

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Potash West NL (PWN)

Update – February 2013

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Investment Profile

Share Price (\$) as at 25 February 2013	0.23
Valuation (\$)	0.73
Issued Capital:	
Ordinary Shares (M)	83.8
Options (M)	17.3
Fully Diluted (M)	101.1
Market Capitalisation (\$M)	11.9
52-week low/high (\$)	0.18/0.30

Board and Management

Directors

Adrian Griffin (Non-Exec Chairman)
Patrick McManus (Managing Director)
George Sakalidis (Non-Exec Director)
Gary Johnson (Non-Exec Director)

Major Shareholders

	%
Barclay Wells Ltd	17.9
Elsinore Energy Pty Ltd	14.9
UOB Kay Hian Private Ltd	5.8
HSBC Custody Nominees Ltd	5.2
Top 20 shareholders own 60.5% of company	

Share price performance



PWN COMPLETES SCOPING STUDY

- ◆ Potash West NL (PWN) aims to produce potassium from one of the world's largest glauconite deposits. The tenure extends an area of over 2,900km².
- ◆ On 11 January 2013, the company announced the completion of the Scoping Study that confirms the technical and financial viability of the Dandaragan Trough Project. The study recommends a feed rate of 2.4Mtpa which relates to a mine life of 25 years. The company is now progressing towards a Definitive Feasibility Study (DFS).
- ◆ On 11 October 2012, the company announced an initial estimated JORC resource of 244Mt at Dandaragan Trough Project at 3.0% K₂SO₄ and 1.6% P₂O₅. The resource only represents 20% of the Dinner Hill prospect. The mineralisation commenced near surface and remains open to the north, south and east. Further drilling is planned to the south and east with great potential to increase the resource.
- ◆ On 20 December 2012, the company announced it lodged a patent application for its proprietary potash process. The process which produces sulphate of potash (SOP), high magnesium potash (KMS), single superphosphate (SSP), iron oxide and aluminium sulphate from glauconite has been called the K-Max process.
- ◆ The company has announced their intention to raise \$3.1M through an entitlement issue to shareholders. The company is offering shareholders the right to acquire shares on a 1 for 6 basis at \$0.22 per share with an option attached exercisable at \$0.30 on or before 15 March 2015. The maximum number of additional shares to be issued will be 13.966M. The offer is expected to close on 22 March 2013.
- ◆ On 19 October 2012, the company announced ADR trading on the American OTC QX market under the ticker PWNYY. This provides access to US investors.
- ◆ The company will seek to sell the potash and phosphate products to the local market and sell the remaining products abroad. Australia currently imports most of its potash and phosphate fertiliser requirements providing the company with a competitive advantage over producers that have to transport the product to Australia.
- ◆ **Valuation:** We have amended our base case valuation for PWN based on the assumptions released in the scoping study. We have a risk adjusted base case valuation for PWN of **\$0.73** per share.

EARNINGS FORECAST

Y/e June	2011	2012	2013F	2014F	2015F
Revenue (\$M)	0.0	0.0	0.0	0.0	0.0
EBITDA (\$M)	-0.9	-4.0	-4.5	-10.0	0.0
Reported NPAT (\$M)	-0.9	-3.9	-4.5	-10.0	0.0
Normalised NPAT (\$M)	-0.9	-3.9	-4.5	-10.0	0.0
Reported EPS (A\$)	-0.01	-0.05	-0.05	-0.05	0.00
Normalised EPS (A\$)	-0.01	-0.05	-0.05	-0.05	0.00
PER	n/a	n/a	n/a	n/a	n/a
DPS	0.0	0.0	0.0	0.0	0.0

PROFIT & LOSS (\$M)					
Y/E June	2011	2012	2013	2014	2015
Sales Revenue	0	0.0	0.0	0.0	0.0
Other Revenue	0.0	0.0	0.1	0.2	0.2
Total Costs	0.9	4.1	4.5	10.0	0.0
EBITDA	-0.9	-4.0	-4.5	-10.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0
EBIT	-0.9	-4.1	-4.5	-10.0	0.0
Interest	0.1	0.2	0.0	0.0	0.0
Pre-Tax Profit	-0.9	-3.9	-4.5	-10.0	0.0
Tax expense	0.0	0.0	0.0	0.0	0.0
Net Profit After Tax	-0.9	-3.9	-4.5	-10.0	0.0
Abnormals	0	0.0	0.0	0.0	0.0
Reported Net Profit After Tax	-0.9	-3.9	-4.5	-10.0	0.0

