

# BREAKING THE CANADIAN STRANGLEHOLD

Potash West is looking to single-handedly turn Australia from an importer of the in-demand commodity to an exporter. **Anthony Barich** reports

**H**AVING MADE ITS initial public offering in May last year, Potash West aims to transform Australia's potash industry in a region which has two of the fastest-growing countries - China and India.

Australia's potash industry is ripe for a new player as it is strongly controlled.

All of its potash currently comes from Canada – Saskatchewan, specifically – where three of the six companies that produce 85% of the world's potash are located.

Locally, farmers are loath to use potash because it's so expensive.

Nearly all the current supplies of potash are from seams of potassium chloride that are about 1km or more underground, which means very high capital and operating costs.

On average, it costs between \$US100-150 a tonne to take potash from Saskatchewan, which is roughly in the middle of Canada, over the Rockies to Vancouver, where it is

currently selling for about \$500 per tonne.

Shipping from there to Geraldton or Albany costs between \$A100-150/t.

Commercial grade sulphate of potash sells for about \$800/t in WA and Potash West plans to produce 250,000 tonnes per annum of it – roughly Western Australia's annual consumption, which makes up about 40% of Australia's consumption.

The beauty of Potash West's tenements in the Perth Basin is their proximity to the immediate market: the state's Wheatbelt.

If all goes according to plan, the world's superpowers are the long-term target, which brings us to a major factor in potash's rise and the reason why it will continue to be in demand for the foreseeable future – China and India.

Current projections are that the world's population will grow from its current 7 billion to about 10 billion by 2050, roughly a 40% increase.

So the size of arable land per person will reduce from .25 hectares to about 0.15ha.

Add to this the dynamic of the likes of China, India and Brazil, which are moving up the "GDP per person curve" and getting richer.

If that dynamic follows the way Europe and the US developed, as people get richer they eat more meat, which requires about 10 times as much agricultural input as grain, so there will be huge pressure on food supply.

One of the most cost-effective ways of improving that situation is the correct use of fertiliser.

Enter potash, the price of which for many years has been much lower. But like a lot of commodities, the price

surged about 10 years ago when China changed from being a net exporter of potash to a net importer.

Also like many other commodities, a pre-global financial crisis spike preceded a collapse immediately after, but it's now steadied and most analysts say it is going to remain at about the \$500-700/t range in the medium term.

This would be the perfect price environment for Potash West to spring into action.

Since seeing the opportunity, taking the ground and putting the team together, mining veteran Adrian Griffin, Potash West's chairman, waited five years before making the company's initial public offering.

Its initial JORC resource announced last month for just 20% of its Dinner Hill prospect in the north of its tenements is 244 million tonnes.

This will be enough to underwrite the critical chemical separation process for between 5-10 years. More on that process later.

The Dinner Hill section is only a small portion of the overall tenements.

The region is awash with greensand, which was formed some 60 million years ago and is composed primarily of glauconite and quartz.

The grade varies of between 2-6% Potassium Oxide and Potash West's work has focused on finding areas where it's higher.

Potash West managing director Patrick McManus said there was "plenty of it around".

"The whole basin could be one massive deposit if the economics are there, which is the great unknown at the moment," he added.

Drilling by the Western Australian government in the 1960s revealed two sequences of greensand – Poison

Fresh Molecap Greensand from the recent PQ core program at Dinner Hill.





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**PATRICK MCMANUS**  
POTASH WEST

Hill and Molecap – with a bit of chalk between them.

Both of them could be up to 40m thick, which represents a significant thicknesses of material.

If there is greensand all the way through, which the work done so far suggests, simple maths reveals staggering potential volumes, as the tenement is more than 100km long and 20km wide.

If all goes well, there is the opportunity to expand the resource and start feeding the India-China juggernaut. “Our rough estimates of costs have left us confident enough that this will work and it is profitable to take the next step and engage some engineers to do capital and operating cost estimates for a scoping study,” McManus told *RESOURCESTOCKS*.

The scoping study should be completed by December, followed by a more accurate and detailed feasibility study to build a plant big enough to feed WA’s demands.

While the Canadians are big potash producers, Potash West’s commodity is an “unconventional” source of potash – one of the reasons why the processing is so important.

“The risk here is not on the resource, it’s on the process,” McManus said.

“Non-executive director Gary Johnson’s company Strategic Metallurgy looked at literature over the past 100 years about making potash by this process and, given the price of potash went from less than \$200/t to greater than \$500/t, we believe there are a number of processes that are now economical.

“Not only is the processing the key, it’s almost the most valuable asset.

“There are other glauconite deposits in the world, but very few of them are in such a good location.”

This is where Potash West has an advantage.

Its resource is close to the surface, with roads, rail and all the infrastructure needed for an industrial minerals project.

It’s also close to a market that’s currently supplied from the other side of the world.

Rail connections through to Geraldton, Kwinana and Bunbury are all close by, so the chemical plant will likely be on the eastern side of the tenements, near the rail line.

The process basically involves mining the greensand (near the surface) and the high sulphide ore (a bit deeper) with a bulldozer like in a mineral sands operation, separating out the glauconite and treating it to produce the potash products sulphate and chloride, plus some by-products like phosphates, some aluminium sulphate and iron oxide.

All commercial grade products that will have a place in the market.

To make all this happen, a bankable feasibility study is due by the end of next year, with construction of the plant to begin by the end of 2015 and potash production to hit WA farmers by mid-2016.

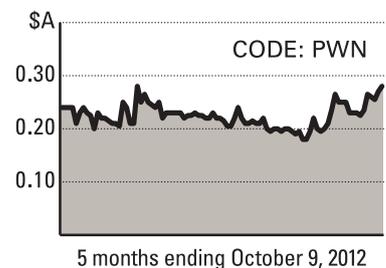
With such a potential scale of activity, at this point education is the key, especially with what’s at stake with future global food demands.

“You need hundreds of kilograms per hectare per year of potash to make those plants grow properly, and if they don’t have the right amount of potash they don’t take the nutrients from the air or the soil and you end up with bad product,” McManus said.

“Potash, a key fertiliser, is a commodity that the Australian stock market and investment community doesn’t really understand, but it’s a vital cog in the food supply chain.” **RS**

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## POTASH WEST AT A GLANCE



### HEAD OFFICE

Suite 3, 23 Belgravia Street  
Belmont WA 6104  
Australia  
Ph: +61 8 9479 5386  
Fax: +61 8 9475 0847  
Email: info@potashwest.com.au  
Web: www.potashwest.com.au

### DIRECTORS

Adrian Griffin, Patrick McManus,  
George Sakalidis, Gary Johnson

### MARKET CAPITALISATION

\$A23.5 million (at press time)

### QUOTED SHARES ON ISSUE

83.8 million

### MAJOR SHAREHOLDERS

Barclay Wells 17.9%  
Elsinore Energy 14.92%  
UOB Kay Hian Private Ltd 5.84%  
HSBC Custody Nominees (Australia)  
Ltd 5.23%  
Citicorp Nominees 2.05%