

30 Aug 2019

AUSTRALIAN POTASH LIMITED (APC)

LSOP DFS delivers a strong margin, long-life project

Australian Potash Limited (APC) recently completed the Definitive Feasibility Study (DFS) on the development of its 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in WA.

The DFS confirms the strong technical and economic viability of the project, and highlights potential for a long-life (+30 years), potash operation designed to produce 150ktpa SOP, and has capital costs of A\$208M (includes a contingency of A\$20M). LOM operating costs of US\$262/t (~A\$391/t) are also expected to be highly competitive (first 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\$425/t), which implies a margin of +US\$270/t at current spot SOP prices.

The capital intensity of the project also appears attractive at ~A\$1,387/t SOP, which is below the peer average, and ~30% less capital intensive than some more recently constructed brine projects globally.

Next steps FEED, binding offtakes and project financing

APC now plans to complete binding off-takes for its premium-quality SOP and finalise the debt package for the project financing. The front-end engineering design (FEED) is commencing imminently, with the LSOP expected to be developed over ~24 months from the final investment decision (FID). We see potential for FID in early CY20, assuming offtakes and project financing can be secured, and now model first production from mid CY22.

High confidence maiden reserve providing 95% of LOM output

The LSOP is expected to be serviced by a borefield network consisting of some 78 bores. APC has an enviable position of having a deep palaeochannel (3-4x deeper than peers) which has made the estimation of reserves, and the anticipated abstraction of brine easier. The Company recently upgraded its Lake Wells SOP resource to 18.1Mt, with 100% of the resource Measured. The high confidence drainable resource has been converted to a maiden reserve of 3.6Mt of SOP, providing 95% of the LOM output and the balance coming from further Measured resources.

While the project is located ~280kms from a rail terminal at Leonora, the DFS has been modelled on the assumption of a 100% road freight to the Geraldton Port. The local shire of Laverton continues with works to tar-seal the Great Central Road, providing ~70kms of bitumen for improved transport logistics. The upgrade of the access road into Lake Wells (~90kms) is also being considered. The improved logistics, lowering transport costs was one of the outcomes delivered in the DFS.

Undervalued, favourable economics, funding seen as key risk

APC remains undervalued on peer comparisons, and we would argue still offers good value, in regards to highly favourable economics, transport infrastructure, low capital intensity and high-quality SOP product offerings.

We maintain our **Speculative Buy** on APC, with a price target of 30cps (up from 25cps). APC's current cash position is estimated to be ~A\$3M, which provides some funds to commence FEED activities and for ongoing offtake decisions. Project funding is seen as the key near-term risk to development.

Share Price	\$0.110
Valuation	\$0.30
Price Target (12 month)	\$0.30

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 and now working on offtakes and project financing.

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

Top Shareholders

Yandal Investments (Creasy)	8.5%
Perth Select Seafood	4.5%
Board and Management	2.5%

Company Address

31 Ord Street
West Perth WA 6005

Issued Capital 357.6m
- fully diluted 464.4m

Market Cap A\$39.3m
- fully diluted A\$51.1m

Cash (est) A\$3.0m

Debt (est) A\$0.0m

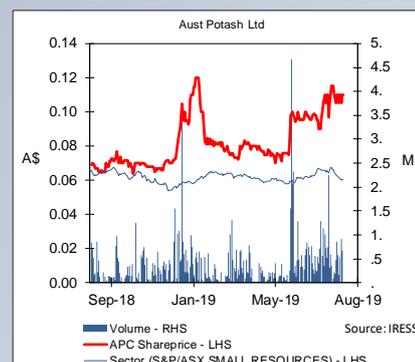
EV A\$36.3m

EV/Resource t A\$2.0/t

EV/Reserve t A\$10.1/t

Prelim. (A\$m)	FY21e	FY22e	FY23e
Prod (kt SOP)	0.0	37.5	150.0
Op Cash Flw	-13.9	3.6	52.0
Norm NPAT	-26.4	-5.8	62.9
CF/Share (cps)	-2.6	-0.4	4.3
EPS (cps)	-3.6	-0.5	5.9
P/E	-4.2	-27.6	2.5

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



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Hartleys has completed a capital raising in the past 12 months for Australian Potash Limited ("APC") for which it has earned gross fees. The analyst has a beneficial interest in APC shares.

