

31 January 2020

AUSTRALIAN POTASH LIMITED

QUARTERLY ACTIVITIES REPORT FOR PERIOD ENDED 31 DECEMBER 2019

Highlights

Lake Wells Sulphate of Potash Project (LSOP) – WA, 100% owned

DFS Complete: FEED Underway, EPA Approvals at Stage 3, Offtake Discussions, Management Appointments

- Environmental Review Document (ERD) for the LSOP submitted to the Environmental Protection Authority (EPA)
- Front End Engineering Design (FEED) programs underway with power & logistics costs and bore-field design the focus of optimisation work through the quarter
- Key management appointments made in hydrogeology, salt processing and commercial analysis
- Offtake discussions advanced with due diligence in progress with a number of international industry participants
- Project financing advisors appointed, debt sizing exercise completed and kick-off meetings held with domestic and international banks & financial institutions

Next two quarters

- Finalise binding offtake agreements
- Finalise EPA and other development approvals & permitting
- Complete FEED cost optimisation programs
- Secure project finance debt package

Lake Wells Gold Project (LWGP) – WA, Joint Venture with St Barbara (SBM)

- Completion of First Earn-in Period expenditure commitment of \$1.75M by SBM pursuant to the Earn In & Joint Venture Agreement
- Agreement reached to reimburse APC for previously incurred gold exploration expenditure of \$318,000

- SBM elects to proceed to the Second Earn-in Period, requiring the expenditure of an additional \$3.5M to earn a 70% interest

Corporate

- **\$3.0M** additional funding secured:
 - **\$1.6M** placement to sophisticated and professional investors
 - **\$1.4M** for the FY2019 rebate under the R&D Tax Incentive Program

Australian Potash Limited (ASX: APC) (**APC** or the **Company**) is pleased to provide shareholders with its Quarterly Activities Report for the period ended 31 December 2019.

Managing Director and CEO, Matt Shackleton, commented: “Since the delivery of our landmark DFS in August, we have made several high quality consultant and management appointments to our Project Team and have embarked on our planned FEED and optimisation studies. Meanwhile our Corporate Team has been very busy progressing financing and offtake discussions with a range of financial institutions and industry participants. I look forward to reporting on our progress over the first half of 2020 on what is shaping up to be a defining period for the Company.”

Lake Wells Sulphate of Potash Project (LSOP) – 100% Owned, Western Australia (*DFS released August 2019*)

Environmental Review Document (ERD)

During the quarter, the ERD for the LSOP was submitted to the Environmental Protection Authority (EPA). The ERD is the comprehensive environmental approval document submitted for assessment by the EPA. It comprises a thorough understanding of the environmental setting of the LSOP area, developed through detailed flora and fauna surveys and studies. Along with details of the LSOP’s operation, this information is assessed by the EPA to determine its approval for project implementation under Part IV of the Environmental Protection Act 1986.

Over the next quarter, the EPA and the Company will progress through a consultation period on conditions for approval, enabling the EPA to finalise their report and Ministerial recommendation into the LSOP development.

The LSOP was referred to the EPA in December 2017, which determined that the LSOP’s development proposal, as detailed in the ERD, will be assessed under Part IV of the Environmental Protection Act 1986 by way of an Environmental Review with No Public Consultation (refer to ASX announcement 6 February 2018).

In September 2018, the EPA approved the Environmental Scoping Document (ESD). The ESD defines the form, content, timing and procedure of the ERD.

Following ERD approval under Part IV, other Decision-Making Authorities (DMAs) can commence providing operating licenses and permits through Part V of the Environmental Protection Act 1986 and Mining Act 1978 etc. (refer to Table 1 below). The DMAs, including the Department of Water and Environmental Regulation and Department of Mines, Industry Regulation and Safety, will only progress APC’s licence and permit applications once the LSOP’s ERD is approved by the EPA.

