

14 Aug 2020

AUSTRALIAN POTASH LIMITED (APC)

Offtakes reach +85%, construction start in CY21

Australian Potash Limited (APC) has secured a fourth offtake for its 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in WA.

The latest binding term sheet is with HELM AG (headquartered in Germany), representing another Tier 1 international chemicals and fertiliser marketing group as a partner. This brings the total binding offtake agreements to **130ktpa of premium SOP** (branded K-Brite™) which implies 85% of the proposed DFS annual production has been secured under contracted sales.

Offtake partners now include: **Redox** 20ktpa (10-year, distribution rights Australia-New Zealand), **Migao** 50ktpa (10-year, distribution rights China), **Mitsui** 30ktpa (5+3-year, distribution rights Asia (ex-China)) and **HELM** 30ktpa (10-year, distribution rights to several Europe jurisdictions). All of the offtakes consist of a “take or pay” arrangement, with pricing on a net realised price basis, and designed in such manner to maximise returns for both supplier (APC) and buyer (offtake partners).

The SOP offtakes and permitting are seen as the key precursors to the finalisation of a project funding package. Having over 85% of the planned production of +150ktpa SOP secured in product offtakes is a great result for APC, which could lead to more favourable funding terms. The LSOP DFS (Aug'19), highlighted a pre-production capital requirement of A\$208M, with the sound financial outcomes supportive of higher gearing levels.

It should also be noted that the LSOP is eligible for funding from the North Australia Infrastructure Facility (NAIF), which continues to progress its due diligence (DD). We assume pre-production capex of ~A\$220M, which includes some additional working capital and funding via a 60% debt and 40% equity mix. APC is working towards a model of NAIF funding 35%, commercial debt 30% (65% total debt) and equity of ~35%.

EPA approvals, funding 2H CY20 for construction start CY21

The LSOP has potential to be a long-life (+30 years), potash operation designed to produce 150ktpa SOP. LOM operating costs of US\$262/t (~A\$354/t) are also expected to be highly competitive (1st quartile) and translate to solid margins for capital payback in under 5 years on post-tax earnings estimates. An estimated all-in-sustaining cost (AISC) for the project is ~US\$285/t (~A\$385/t), which implies +A\$43.5mpa margins at current spot SOP prices (US\$575/t SOP).

Final licensing (permitting) for the project is anticipated late Q3 CY20, with EPA ministerial consent on track for approval in Q3/Q4 CY20. The LSOP is expected to be constructed and ramped-up over ~24 months from the final investment decision (FID). We see potential for FID in Q1 CY21, assuming successful project financing in 2H CY20. We model first production from 2H CY22, with production ramp-up in early CY23.

Speculative Buy maintained with price target 20cps

We maintain our **Speculative Buy** on APC, with our price target unchanged at 20cps. APC's current cash position of ~A\$3.4M, provides some funds for FEED activities and for project development financing discussions. Project funding remains a key risk to the development of the project.

| | |
|-------------------------|---------|
| Share Price | \$0.089 |
| Valuation | \$0.19 |
| Price Target (12 month) | \$0.20 |

Brief Business Description:
Potash (SOP) explorer/developer

Hartleys Brief Investment Conclusion
100%-owned Sulphate of Potash (SOP) Project at Lake Wells in WA. Targeting brine SOP production of 150ktpa for domestic and export markets. DFS completed, 85% of SOP production under offtakes. Project financing progressing.

Board

Jim Walker (Non-Exec Chair)
Matt Shackleton (MD & CEO)

Top Shareholders

| | |
|-----------------------------|------|
| Yandal Investments (Creasy) | 6.3% |
| Perth Select Seafood | 3.3% |
| Board and Management | 1.8% |

Company Address

31 Ord Street
West Perth WA 6005

Issued Capital 486.6m
- fully diluted 564.9m

Market Cap A\$43.3m
- fully diluted A\$50.3m

Cash (est) A\$3.4m

Debt (est) A\$0.0m

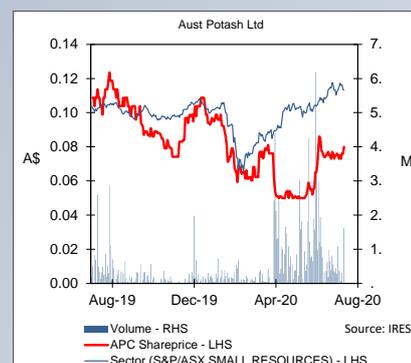
EV A\$39.9m

EV/Resource t A\$2.2/t

EV/Reserve t A\$11.1/t

| Prelim. (A\$m) | FY21e | FY22e | FY23e |
|----------------|-------|-------|-------|
| Prod (kt SOP) | 0.0 | 0.0 | 107.5 |
| Op Cash Flw | -8.2 | -8.7 | 32.7 |
| Norm NPAT | -15.1 | -22.3 | 37.8 |
| CF/Share (cps) | -1.4 | -1.4 | 2.4 |
| EPS (cps) | -1.9 | -1.9 | 3.3 |
| P/E | -6.5 | -6.3 | 3.7 |

| | SOP mg/L | M t SOP |
|------------------------|----------|---------|
| Resources (SOP) | 7,455 | 18.1 |
| Reserves (SOP) | 7,471 | 3.6 |