BALANCE SHEET (\$M)					
Y/E June	2011	2012	2013	2014	2015
Cash	5.4	3.3	0.6	2.5	2.4
Trade and Other Receivables	0.1	0.1	0.1	0.1	0.1
Inventories	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	5.5	3.4	0.6	2.5	2.4
Property, Plant and Equipment	0.0	0.1	0.0	0.0	0.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Exploration and Evaluation	2.5	2.5	1.0	10.0	0.0
Non-Current Assets	2.5	2.6	1.0	10.0	0.0
Total Assets	8.0	6.0	1.6	12.5	2.4
Trade and Other Payables	0.4	0.4	0.4	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Current Liabilities	0.4	0.4	0.4	0.0	0.0
Borrowings	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Non-Current Liabilities	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.4	0.4	0.4	0.0	0.0
Net Assets	7.6	5.6	1.3	12.5	2.4
Contributed Equity	8.4	10.0	12.0	32.0	32.0
Reserves	0.0	0.3	-1.5	-0.2	-10.3
Retained Earnings	-0.8	-4.7	-9.2	-19.3	-19.3
Shareholders' Equity	7.6	5.6	1.3	12.5	2.4
Minorities	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Equity	7.6	5.6	1.3	12.5	2.4
Shares on Issue	7.5	83.8	93.8	193.8	193.8
Options Outstanding	0.0	17.3	17.3	15.5	0.2
Fully Diluted	7.5	101.1	111.1	209.3	194.0

CASHFLOW (\$M)					
Y/E June	2011	2012	2013	2014	2015
Receipts from customers	0.0	0.0	0.0	0.0	0.0
Payments to suppliers	-0.3	-3.7	-3.6	-8.0	0.0
Net interest	0.1	0.2	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Operating Activities	-0.2	-3.5	-3.6	-8.0	0.0
Capital Expenditure	0.0	-0.1	-0.1	-0.1	-0.1
Exploration, Development, Evaluation	0.0	0.0	-1.0	-10.0	0.0
Asset Sales/Acquisitions	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investment Activities	0.0	-0.1	-1.1	-10.1	-0.1
Share Issues/(Buybacks)	5.7	1.4	2.0	20.0	0.0
Debt Drawdown/(Repaid)	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Financing Activities	5.7	1.4	2.0	20.0	0.0
Net Cash	5.4	-2.2	-2.7	1.9	-0.1
Cash at beginning	0.0	5.4	3.3	0.6	2.5
Cash at end	5.4	3.3	0.6	2.5	2.4

Key Model Assumptions

Dandaragan Trough Project	
SOP	US\$700/t
KMS	US\$250/t
SSP	US\$300/t
Iron Oxide	US\$100/t
Aluminum Sulphate	US\$150/t
Recovery rate	89%
Mine Feed Rate	2.4Mtpa
WA State royalty as % of revenue	5%
Capex	A\$650M
Exchange Rate (A\$/US\$)	0.95
First Production (year)	2018
Mine life	25 Years

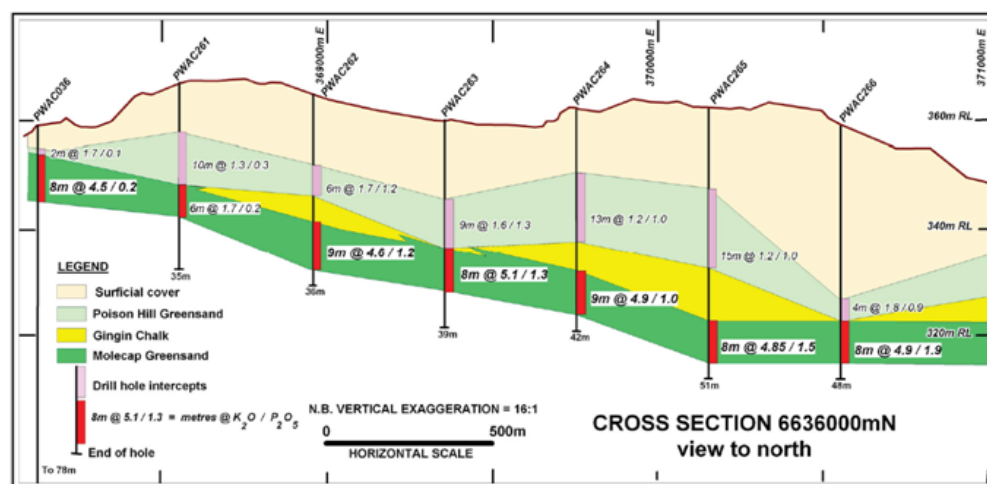
DANDARAGAN TROUGH PROJECT

MAIDEN JORC RESOURCE

- ◆ The company completed its first resource estimate at the Dinner Hill prospect in October 2012.
- ◆ The company reported an estimated Indicated and Inferred JORC resource of 244Mt grading 3.0% K_2SO_4 and 1.6% P_2O_5 . The drilling represented 20% of the 2,900 km² Project area.
- ◆ Further drilling is expected to identify additional resource near surface at the Dinner Hill prospect. There are plans for up to 10,000m of aircore drilling to be undertaken in 2013.
- ◆ Resource drilling was completed in June 2012 which comprised of 83 vertical aircore holes for 3,215m on a 400m x 400m grid.
- ◆ The mineralisation remains open to the north, south and east.