SUMMARY MODEL

Australian Potash Limited APC		Share Price \$0.110				
Key Market Information						
Share Price		\$0.110				
Market Capitalisation - ordinary		\$39.3m				
Net Debt (cash)		-\$3m				
Market Capitalisation - fully diluted		\$39.3m				
EV		\$36.3m				
Issued Capital		357.6m				
Options		106.8m				
Issued Capital (fully diluted inc. all options)		464.4m				
Issued Capital (diluted inc. ITM options and new capital)		1114.3m				
Valuation		\$0.30				
12month price target		\$0.30				
P&L	Unit	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23
Net Revenue	A\$m	0.0	0.0	0.0	31.9	125.7
Total Costs	A\$m	-5.6	-5.8	-6.9	-15.8	-57.5
EBITDA	A\$m	-5.6	-5.8	-6.9	16.1	68.2
- margin		na	-	-	50%	54%
Depreciation/Amort	A\$m	-0.1	-1.3	-6.4	-10.9	-11.4
EBIT	A\$m	-5.6	-7.1	-13.3	5.2	56.8
Net Interest	A\$m	0.1	-2.3	-7.0	-9.6	-8.4
Pre-Tax Profit	A\$m	-5.5	-9.4	-20.3	-4.4	48.4
Tax Expense	A\$m	0.0	0.0	0.0	0.0	0.0
Normalised NPAT	A\$m	-7.2	-12.2	-26.4	-5.8	62.9
Abnormal Items	A\$m	1.7	2.8	6.1	1.3	-14.5
Reported Profit	A\$m	-5.5	-9.4	-20.3	-4.4	48.4
Minority	A\$m	0.0	0.0	0.0	0.0	0.0
Profit Attrib	A\$m	-5.5	-9.4	-20.3	-4.4	48.4
Balance Sheet	Unit	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23
Cash	A\$m	2.0	106.4	20.2	10.9	26.9
Other Current Assets	A\$m	0.0	0.0	0.0	3.1	12.2
Total Current Assets	A\$m	2.0	106.4	20.2	14.0	39.1
Property, Plant & Equip.	A\$m	-1.2	42.5	191.0	191.1	183.8
Exploration	A\$m	3.9	7.9	12.9	14.9	16.9
Investments/other	A\$m	0.0	0.0	0.0	0.0	0.0
Tot Non-Curr. Assets	A\$m	2.7	50.4	203.9	206.0	200.7
Total Assets	A\$m	4.7	156.8	224.2	220.0	239.7
Short Term Borrowings	A\$m	-	-	-	-	-
Other	A\$m	0.2	0.3	0.3	0.6	1.9
Total Curr. Liabilities	A\$m	0.2	0.3	0.3	0.6	1.9
Long Term Borrowings	A\$m	-	150.0	150.0	150.0	120.0
Other	A\$m	-	-	-	-	-
Total Non-Curr. Liabil.	A\$m	-	150.0	150.0	150.0	120.0
Total Liabilities	A\$m	0.2	150.3	150.3	150.6	121.9
Net Assets	A\$m	4.4	6.5	73.9	69.4	117.8
Net Debt	A\$m	-2.0	43.6	129.8	139.1	93.1
nd / nd + e		-80.3%	86.9%	63.7%	66.7%	44.2%
Cashflow	Unit	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23
Operating Cashflow	A\$m	-1.9	-4.5	-6.8	13.3	60.4
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0	0.0
Interest & Other	A\$m	0.1	-2.3	-7.0	-9.6	-8.4
Operating Activities	A\$m	-1.8	-6.8	-13.9	3.6	52.0
Property, Plant & Equip.	A\$m	0.0	-45.0	-155.0	-11.0	-4.0
Exploration and Devel.	A\$m	-3.9	-4.0	-5.0	-2.0	-2.0
Other	A\$m	1.3	0.0	0.0	0.0	0.0
Investment Activities	A\$m	-2.6	-49.0	-160.0	-13.0	-6.0
Borrowings	A\$m	0.0	150.0	0.0	0.0	-30.0
Equity or "tbc capital"	A\$m	4.2	10.2	87.7	0.0	0.0
Dividends Paid	A\$m	0.0	0.0	0.0	0.0	0.0
