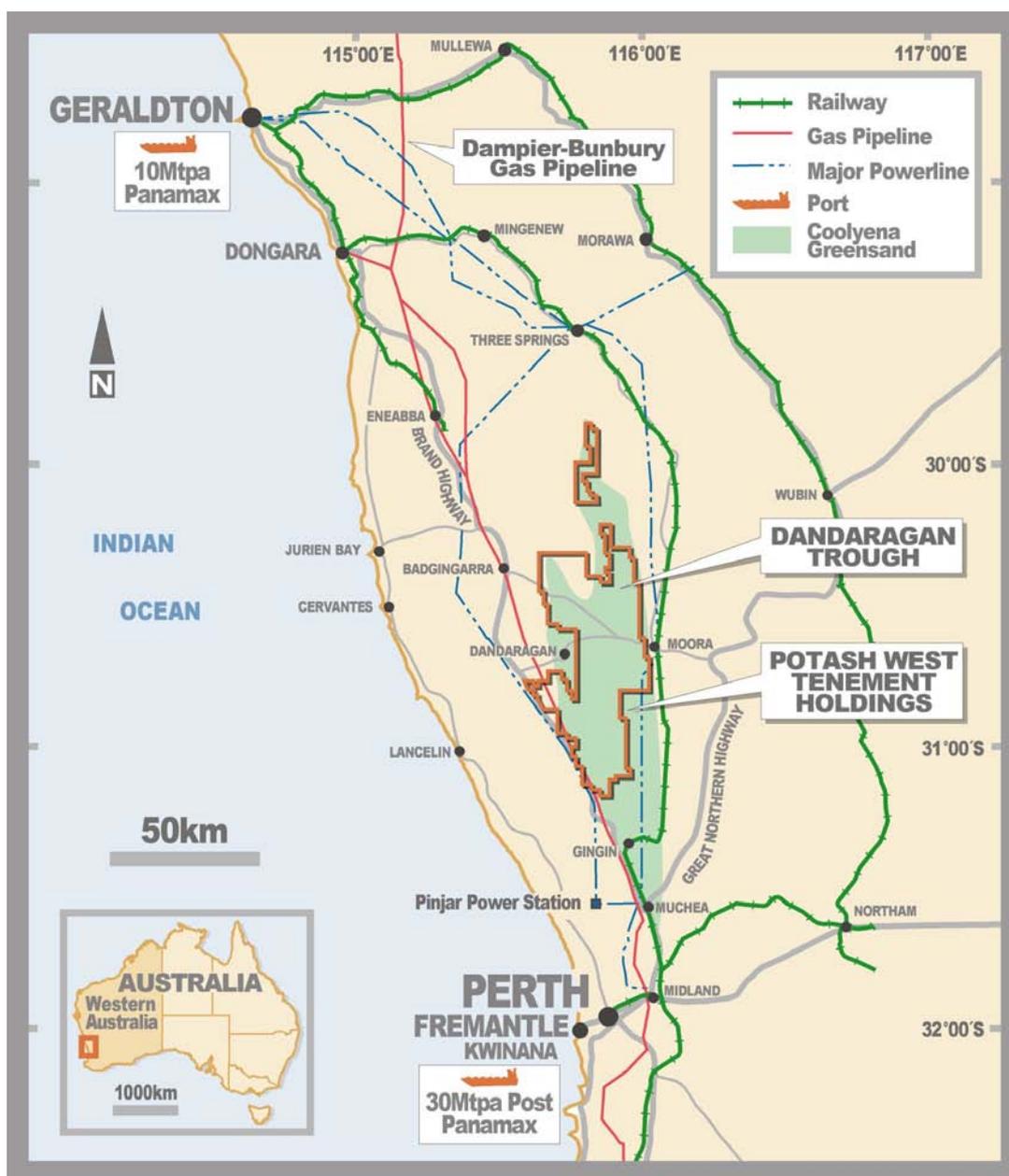


Figure 2: Potash West’s Dandaragan Trough location. Source: Potash West

Scoping studies have been completed on both the SSP project and the K-Max project. Both show strong returns from very long-lived operations, based on JORC resources in 9 km² in the Dinner Hill region. The probability of increasing the resource base is considered very high. Feasibility studies are in progress on the lower cost, proven technology SSP project.