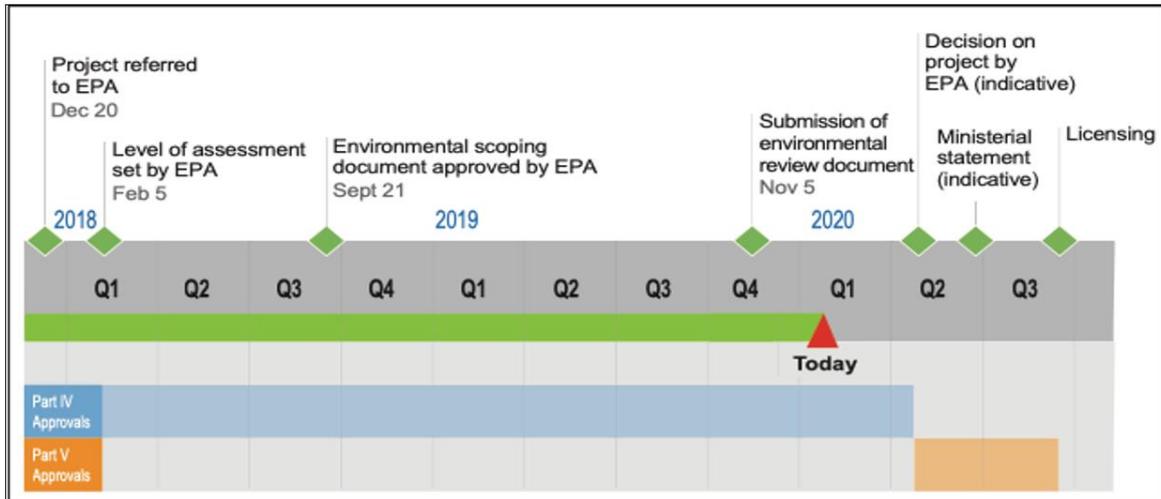


Figure 1: The LSOP development approvals, permits and licensing timeline

Legislation	Summary of approvals, permits and licenses
Environmental Protection Act 1986	Part IV – EPA approvals Part V – Licensing <ul style="list-style-type: none"> • Native vegetation clearing permits • Works approval Mine closure plan
Mining Act 1978	Miscellaneous licence for potable water, power & access corridors Mining proposal
Mines Safety and Inspection Act 1994	Project management plan (PMP)
Rights in Water and Irrigation Act 1914	26D bore construction licenses 5C groundwater abstraction licenses
Building Act 2011	Approval for non-ore processing site infrastructure
Health Act 1911	Approval for WWTP installation and supply of potable water

Table 1: Summary of required key LSOP approvals, permits and licences

Management Appointments

During the quarter there were several high-quality, experienced personnel appointed to the LSOP Project team.

Mr Simon Page, MSc Hydrogeology, MIAH, joined APC in October 2019 following 10 years in a specialist hydrogeologist role with Rio Tinto.

Simon brings to the team nearly 25 years' experience in hands-on, field based roles, augmented by leadership positions in multi-disciplinary teams managing feasibility studies and ore-body developments.

Mr Ryan Duncan, BEc, BSc(Hons) joined APC in September 2019 having worked with Rio Tinto for over 8 years, including technical and management roles at Dampier Salt operations.

Ryan's strong technical background in chemistry, coupled with his several years of experience managing solar salt evaporation pond networks, has provided APC with high-level core competencies not only in the evaporative stage of the LSOP operations, but importantly at the processing end too.

Ms Ella Zhang, BBus, CPA Program joined APC in October 2019 following over 9 years in financial analysis roles with BHP, including Group Management Reporting, Major Projects, and Next Generation Mining Studies.

A bi-lingual native Mandarin speaker, Ella provides the corporate team and FEED program in particular with a high-level, advanced analytical skill set to support strategic decision making.

Front End Engineering Design (FEED)

FEED optimisation programs commenced during the quarter with several key consultant appointments made including:

- Lycopodium as lead Engineers across the processing plant, bore-field network and power plant
- Novopro Projects Inc. as lead Process Engineers managing the optimisation of process flowsheets, evaporation pond design and start-up sequencing
- AQ2 as lead Hydrogeological Consultants working with APC's Project Team to develop optimised bore field designs and abstraction
- Knight Piesold as lead Geotechnical Engineering Consultants ahead of final optimised pond designs, overseeing detailed design and various civil works programs

The purpose of the FEED program is to refine to a more detailed level those areas of cost and design considered through the Definitive Feasibility Study to be most important to the eventual financial success of the LSOP.

During the quarter, the team advanced data collection leading to an optimisation of the bore-field, and working towards the final design for the pre-concentration pond network.

From a cost optimisation perspective, trade off analysis continued across the power supply, including renewable and hybrid generation options, as well as developing a more detailed model around the trucked LNG option, which forms the base-case in the DFS.

Logistics optimisation work continued through the quarter, with the outcome of the current offtake discussions to determine the final haulage model most beneficial to the economic feasibility of the LSOP.