Mike Millikan

Resources Analyst

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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Australian Potash Limited ("APC") for which it has earned and continues to earn fees. Hartleys has completed a capital raising in the past 12 months for Australian Potash Limited for which it has earned gross fees. The analyst has a beneficial interest in APC shares.

| Australian Potash Limited APC | | Share Price \$0.089 | | | | | 14 August 2020 Speculative Buy | | | | | |
|---|------------------------------|------------------------|----------------|--------------|--------------|------------------------------|-----------------------------------|--|--|--|--|--|
| Key Market Information | | | | | | | | | | | | |
| Share Price | | \$0.089 | | | | | | | | | | |
| Market Capitalisation - ordinary | | \$43.3m | | | | | | | | | | |
| Net Cash (debt) | | \$3m | | | | | | | | | | |
| Market Capitalisation - fully diluted | | \$43.3m | | | | | | | | | | |
| EV | | \$39.9m | | | | | | | | | | |
| Issued Capital | | 486.6m | | | | | | | | | | |
| Options/Performance Rights | | 78.4m | | | | | | | | | | |
| Issued Capital (fully diluted inc. all options/rights) | | 564.9m | | | | | | | | | | |
| Issued Capital (diluted inc. ITM options and new capital) | | 1216.7m | | | | | | | | | | |
| Valuation | | \$0.19 | | | | | | | | | | |
| 12month price target | | \$0.20 | | | | | | | | | | |
| P&L | | | | | | | | | | | | |
| | Unit | 30 Jun 20 | 30 Jun 21 | 30 Jun 22 | 30 Jun 23 | 30 Jun 24 | | | | | | |
| Net Revenue | A\$m | 0.0 | 0.0 | 0.0 | 90.5 | 125.8 | | | | | | |
| Total Costs | A\$m | -2.5 | -6.2 | -1.3 | -41.2 | -56.9 | | | | | | |
| EBITDA | A\$m | -2.5 | -6.2 | -1.3 | 49.4 | 68.9 | | | | | | |
| - margin | | - | - | - | 55% | 55% | | | | | | |
| Depreciation/Amort | A\$m | 0.0 | -3.3 | -8.6 | -11.2 | -11.4 | | | | | | |
| EBIT | A\$m | -2.5 | -9.5 | -9.9 | 38.2 | 57.4 | | | | | | |
| Net Interest | A\$m | 0.0 | -2.1 | -7.2 | -9.1 | -6.9 | | | | | | |
| Pre-Tax Profit | A\$m | -2.5 | -11.6 | -17.1 | 29.0 | 50.5 | | | | | | |
| Tax Expense | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -15.1 | | | | | | |
| Normalised NPAT | A\$m | -3.3 | -15.1 | -22.3 | 37.8 | 35.3 | | | | | | |
| Abnormal Items | A\$m | 0.8 | 3.5 | 5.1 | -8.7 | 0.0 | | | | | | |
| Reported Profit | A\$m | -2.5 | -11.6 | -17.1 | 29.0 | 35.3 | | | | | | |
| Minority | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Profit Attrib | A\$m | -2.5 | -11.6 | -17.1 | 29.0 | 35.3 | | | | | | |
| Balance Sheet | | | | | | | | | | | | |
| | Unit | 30 Jun 20 | 30 Jun 21 | 30 Jun 22 | 30 Jun 23 | 30 Jun 24 | | | | | | |
| Cash | A\$m | 3.4 | 111.2 | 7.8 | 10.5 | 24.4 | | | | | | |
| Other Current Assets | A\$m | 0.0 | 0.0 | 0.0 | 8.8 | 12.2 | | | | | | |
| Total Current Assets | A\$m | 3.4 | 111.3 | 7.8 | 19.3 | 36.6 | | | | | | |
| Property, Plant & Equip. | A\$m | -0.2 | 108.5 | 192.9 | 185.7 | 178.2 | | | | | | |
| Exploration | A\$m | 9.8 | 14.8 | 16.5 | 17.5 | 18.5 | | | | | | |
| Investments/other | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Tot Non-Curr. Assets | A\$m | 9.6 | 123.3 | 209.4 | 203.2 | 196.8 | | | | | | |
| Total Assets | A\$m | 13.0 | 234.5 | 217.2 | 222.5 | 233.4 | | | | | | |
| Short Term Borrowings | A\$m | - | - | - | - | - | | | | | | |
| Other | A\$m | 0.2 | 0.3 | 0.1 | 1.4 | 1.9 | | | | | | |
| Total Curr. Liabilities | A\$m | 0.2 | 0.3 | 0.1 | 1.4 | 1.9 | | | | | | |
| Long Term Borrowings | A\$m | - | 150.0 | 150.0 | 125.0 | 100.0 | | | | | | |
| Other | A\$m | - | - | - | - | - | | | | | | |
| Total Non-Curr. Liabil. | A\$m | - | 150.0 | 150.0 | 125.0 | 100.0 | | | | | | |
| Total Liabilities | A\$m | 0.2 | 150.3 | 150.1 | 126.4 | 101.9 | | | | | | |
| Net Assets | A\$m | 12.8 | 84.2 | 67.1 | 96.1 | 131.5 | | | | | | |
| Net Debt | A\$m | -3.4 | 38.8 | 142.2 | 114.5 | 75.6 | | | | | | |
| nd / nd + e | | -35.8% | 31.5% | 67.9% | 54.4% | 36.5% | | | | | | |
| Cashflow | | | | | | | | | | | | |