GERMAN POTASH PROJECT

Overview of Kullstedt and Grafentonna (“K&G”)

The K&G licences that have been applied for cover an area of 450 km², incorporating what is regarded as licence-wide potash deposits based on the previous results of numerous drillholes. These drillholes were undertaken prior to German reunification, and further proving up of the resource potential only ceased due to low potash prices in the early 1990’s. Potash West, via the joint venture company, East Exploration, has applied for these licences and expects granting to occur in November 2014.

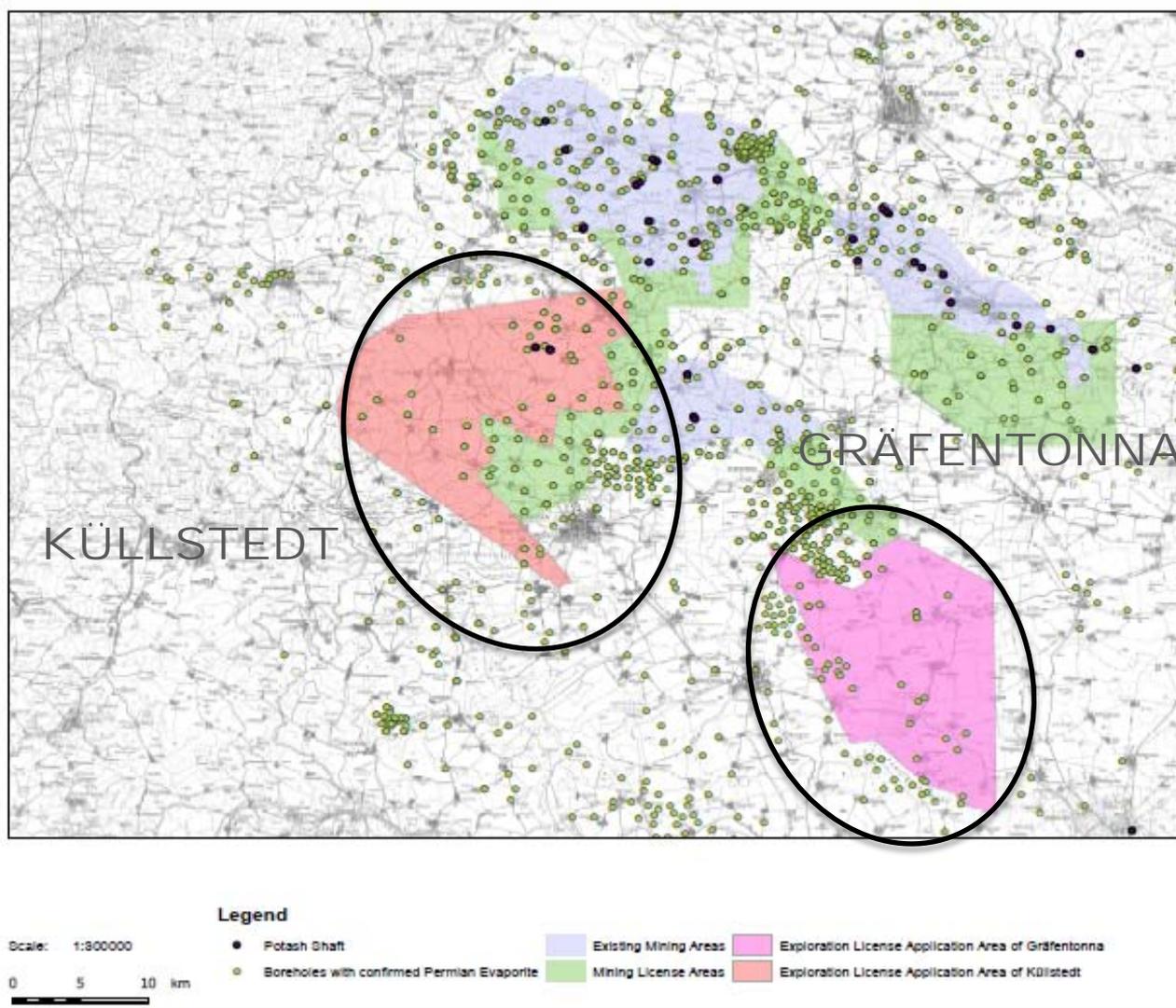


Figure 3: Extent of drillholes in K&G licence areas. Source: Potash West

Potash West’s intent to rapidly pursue K&G’s appraisal and development is shown by Potash West’s early decision to commission an intensive review of the prior drillhole and geological information relating to Kullstedt, itself a 246 km² area. This geological information shows extensive historical drilling with potash mineralisation intersections from between 200m and 1000m below surface.

Significant Resource Size and Re-rating Potential

As mentioned, Potash West is undertaking work at Kullstedt that is understood may lead to a resource calculation over the coming months.

As a broad estimate, it is possible that this work at Kullstedt results in a “ballpark” gross resource tonnage in the range of 500 Mt with 10-15% K₂O grade. This is not a resource, is only a rough estimate of tonnage and grade by Helmsec to indicate an order of magnitude only, and Potash West is waiting licence granting, so these indications should not be relied upon and should be treated with caution by investors.

If these indications were to be achieved by Potash West in its current efforts at Kullstedt, then this would attractively place Potash West among its listed-company peers, as can be seen in Figure 4.