Definitive Feasibility Study (DFS)

On 28 August 2019, APC, announced the completion of an AACE Class 3 DFS (+15%/-5%) on developing the LSOP into a 150,000 tpa Sulphate of Potash (SOP) operation¹. The DFS was prepared by Lycopodium in conjunction with industry leading consultants including Novopro, AQ2, Knight Piesold, and MBS Environmental.

The LSOP will use a bore field to abstract brine, mitigating geotechnical challenges and a decline in grade and production over time evident in trenching systems. The LSOP has an extremely competitive capital intensity, forecast first quartile operating costs and exceptional financial returns.

Highlights of the DFS include:

- Compelling economics:
 - Pre-tax NPV₈ of A\$665M
 - Annual pre-tax free cash flows of A\$100M and LOM pre-tax free cash flows of A\$3.1B
 - Pre-tax IRR of 25% on robust operational and capital efficiencies
 - 150,000 tpa SOP production rate
- Long life project with lowest quartile production costs:
 - 30 year mine life with LOM production of 4.5Mt of premium high-grade SOP
 - LOM cash cost of US\$262/t placing the LSOP in the first quartile of the SOP cost curve
- Sector leading CAPEX:
 - Development CAPEX of A\$208M
 - Competitive capital intensity of A\$1,387/t SOP
- Substantial Mineral Resource base:
 - LOM production is met by a 3.6Mt Probable Reserve and draws on a Measured Resource of 18.1Mt drainable SOPⁱⁱ

Lake Wells Gold Project Earn-in & Joint Venture Agreement with St Barbara Limited

As announced on 8 October 2018, APC and St Barbara Limited (**SBM**) entered into an Earn-in & Joint Venture Agreement (**Agreement**) covering APC's tenure at the Lake Wells Gold Project.

Under the Agreement, SBM paid APC a \$1.25M cash consideration and has since met the minimum exploration expenditure commitment of \$1.75M pursuant to the initial 12 month Earn-in period.

During the December 2019 quarter, SBM completed the following work:

- 196 AC drill holes for 9,436m; and
- Ongoing results assessment and targeting.

Subsequent to quarter-end, SBM notified the Company that it will proceed to the Second Earn-in Period, requiring the expenditure of an additional \$3,500,000 to earn a 70% interest in the Lake Wells Gold Project. SBM also agreed to reimburse APC \$318,000 for previously incurred gold exploration expenditure.

Corporate

Completion of \$1.6m Placement

During the quarter, the Company completed a placement to sophisticated and professional investors to raise gross proceeds of \$1.6 million, through the issue of 22,857,140 fully paid ordinary shares (**New Shares**) at an issue price of 7.0 cents each (**Placement**), to fund ongoing pre-development activities at the LSOP.

21,999,998 New Shares were issued on 24 December 2019 on the same terms as, and rank equally in all respects with, the existing fully paid ordinary shares in the Company. The issue of an additional 857,142 New Shares to the Company's Non-executive Chairman, Jim Walker, remains subject to shareholder approval. The Company expects to schedule a General Meeting of shareholders during H1 2020.

The allotment of the Placement was not subject to shareholder approval (other than indicated above) and fell within the Company's 15% placement capacity under ASX Listing Rule 7.1.

Proceeds from the Placement will be applied towards finalising the LSOP permitting and approvals process and progressing FEED and optimisation activities.

As part consideration for brokerage fees payable in respect of the Placement, 7,500,000 listed options (ASX: APCOB) exercisable at \$0.12 each on or before 8 August 2021 were issued by the Company.

R&D Tax Incentive Received

During the quarter, the Company received a \$1.4M refundable Research and Development (R&D) Tax offset from the Australian Taxation Office relating to work performed during the year ended 30 June 2019. The R&D Tax incentive recognised the innovative abstraction bore construction and pre-concentration pond testwork trials on the LSOP undertaken by the Company. The funds will be used to continue the work streams for the FEED program.

Annual General Meeting

During the quarter, the Company held its Annual General Meeting, at which all resolutions as follows were passed by the requisite majority on a show of hands:

- Adoption of Remuneration Report;
- Re-election of Director – Mr Rhett Brans;
- Approval of 10% Placement Capacity;
- Replacement of Constitution;
- Adoption of Incentive Performance Rights Plan;
- Issue of Related Party Performance Rights to Mr Matthew Shackleton; and
- Ratification of Previous Issue of Options.