Unit	Category	Mt	$K_2SO_4\%$	$P_2O_5\%$
Molecap Greensand	Indicated	120	4.6	1.8
	Inferred	2	4.4	2.2
	Sub total	122	4.6	1.8
Poision Hill Greensand	Indicated	121	1.5	1.4
	Inferred	1	1.6	1.1
	Sub total	122	1.5	1.4
Total Resource	Indicated	241	3.0	1.6
	Inferred	2	3.6	1.9
	Total	244	3.0	1.6

Cross section of the Dinner Hill prospect



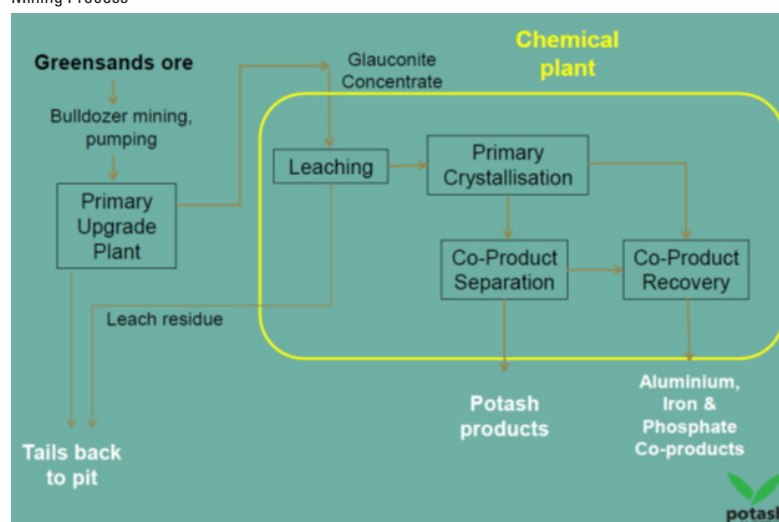
SCOPING STUDY

- ◆ A Scoping Study was completed in January 2013. Capital and operating cost estimates were completed by Tenova Projects (formerly Bateman Engineering) and sales and revenues were determined by CRU.
- ◆ The Scoping Study considers two mine feed rates - 4Mtpa and 2.4Mtpa. The smaller mine feed of 2.4Mtpa was recommended in the study to meet immediate market demand.
- ◆ Based on the 2.4Mtpa feed rate, estimated capital expenditure of \$650M is required, including contingency, with operating costs of \$51.26/tonne of mine feed.
- ◆ Infrastructure requirements are limited given the location of the Project. The Project is located in close proximity to road and rail and within 30km of gas supply. The company will have to construct 30km of pipeline to link into the Dampier-Bunbury gas pipeline and 30km of spur rail line to connect to the Perth-Geraldton Rail line.

Processing

- ◆ A leaching process will be used to extract the material whereby the glauconite ore is mined and pumped to a concentrator where it will be deslimed and screened. Magnetic separation will then be used to recover the glauconite and reject silica.
- ◆ Hydrometallurgical and pyrometallurgical processing will extract K, P, Mg, Fe and Al from the ore. The extracted elements will then be converted to saleable products including: sulphate of potash (SOP), potassium magnesium sulphate (KMS), single superphosphate (SSP), hematite and aluminium sulphate.
- ◆ The company has applied for a patent on its proprietary K-Max process. The K-Max process is applied during the beneficiation phase and has been tested throughout the Scoping Study process and will be tested further through the DFS.
- ◆ One of the benefits of the greensand deposit is that it requires less processing with no grinding required.

Mining Process



Production

- ◆ Mine feed of 2.4Mtpa was recommended in the Scoping Study to meet immediate local demand. Australia currently imports most of its potash and phosphate fertiliser requirements, according to ABARE.

Production Rates	
Mine Feed	2.4 Mtpa
SOP (Sulphate of Potash)	85 ktpa
KMS (Magnesium SOP)	195 ktpa
Iron Oxide	220 ktpa
Aluminium Sulphate	900 ktpa
Phosphate	310 ktpa

Capital & Operating Costs

- ◆ The Scoping Study has estimated capital costs of \$650M (including contingency) for the 2.4Mtpa feed rate and operating cost of \$51.26/tonne. A breakdown of costs is tabled below.