Company	Market Capitalisation (A\$m)	Project	Location	Status	Tonnage (Mt)	Grade (%)	Depth (m)	Processing meth	Ore Type	Product
Sirius Minerals	431	York project	Yorkshire	DFS	2,660	85.7 polyhalite	1500	Dry granulation	Polyhalite	NPK
Fertoz	22	Wapiti	British Columbia	Bulk sample	1,538 - inferred	21.6 P ₂ O ₅	30	Benefication	Phosphatic siltstones & cherts	P ₂ O ₅
Rum Jungle	33	Ammaroo	Northern Territory	PFS	1,008 of P ₂ O ₅	14 P ₂ O ₅		Solar evaporation	Schoenite	DAP, SOP
Arienne	82	Lac à Paul	Quebec	Development ready	590.2	38.9 P ₂ O ₅	open pit	Flotation concentration	Carbonatite	Phosphate rock
Minemakers	21	Wonarah	Northern Territory	Proof of technology	542 - inferred 222 - indicated 78 - measured	15-20		Improved hard process (IHP)		SPA
Potash West	8	Kullstedt/ Grafentonna	Germany	Resource drilling	c.500 Helmsec (gross) estimate	10-15 K₂O	200+			
Highfield Resources	127	Muga (and others)	Northern Spain	DFS	455.6 for Muga	11.2 K ₂ O	250-500		Sylvinitite	KCl
Minbos	5	Cabinda	Angola	Planned DFS	363.3	11.9	open pit	Washing & screening		
Reward Minerals	72	Lake Disappointment	Australia	Scoping Study	24.4 of K ₂ SO ₄		n/a	Brine solar evaporation	n/a	SOP

Figure 4: Selected global peers of Potash West as at 22 September 2014. Sources: Company Reports.

From an investor’s perspective, tellingly Potash West has near to the lowest market capitalisation of all the peers in figure 4, at approximately A\$8 million. By way of comparison, albeit there are differences including project advancement status, Highfield Resources has a market capitalisation of A\$127 million.

Confirmation of licence granting and of JORC resource status by Potash West, if the resource levels indicatively shown above can be achieved over coming months, would provide the potential for a market re-rating of Potash West.

German Potash – Regional Advantages

Potash West’s recent acquisition of the interest in the K&G asset now places it in a globally important potash producing region.