| | Unit | 30 Jun 20 | 30 Jun 21 | 30 Jun 22 | 30 Jun 23 | 30 Jun 24 | | | | | | |
| Operating Cashflow | A\$m | 0.3 | -6.1 | -1.5 | 41.9 | 65.9 | | | | | | |
| Income Tax Paid | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | -15.1 | | | | | | |
| Interest & Other | A\$m | 0.0 | -2.1 | -7.2 | -9.1 | -6.9 | | | | | | |
| Operating Activities | A\$m | 0.3 | -8.2 | -8.7 | 32.7 | 43.9 | | | | | | |
| Property, Plant & Equip. | A\$m | 0.0 | -112.0 | -93.0 | -4.0 | -4.0 | | | | | | |
| Exploration and Devel. | A\$m | -4.7 | -5.0 | -1.8 | -1.0 | -1.0 | | | | | | |
| Other | A\$m | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Investment Activities | A\$m | -4.4 | -117.0 | -94.8 | -5.0 | -5.0 | | | | | | |
| Borrowings | A\$m | 0.0 | 150.0 | 0.0 | -25.0 | -25.0 | | | | | | |
| Equity or "tbc capital" | A\$m | 5.5 | 83.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Dividends Paid | A\$m | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | | | |
| Financing Activities | A\$m | 5.5 | 233.0 | 0.0 | -25.0 | -25.0 | | | | | | |
| Net Cashflow | A\$m | 1.4 | 107.9 | -103.5 | 2.7 | 13.9 | | | | | | |
| Shares | | | | | | | | | | | | |
| | Unit | 30 Jun 20 | 30 Jun 21 | 30 Jun 22 | 30 Jun 23 | 30 Jun 24 | | | | | | |
| Ordinary Shares - End | m | 487 | 1,207 | 1,207 | 1,207 | 1,207 | | | | | | |
| Ordinary Shares - Weighted | m | 422 | 847 | 1,207 | 1,207 | 1,207 | | | | | | |
| Diluted Shares - Weighted | m | 353 | 778 | 1,138 | 1,138 | 1,138 | | | | | | |
| Ratio Analysis | | | | | | | | | | | | |
| | Unit | 30 Jun 20 | 30 Jun 21 | 30 Jun 22 | 30 Jun 23 | 30 Jun 24 | | | | | | |
| Cashflow Per Share | A\$ cps | 0.1 | -1.0 | -0.7 | 2.7 | 3.6 | | | | | | |
| Cashflow Multiple | x | 118.1 | -9.2 | -12.3 | 3.3 | 2.4 | | | | | | |
| Earnings Per Share | A\$ cps | -0.6 | -1.4 | -1.4 | 2.4 | 2.9 | | | | | | |
| Price to Earnings Ratio | x | -15.0 | -6.5 | -6.3 | 3.7 | 3.0 | | | | | | |
| Dividends Per Share | AUD | - | - | - | - | - | | | | | | |
| Dividend Yield | % | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | | | | | | |
| Net Debt / Net Debt + Equity | % | -36% | 32% | 68% | 54% | 37% | | | | | | |
| Interest Cover | X | 835.0 | na | na | 4.2 | 8.3 | | | | | | |
| Return on Equity | % | na | na | na | 39% | 27% | | | | | | |
| Directors | | | | | | | | | | | | |
| Jim Walker (Non-Exec Chair) | | | | | | 31 Ord Street | | | | | | |
| Matt Shackleton (MD & CEO) | | | | | | West Perth WA 6005 | | | | | | |
| Rhett Brans (Proj Dir) | | | | | | +61 8 9322 1003 | | | | | | |
| Brett Lambert (Non-Exec Dir) | | | | | | www.australianpotash.com.au | | | | | | |
| Cathy Moises (Non-Exec Dir) | | | | | | | | | | | | |
| Sophie Raven (Company Secretary) | | | | | | | | | | | | |
| Scott Nicholas (Chief Financial Officer - CFO) | | | | | | Stewart McCallion (Proj Man) | | | | | | |
| Jay Hussey (Chief Commercial Officer - COO) | | | | | | Chris Shaw (Expl Man) | | | | | | |
| Company Information | | | | | | | | | | | | |
| Top Shareholders | | | | | | | | | | | | |
| | | m shares | % ord | | | | | | | | | |
| Yandal Investments (Creasy) | | 30.5 | 6.3% | | | | | | | | | |
| Perth Select Seafood | | 16.0 | 3.3% | | | | | | | | | |
| Board and Management | | 9.0 | 1.8% | | | | | | | | | |
| Reserves & Resources | | | | | | | | | | | | |
| | Vol MCM | Yield | Brine Vol | K (mg/L) | SOP (mg/L) | SOP Mt | | | | | | |
| RESOURCES | | | | | | | | | | | | |
| Measured | 27,678 | 9% | 2,383 | 3,343 | 7,455 | 18.1 | | | | | | |
| Indicated | - | - | - | - | - | - | | | | | | |
| Inferred | - | - | - | - | - | - | | | | | | |
| TOTAL RESOURCES | 27,678 | 9% | 2,383 | 3,541 | 7,455 | 18.1 | | | | | | |
| RESERVES | | | | | | | | | | | | |
| Probable | | | 490 | 3,325 | 7,415 | 3.6 | | | | | | |
| TOTAL RESERVES | 490 | 3,325 | 7,415 | 3.6 | | | | | | | | |
| LOM PLAN | | | | | | | | | | | | |
| | | | 511 | 3,350 | 7,471 | 3.8 | | | | | | |
| Production Summary | | | | | | | | | | | | |
| | Unit | Jun 21 | Jun 22 | Jun 23 | Jun 24 | | | | | | | |