Capital Expenditure	ASM
Process Plant	350
Infrastructure	150
Indirect & Contingency	150
Total	650

Operating Cost	A\$/tonne
Mining	8.11
Process Plant	39.12
Transport	4.03
Total	51.26

PROJECT SCHEDULE

Activity	Completion
Scoping study results	Dec 2012
Definitive feasibility study	Q4'2015
Financing	Q4'2015
Construction	Q1'2017
Commissioning	Late 2017
Full Scale production	2018

VALUATION OF PWN

- ◆ We have based the valuation of the company on the present value of the Dandaragan Trough Project. A discounted cash flow (DCF) methodology was used to value the Project.
- ◆ Cost and production rates are based on the assumptions provided in the Scoping Study. We have applied a weighted average cost of capital (WACC) of 12%.
- ◆ Production is assumed to start in 2018 with a mine life of 25 years.
- ◆ The number of shares on issue does not include the potential shares that may be issued in the entitlement share offer.

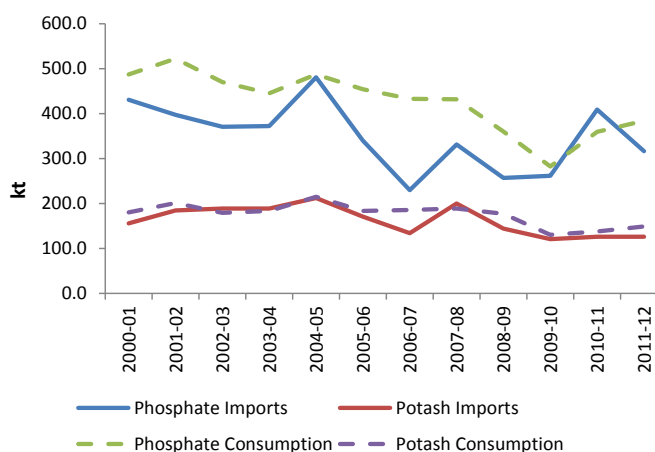
Key Model Assumptions

Model Assumptions – Dandaragan Trough Project	
SOP	US\$700/t
KMS	US\$250/t
SSP	US\$300/t
Iron Oxide	US\$100/t
Aluminum Sulphate	US\$150/t
Capital Expenditure (M)	A\$650
Recovery rate	89%
Mine Feed Rate	2.4Mtpa
WA State royalty as % of revenue	5%
Operating Cost	A\$52/tonne
Exchange Rate A\$/US\$	0.95
First Production	2018
Mine life	25 Years
WACC	12%
Depreciation	Straight Line

TARGET MARKETS

- ◆ The company will initially be looking to sell the potash and phosphate products to the domestic market. Currently, Australia imports most of its potash and phosphate fertiliser requirements, as indicated on the below chart. As a result, the company will have a competitive advantage over those producers that are required to transport their product to Australia. Potash and Phosphate products make up 41% of the expected production volumes based on a 2.4Mtpa feed rate, and is expected to account for 63% by value.
- ◆ PWN's potash production would exceed the 126kt of Australian potash fertiliser imports in 2011/12, with the production of 280ktpa (total of SOP and KMS) at a 2.4Mtpa feed rate. Therefore, excess production may be required to be sold overseas. With respect to phosphate production (SSP), the company would be almost matching the phosphate imports for the country at 310ktpa.

Australia's Phosphate & Potash Fertiliser Imports and Consumption



Source: ABARE/IIR

- ◆ The company will seek to sell the remaining products (iron oxide and aluminium sulphate) to markets abroad, most likely Asia. Aluminum Sulphate will make up the greatest volume of product at 45% of the total tonnage produced across all products and account for an expected 31% of sales revenue.

INVESTMENT CASE

- ◆ With the mineralisation open to the north, south and east in the Dandaragan Trough Project there is great potential for increasing the resource.
- ◆ PWN's glauconite deposits are close to the surface and the material is soft so the mining costs are reasonable. It is also close to well established infrastructure.
- ◆ Australia currently imports most of its potash and phosphate fertiliser requirements. The production of SOP, KMS and SSP locally give PWN a competitive advantage over those companies that have to ship the product to Australia.
- ◆ We have valued the Dandaragan Trough Project based on a feed rate of 2.4Mtpa. A feed rate of 4Mtpa has been costed and would provide additional revenues through increased production to the company.
- ◆ We value Potash West NL (ASX:PWN) with a risk adjusted valuation of \$0.73 per share. Our valuation includes a 40% discount due to the current JORC category of resources and the fact that the development of the Dandaragan Trough Project remains in the early stages. We have also adjusted the valuation to account for the financing and offtake risk currently associated with the Project.

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