Germany has a very long history of potash production dating back to the 1800’s, with production continuing to the present day. There is significant regional know-how relating to geology, extraction, processing, etc. Further, there is existing infrastructure which is an important ingredient in the value-chain for fertilizer commodities. Historical regional exploration drilling has shown there are substantial potash deposits in the region in the form of sylvinitite (KCl/NaCl) and carnallite (KCl/MgCl).

Potash West is already availing itself of this regional expertise through an alliance with ERCOSPLAN, an independent German engineering firm that specialises in the planning and execution of projects in the potash and mineral salt industry. Accordingly, there is potential for Potash West to utilise local know-how in all phases of exploration through to development and production.

ERCOSPLAN is undertaking the current review of geological data on behalf of the K&G joint venture. ERCOSPLAN is ideally placed to undertake this exercise given its involvement with the South Harz region dates back to the 1950s, when it was responsible for exploration drilling in the region (it was formerly the technical planning group for the East German potash industry).

Also, entry into European potash production, allows product entry into the European fertilizer end user markets, which may benefit Potash West in the future in the marketing of its Western Australian products in due course.

Nearby German Potash Activity

The K&G asset is located adjacent to potash properties which have had significant production over decades.

The major German potash producer is K+S Kali GmbH, which has a history of potash production of over a century. K+S Kali extracts potash and magnesium crude salts at several mines in Germany, which are further processed to create end or intermediate products. The following is a summary from Integer Research of its main operations. Also see figure 1 above for locations.

- Zielitz produces potassium chloride and started production in 1973; it became part of K+S Kali in 1993.
- Three locations were combined in 1997 to form the Werra Works producing potassium chloride and sulphate, and magnesium products.
 - Hattorf
 - Unterbreizbach
 - Wintershall
- Sigmundshall-Wunstorf is located in Hanover. It produces potassium chloride and potassium and magnesium containing products.
- At Neuhoff-Ellers, K+S Kali produces specialty fertilizers including potassium chloride with magnesium sulphate.

In June 2012, K+S Kali announced the results of an initial assessment of re-opening the disused potash mine at Siegfried-Giesen in Lower Saxony. The feasibility study produced results that were promising according to the company. If the decision is taken to develop the site, K+S Kali believes that it could be operational with an estimated capacity of between 500,000 and 700,000 tpa. This could replace the capacity lost from the future shutdown of the company's Sigmundshall-Wunstorf mine, where extraction is expected to cease in around 2022.

In addition to K+S Kali, there are a number of other potash and salt producers nearby. For example to the north of the K&G licence application areas is a solution mine operated by Deusa International GmbH that produces potassium chloride, magnesium chloride, common salt and different brines.

East Exploration Joint Venture and Licence Applications

Potash West has the right to earn up to 55% in an incorporated joint venture, called East Exploration, which indirectly holds 100% of the exploration licence applications relating to the K&G asset. The structure is as follows.

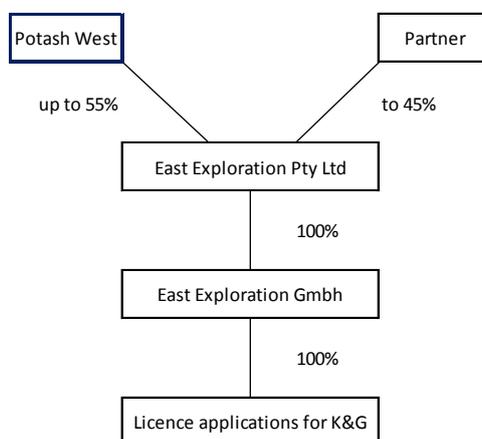


Figure 5: German interests structure. Source: Potash West.

Potash West currently has a 25% interest in the incorporated joint venture. Given the potential for market re-rating of Potash West, the expenditure obligations to move to a 55% interest are relatively modest. PWN is expected to move to 55% ownership of EE before the end of Calendar 2014, at that point, it will assume operational control of the company.

RISKS

- Commodity price and currency risks: in particular Potash prices (for German joint venture and Dandaragan glauconite-to-potash project) and SSP prices (for the Dandaragan phosphate project), and the Australian dollar to US dollar (and Euro) exchange rates, are risks for an investment in Potash West. Figure 6 below shows historical volatility of prices in the fertilizer industry.