| Mill Throughput | Mt | - | - | 0.11 | 0.15 | | | | | | | |
| Potash equiv | Mt | - | - | 0.11 | 0.15 | | | | | | | |
| Potash equiv (Attrib) | Mt | - | - | 0.11 | 0.15 | | | | | | | |
| Potash (SOP) | Mt | - | - | 0.11 | 0.15 | | | | | | | |
| NaCl (Industrial) | Mt | - | - | 0.00 | 0.00 | | | | | | | |
| NaCl (De-icing) | Mt | - | - | 0.00 | 0.00 | | | | | | | |
| Conversion of resources not in reserves | % | | | | | | | | | | | |
| Mine Life | yr | 30.0 | 30.0 | 29.0 | 28.0 | | | | | | | |
| Costs | | | | | | | | | | | | |
| | Unit | Jun 21 | Jun 22 | Jun 23 | Jun 24 | | | | | | | |
| Cost per processed tonne | \$/t | - | - | 369.3 | 368.9 | | | | | | | |
| EBITDA / tonne processed ore | \$/t | - | - | 459.2 | 459.1 | | | | | | | |
| Total cash costs | \$/t equiv. | - | - | 382.9 | 379.6 | | | | | | | |
| Total cash costs | \$/t equiv. | - | - | 281.6 | 280.6 | | | | | | | |
| - ex shipping | \$/t equiv. | - | - | 270.7 | 269.7 | | | | | | | |
| C1: Operating Cash Cost = (a) | \$/t equiv. | - | - | 369 | 369 | | | | | | | |
| - ex shipping | \$/t equiv. | - | - | 354 | 354 | | | | | | | |
| (a) + Royalty = (b) | \$/t equiv. | - | - | 369 | 369 | | | | | | | |
| C2: (a) + depreciation & amortisation = (c) | \$/t equiv. | - | - | 474 | 445 | | | | | | | |
| (a) + actual cash for development = (d) | \$/t equiv. | - | - | 416 | 402 | | | | | | | |
| C3: (c) + Royalty | \$/t equiv. | - | - | 474 | 445 | | | | | | | |
| (d) + Royalty | \$/t equiv. | - | - | 416 | 402 | | | | | | | |
| C1: Operating Cash Cost = (a) | \$/t equiv. | - | - | 272 | 273 | | | | | | | |
| - ex shipping (mine gate) | \$/t equiv. | - | - | 261 | 262 | | | | | | | |
| Price Assumptions | | | | | | | | | | | | |
| | Unit | Jun 21 | Jun 22 | Jun 23 | Jun 24 | | | | | | | |
| AUDUSD | A\$/US\$ | 0.72 | 0.73 | 0.74 | 0.74 | | | | | | | |
| Potash (SOP) | US\$/t | 620 | 620 | 620 | 620 | | | | | | | |
| NaCl (Industrial) | US\$/t | 90 | 90 | 90 | 90 | | | | | | | |
| NaCl (de-icing) | US\$/t | 60 | 60 | 60 | 60 | | | | | | | |
| Hedging | | | | | | | | | | | | |
| | | Jun 21 | Jun 22 | Jun 23 | Jun 24 | | | | | | | |
| Hedges maturing? | | No | No | No | No | | | | | | | |
| Sensitivity Analysis | | | | | | | | | | | | |
| Valuation | | | | | | | | | | | | |
| Base Case | | | | | | | | | | | | |
| 0.19 | | | | | | | | | | | | |
| Spot Prices | 0.16 (-15.7%) | | | | | | | | | | | |
| Spot USD/AUD 0.71, SOP US\$575/t | | | | | | | | | | | | |
| AUDUSD +/-10% | 0.16 / 0.23 (-15.7% / 18.1%) | | | | | | | | | | | |
| SOP +/-10% | 0.24 / 0.14 (27.2% / -28.1%) | | | | | | | | | | | |
| Production +/-10% | 0.24 / 0.14 (26.7% / -27.5%) | | | | | | | | | | | |
| Operating Costs +/-10% | 0.17 / 0.21 (-12.1% / 11.7%) | | | | | | | | | | | |
| Unpaid Capital | | | | | | | | | | | | |
| Year Expires | No. (m) | \$m | Avg price | % ord | | | | | | | | |
| 30-Jun-21 | 9.4 | 1.9 | 0.20 | 2% | | | | | | | | |
| 30-Jun-22 | 58.4 | 7.4 | 0.13 | 12% | | | | | | | | |
| 30-Jun-23 | 10.6 | 0.1 | 0.01 | 2% | | | | | | | | |
| TOTAL | 78.4 | 9.4 | 0.12 | 16% | | | | | | | | |
| Share Price Valuation (NAV) | | | | | | | | | | | | |
| | | Risked Est. A\$m | Est. A\$/share | | | | | | | | | |
| 100% Lake Wells (pre-tax NAV at disc. rate of 12%) | | 279.5 | 0.23 | | | | | | | | | |
| Other Exploration | | 27.9 | 0.02 | | | | | | | | | |
| Forwards | | 0.0 | 0.00 | | | | | | | | | |
| Corporate Overheads | | -12.8 | -0.01 | | | | | | | | | |
| Net Cash (Debt) | | 3.4 | 0.00 | | | | | | | | | |
| Tax (NPV future liability) | | -64.9 | -0.05 | | | | | | | | | |
| Options & Other Equity | | 0.0 | 0.00 | | | | | | | | | |
| Total | | 233.1 | 0.19 | | | | | | | | | |
| Analyst: Mike Millikan | | | | | | | | | | | | |
| +61 8 9268 2805 | | | | | | | | | | | | |
| *tbc capital* could be equity or debt. Our valuation is risk-adjusted for how this may be obtained. | | | | | | | | | | | | |
| Sources: IRESS, Company Information, Hartleys Research | | | | | | | | | | | | |
| Last Updated: 14/08/2020 | | | | | | | | | | | | |