Issue of Consideration Shares

As agreed under clause 5.1(c) of the Sale of Mining Tenements Agreement dated 11 April 2011, as amended (**Goldphyre Agreement**) and entered into between the Company and Goldphyre WA Pty Ltd (**Goldphyre**), 3,000,000 fully paid ordinary shares were issued by

APC during the quarter to Goldphyre as consideration for the acquisition by the Company of the Mining Tenements and Mining Information specified in the Goldphyre Agreement.

Change of Registered and Principal Office

During the quarter, the Company changed its registered and principal office to Suite 31, 22 Railway Road, Subiaco WA 6008.

Mining Tenements

Area	Tenement	Interest at 1 October 2019	Action	Interest at 31 December 2019
Lake Wells	E38/1903	100%	-	100%
	E38/2901	100%	-	100%
	E38/2505	100%	-	100%
	E38/3021	100%	-	100%
	E38/3039	100%	-	100%
	E38/2113	100%	-	100%
	E38/2114	100%	-	100%
	E38/2744 ⁱⁱⁱ	100%	-	100%
	E38/2742 ⁱⁱⁱ	100%	-	100%
	E38/2988	100%	-	100%
	E38/3018	100%	-	100%
	E38/3028	100%	-	100%
	E38/3109	100%	-	100%
	E38/3224	100%	-	100%
	E38/3225	100%	-	100%
	E38/3226	100%	-	100%
	E38/3270	100%	-	100%
	ELA38/3423	100%	Application	100%
	M38/1274 ^{iv}	100%	-	100%
	M38/1275	100%	-	100%
M38/1276 ^{iv}	100%	-	100%	
Laverton Downs	E38/2724	100%	-	100%
	E38/3014	100%	-	100%
	E38/3132	100%	-	100%
	ELA38/3402	100%	Application	100%
	ELA38/3403	100%	Application	100%
	ELA38/3404	100%	Application	100%
Norseman East	ELA63/1988	100%	Application Withdrawn	0%
	ELA63/1989	100%	Application Withdrawn	0%
	ELA63/1990	100%	Application Withdrawn	0%
Darlot East	E37/1388	0%	Application	100%
	E37/1389	0%	Application	100%
	E37/1390	0%	Application	100%

This announcement is authorised for release by APC's Board of Directors.

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Forward Looking Statements

This announcement contains forward-looking statements that involve a number of risks and uncertainties. These forward-looking statements are expressed in good faith and believed to have a reasonable basis. These statements reflect current expectations, intentions or strategies regarding the future and assumptions based on currently available information. Should one or more of the risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary from the expectations, intentions and strategies described in this announcement. No obligation is assumed to update forward looking statements if these beliefs, opinions and estimates should change or to reflect other future developments.

ⁱ Refer to ASX Announcement 28 August 2019 'Definitive Feasibility Study Outstanding Financial Outcomes'. That announcement contains the relevant statements, data and consents referred to in this announcement. Apart from that which is disclosed in this document, Australian Potash Limited, its directors, officers and agents: 1. Are not aware of any new information that materially affects the information contained in the 28 August 2019 announcement, and 2. State that the material assumptions and technical parameters underpinning the estimates in the 28 August 2019 announcement continue to apply and have not materially changed.

ⁱⁱ Refer to ASX announcement 5 August 2019 'Major Resource Estimate Upgrade'. That announcement contains the relevant statements, data and consents referred to in this announcement. Apart from that which is disclosed in this document, Australian Potash Limited, its directors, officers and agents: 1. Are not aware of any new information that materially affects the information contained in the 5 August 2019 announcement, and 2. State that the material assumptions and technical parameters underpinning the estimates in the 5 August 2019 announcement continue to apply and have not materially changed.

ⁱⁱⁱ Tenements are subject to a Sale and Split Commodity Agreement with Lake Wells Exploration Pty Ltd (**Lake Wells**) and Mark Creasy, where the Company has the right to explore for and exploit potash minerals in preference to all other minerals' exploration and prospecting activities. Should a Mining Lease be applied for by the Company on any part of these licenses, on grant it will be transferred to 100% Company ownership and the Company will grant to Lake Wells exploration rights and Mark Creasy prospecting rights. Any rights thus granted cannot be exercised in preference to the Company's activities in exploring for or exploiting potash minerals.

^{iv} Tenement transfers have been lodged to transfer 100% ownership of the lease to the Company, whereupon the Company will grant to Lake Wells exploration rights and Mark Creasy prospecting rights. Any rights thus granted cannot be exercised in preference to the Company's activities in exploring for or exploiting potash minerals.