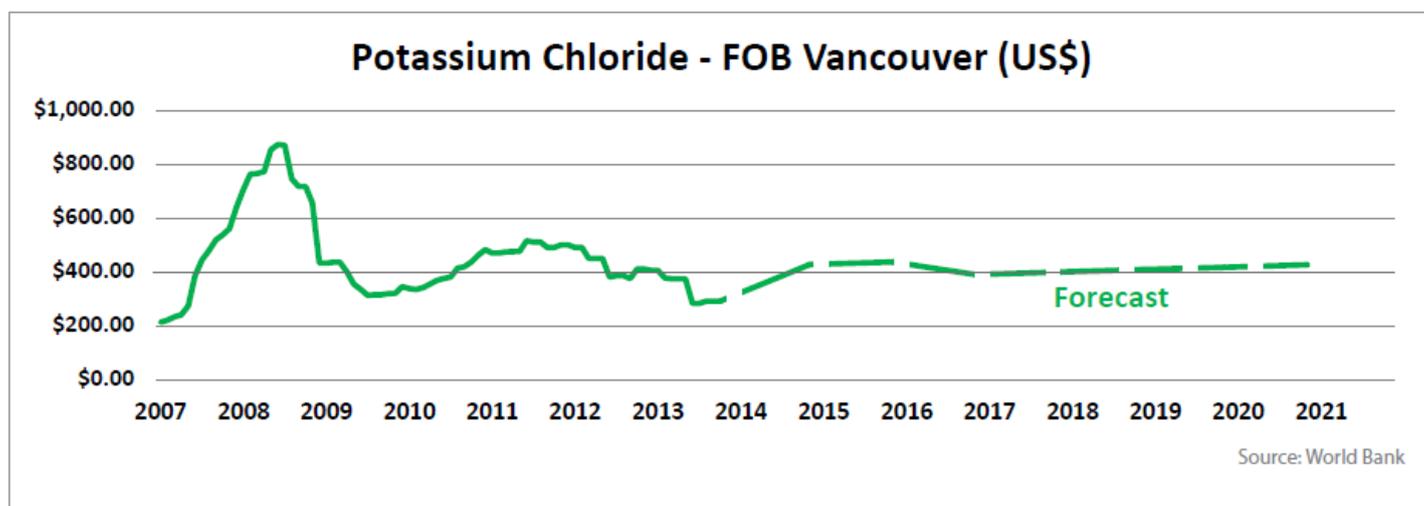


Figure 6: Potassium Chloride pricing. Source: Potash West and World Bank.

- Exploration, drilling, development and operating risks;
- Credit/funding risks: pre-development resources sector companies should be expect to have to undertake funding raising exercises from time to time;
- Market price and liquidity risks: an investment in Potash West is subject to general and specific market and pricing risks, including the level of liquidity in the ASX traded market for Potash West.

- Resources and commercial project risks: whilst upside exists from the German joint venture endeavours, there is no guarantee that licences will be awarded, that JORC Resource status will be achieved, nor that the German deposits will result in economic development of the projects.

An investment in Potash West is also subject to other general and specific investment risks.

RECOMMENDATION

Potash West is recommended as a **Speculative Buy** on the basis of the merits and risks (including funding risks) of the investment as described in this report including:

- **Good potential for near-term market re-rating:** the study and evaluation underway in relation to prior extensive exploration and drilling at the German deposits has potential for significant JORC resource status to be achieved over coming months; and
- **Also medium-term upside value potential:** if Potash West is able to rapidly move to potash production status with the German joint venture, and the ongoing work at Dandaragan Trough relating to the SSP project and the K-Max continues successfully, then Potash West is expected to deliver longer-term value creation.

Given the German study currently underway, the medium-term timeframes for the Dandaragan Trough projects, and Helmsec Global's current role for Potash West (see disclaimer), a valuation has not been undertaken for this report.

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