LAKE WELLS SOP PROJECT (LSOP)

TARGETING SOP CONSTRUCTION CY22

*Project located
~500km NE of
Kalgoorlie, WA*

*Potash as a high
value bulk commodity
which requires access
to infrastructure*

*Brine SOP projects
generally occupy the
lower end of
production cost curve
and have lower capital
hurdles than rock
potash projects*

The Lake Wells Sulphate of Potash (SOP) Project is located ~180km north-east of Laverton, ~500km north-east of Kalgoorlie in WA. The project area consists of tenure, which covers ~2,100km² and now includes granted Mining Leases spanning some 30,000Ha over the Lake Wells playa and palaeochannel system.

APC has 100% ownership and all potash rights. Access to the project is via the Great Central (~90km sealed/unsealed road) and Lake Wells (~90km unsealed) roads. The project is located ~280km from a bulk rail terminal at Leonora. The climate for the project area is highly conducive to evaporation and thus a solar salt operation.

Australia currently imports 100% of its potassium fertiliser requirements, and the low chloride and high sulphate content of SOP makes it an ideal and preferred form of potassium (fertiliser) for Australian farmers. SOP attracts a superior price to muriate of potash (MOP), and is underpinned by limited brine supply (only 4 evaporative operations globally) and increasing demand (forecast growth of 4%). Australia currently has no potash production, but appears well endowed with resources across a number of its salt lake systems.

Fig. 1: Lake Wells Potash Project, WA



Source: Australian Potash Limited

*Click on the link below
to the APC Lake Wells
palaeochannel
formation*



APC's maiden SOP resource for its Lake Wells Project was delivered in late June 2016, with an updated resource used for the Scoping Study (March 2017) and the resource further upgraded for the DFS (August 2019).

The total resource estimate using specific yield provides **18.1Mt of SOP grading 7,455mg/L SOP**, with the resource in the highest confidence resource category of Measured. The high confidence drainable resource has been converted to a **maiden reserve of 3.6Mt of SOP grading 7,415mg/L SOP**, providing 95% of the LOM output and the balance coming from further Measured resources.

Highlights from the DFS (Aug'19) on the development of the LSOP includes:

The DFS was prepared by Lycopodium, with input from APC and its team of industry consultants: Novopro, AQ2, Knight Piesold, Argus and MBS Environmental

- Long-life (+30 years)
- Production of 150ktpa SOP
- Capital costs of A\$208M (includes a contingency of A\$20M)
- LOM operating costs of US\$262/t (~A\$391/t)
- LOM AISC (est) of ~US\$285/t (~A\$425/t)
- Margins of +US\$270/t at current spot SOP prices

Financial analysis conducted by Origin Capital Group.

To achieve the targeted 100ktpa SOP production from brine at Lake Wells, the operation must abstract 540L/sec from the palaeochannel through 70 production bores (with an additional 8 bores on standby). Brine is discharged into an on-playa buffer pond from which flow is controlled into the network of on-playa pre-concentration ponds to adjust for seasonal changes and evaporation.

Potassium (K) supersaturated brine is transferred from the final pre-concentration pond into the lined, off-playa, harvest ponds. Potassium and sulphate bearing salts, along with other salts (some waste, some potentially saleable) are crystallised in the harvest ponds and collected for processing.

In the LOM plan, 100ktpa of SOP will be produced from brine and 50ktpa will be produced from MOP conversion

The processing plant has been designed in such a manner to include a muriate of potash (MOP) to SOP conversion circuit, which increases overall SOP production. The MOP to SOP conversion is using the excess naturally occurring sulphate in the brines, and involves no sulphuric acid use (not the Mannheim Process). SOP produced from reserves (and some resource conversion) is increased by 50% through the addition and conversion of MOP to SOP. In the LOM plan, 100ktpa of SOP will be produced from brine and 50ktpa will be produced from MOP conversion.

150ktpa SOP operation, with more palatable capex and attractive operating costs

Fig. 2: LSOP DFS vs Scoping Study Comparison

| Lake Wells | Units | Scoping Study | | | DFS |
|-----------------------------------|------------|---------------|---------|--------------|-------------|
| | | Stage 1 | Stage 2 | LOM | LOM |
| Date | | 23-Mar-17 | | | 28-Aug-19 |
| Total Resources | Mt SOP | 14.7 | 14.7 | 14.7 | 18.1 |
| M&Ind Resources | Mt SOP | 12.7 | 12.7 | 12.7 | 18.1 |
| Reserve | Mt SOP | 0 | 0 | 0 | 3.6 |
| Inventory | Mt SOP | 0.75 | 4.5 | 5.3 | 4.5 |
| Mine Life | yrs | 1-5 | 6-20 | 20 | 30 |
| Capital Costs (capex) | A\$M | 175 | 163 | 338 | 208 |
| Scale | ktpa SOP | 150 | 300 | 263 | 150 |
| Operating Costs (opex) | US\$/t SOP | 283 | 261 | 264 | 262 |
| Operating Costs (opex) | A\$/t SOP | 368 | 339 | 343 | 391 |
| Sustaining capex (est) | A\$Mpa | 2.2 | 2.9 | 2.7 | 3.3 |
| Sales price assumption | US\$/t SOP | 612 | 612 | 612 | 614 |
| Sales price assumption | A\$/t SOP | 795 | 795 | 795 | 916 |
| Annual cash flow (pre-tax) | A\$M | 61 | 137 | 118 | 100 |
| Payback (pre-tax) | yrs | 2.9 | 1.7 | 4.6 | 4.0 |
| Payback (post-tax) | yrs | na | na | na | 4.8 |
| NPV (pre-tax) | A\$M | | | NPV10 500 | NPV8 665 |
| NPV (post-tax) | A\$M | | | na | 441 |
| IRR (pre-tax) | A\$M | | | 33% | 25% |
| IRR (post-tax) | A\$M | | | na | 21% |
| Capital Intensity | A\$/t SOP | | | 1,126 | 1,387 |
| Revenue to Cost Ratio | | | | 2.3 | 3.5 |

Source: Australian Potash Limited

Total binding offtake agreements are now 130ktpa of premium SOP which implies +85% of the proposed DFS annual production has been secured under contracted sales

APC recently secured a fourth offtake for premium SOP (branded K-Brite™) products from the LSOP. The latest binding term sheet is with HELM AG (headquartered in Germany), representing another Tier 1 international chemicals and fertiliser marketing group as a partner. This brings the total binding offtake agreements to 130ktpa of premium SOP which implies +85% of the proposed DFS annual production has been secured under contracted sales.

Offtake partners now include: Redox previously securing 20ktpa (10-year, distribution rights Australia-New Zealand), Migao 50ktpa (10-year, distribution rights China), Mitsui 30ktpa (3+3-year, distribution rights Asia (ex-China)) and HELM 30ktpa (10-year, distribution rights to several Europe jurisdictions). All of the offtakes consist of a “take or pay” arrangement, with pricing on a net realised price basis, and designed in such manner to maximise returns for both supplier (APC) and buyer (offtake partners).

Fig. 1: LSOP Offtakes -130ktpa under contracts



Source: Australian Potash Limited

The SOP offtakes and permitting are seen as the key precursors to the finalisation of a project funding package. Having over 85% of the planned production of +150ktpa SOP secured in product offtakes is great result for APC, which could lead to more favourable funding terms.

VALUATION AND PRICE TARGET

POTENTIAL FOR FIRST SOP LATE CY22

Our sum of parts valuation for APC is based largely on information supplied in the DFS. We assume SOP production of 150ktpa over a 30 year mine life with a similar capex and opex profile as per the latest study.

*Latest APC NAV and
Price Target*

We assume existing infrastructure of roads and rail can be accessed and SOP prices of US\$620/t. We assume pre-production capex of ~A\$220M, which includes some additional working capital and funding through a 60% debt and 40% equity mix. Current trading levels impact price in-which new equity is raised. It is likely the LSOP will take a higher level of debt (higher gearing ratio) than we assume. We have now adjusted timing for first production to late CY22. Our sustaining capex assumption over the LOM is A\$120M, higher than forecast by APC, just to build some additional conservatism into our model. Our modelling also dilutes for additional equity required in the near-term. We use a discount rate of 12%. Upon commencement of production our discount rate will be further lowered.

*Latest 12-month price
target of 20cps
(unchanged)*

Our price target for APC is weighted for the different scenarios (as shown below).

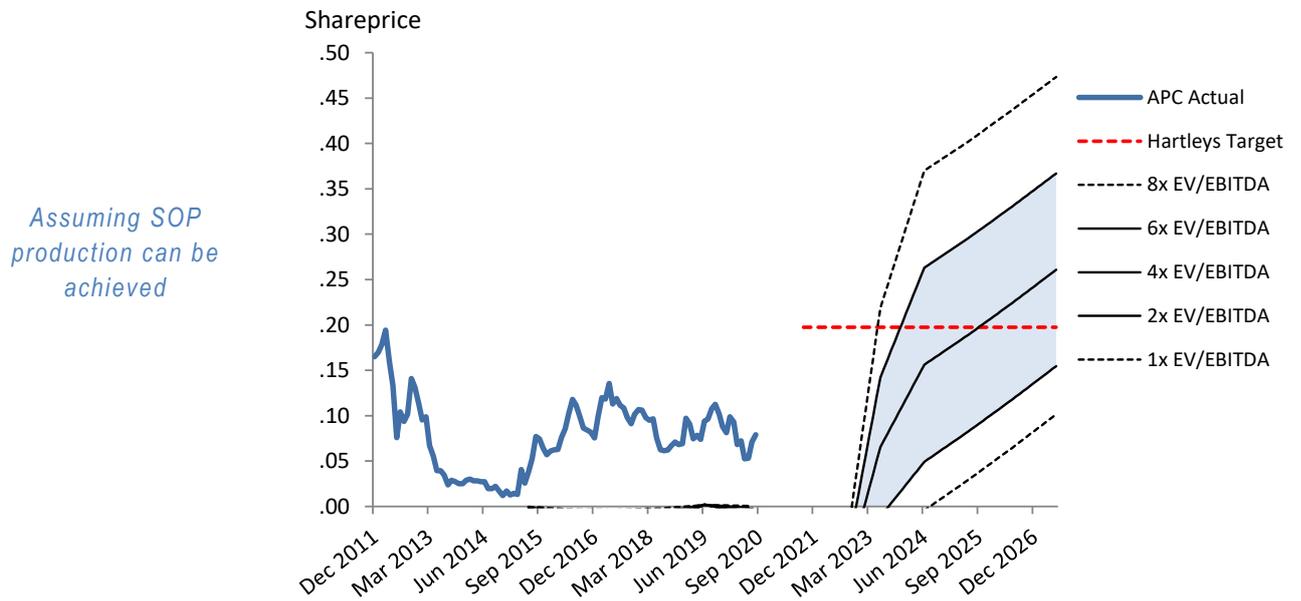
Fig. 2: APC Price Target Methodology

| Price Target Methodology | Weighting | Spot | 12 mth out |
|---|-----------|---------------|------------|
| NPV base case (DR 12%), debt/equity funded 66/34 | 40% | \$0.19 | \$0.24 |
| NPV base case (DR 8%), debt/equity funded 66/34 | 20% | \$0.25 | \$0.35 |
| NPV spot prices (DR 12%) debt/equity funded 66/34 | 20% | \$0.16 | \$0.20 |
| Cash backing | 20% | \$0.01 | \$0.00 |
| Risk weighted composite | | \$0.16 | |
| 12 Months Price Target | | \$0.20 | |
| Shareprice - Last | | \$0.089 | |
| 12 mth total return (% to 12mth target + dividend) | | 130% | |

Source: Hartleys Estimates

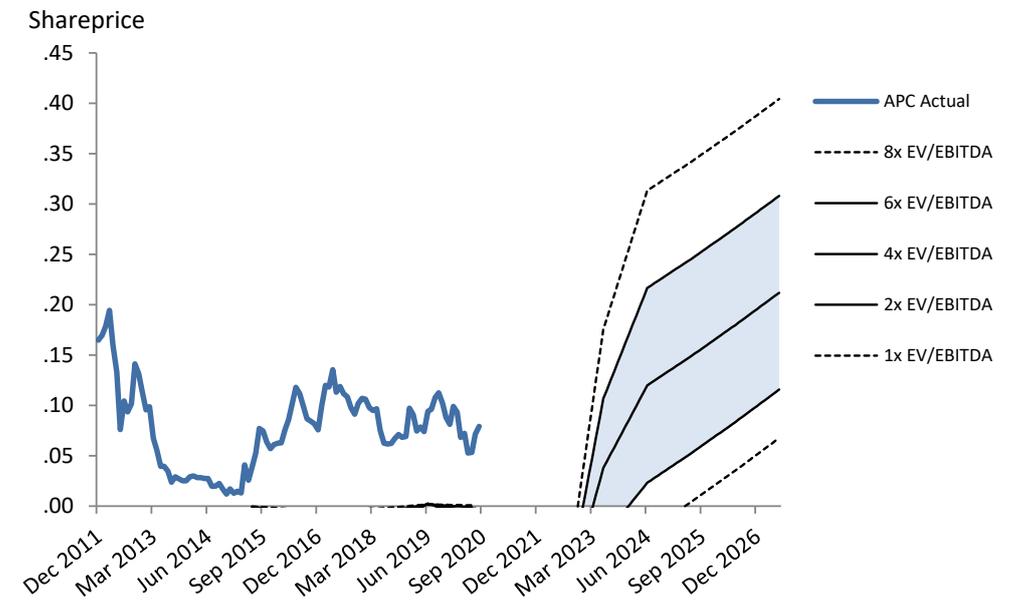
EV/EBITDA BANDS

Fig. 3: Using Hartleys Base Case Commodity Forecasts



Source: Hartleys Estimates

Fig. 4: Using Spot Commodity Prices



Source: Hartleys Estimates

RISKS

Key risks for APC are funding, and commodity prices. Hence we view APC as high risk.

Fig. 5: Key assumptions and risks for valuation

| Assumption | Risk of not realising assumption | Risk to valuation if assumption is incorrect | Comment |
|---|----------------------------------|--|---|
| Model parameters for our APC valuation and price target | Med | Meaningful | We have made a number of assumptions in our APC valuation, based largely on the DFS. APC has no production history. Any changes to our assumptions have both upside and downside risks. |
| Favourable commodity prices | Low | Meaningful | APC remains sensitive to changes in commodity (potash) prices, exchange rates and market sentiment. Though with no current operations, direct impact from commodity prices is limited. We assume potash prices will remain stable into the near-term, which is open to speculation. |
| Funded for ongoing exploration and studies | Med | Moderate | APC's cash position is estimated to be ~A\$3.4M. As an explorer with no current production assets, ongoing funding will be required. We assume FEED activities can be funded via existing cash, and ultimately the project can be financed. |
| Little or no impact from Covid-19 | Low-Med | Moderate-High | At this stage we anticipate little or no impact from the current Covid-19 pandemic. There is potential however, the project funding takes longer than anticipated and access to site might be restricted in the near-term. |

Conclusion

We have made significant assumptions but believe these are achievable.

Source: Hartleys Research

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| | |
|-----------------------|--|
| Buy | Share price appreciation anticipated. |
| Accumulate | Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy". |
| Neutral | Take no action. Upside & downside risk/reward is evenly balanced. |
| Reduce / Take profits | It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period. |
| Sell | Significant price depreciation anticipated. |
| No Rating | No recommendation. |
| Speculative Buy | Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk. |

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