Financing Activities	A\$m	4.2	160.2	87.7	0.0	-30.0
Net Cashflow	A\$m	-0.2	104.4	-86.2	-9.4	16.0
Shares	Unit	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23
Ordinary Shares - End	m	358	443	1,114	1,114	1,114
Ordinary Shares - Weighted	m	331	400	778	1,114	1,114
Diluted Shares - Weighted	m	262	331	708	1,042	1,042
Ratio Analysis	Unit	30 Jun 19	30 Jun 20	30 Jun 21	30 Jun 22	30 Jun 23
Cashflow Per Share	A\$ cps	-0.5	-1.7	-1.8	0.3	4.7
Cashflow Multiple	x	-20.1	-6.5	-6.2	33.6	2.4
Earnings Per Share	A\$ cps	-1.7	-2.3	-2.6	-0.4	4.3
Price to Earnings Ratio	x	-6.6	-4.7	-4.2	-27.6	2.5
Dividends Per Share	AUD	-	-	-	-	-
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Debt / Net Debt + Equity		-80%	87%	64%	67%	44%
Interest Cover	X	49.1	na	na	0.5	6.8
Return on Equity	%	na	na	na	na	53%
30 August 2019 Speculative Buy						
Directors			Company Information			
Jim Walker (Non-Exec Chair)			31 Ord Street			
Matt Shackleton (MD & CEO)			West Perth WA 6005			
Rhett Brans (Non-Exec Dir)			+61 8 9322 1003			
Brett Lambert (Non-Exec Dir)			www.australianpotash.com.au			
Sophie Raven (Company Secretary)						
Scott Nicholas (Chief Financial Officer - CFO)			Stewart McCallion (Proj Man)			
Jay Hussey (Chief Commercial Officer -CCO)			Chris Shaw (Expl Man)			
Top Shareholders						
		m shares		% ord		
Yandal Investments (Creasy)		30.5		8.5%		
Perth Select Seafood		16.0		4.5%		
Board and Management		9.0		2.5%		
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 20	Jun 21	Jun 22	Jun 23	
Mill Throughput	Mt	-	-	0.04	0.15	
Potash equiv	Mt	-	-	0.04	0.15	
Potash equiv (Attrib)	Mt	-	-	0.04	0.15	
Potash (SOP)	Mt	-	-	0.04	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	30.0	29.0	
Costs						
	Unit	Jun 20	Jun 21	Jun 22	Jun 23	
Cost per processed tonne	\$/t	-	-	368.9	368.9	
EBITDA / tonne processed ore	\$/t	-	-	429.0	454.5	
Total cash costs	\$/t equiv.	-	-	421.5	383.3	
Total cash costs	\$/t equiv.	-	-	307.3	283.7	
- ex shipping	\$/t equiv.	-	-	296.5	272.7	
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.	-	-	659	445	
(a) + actual cash for development = (d)	\$/t equiv.	-	-	716	409	
C3: (c) + Royalty	\$/t equiv.	-	-	659	445	
(d) + Royalty	\$/t equiv.	-	-	716	409	
C1: Operating Cash Cost = (a)	\$/t equiv.	-	-	269	273	
- ex shipping (mine gate)	\$/t equiv.	-	-	258	262	
Price Assumptions						
	Unit	Jun 20	Jun 21	Jun 22	Jun 23	
AUDUSD	A\$/US\$	0.70	0.72	0.73	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 20	Jun 21	Jun 22	Jun 23	
Hedges maturing?		No	No	No	No	
Sensitivity Analysis						
Valuation						
Base Case						
0.30						
Spot Prices						
0.26 (-13.7%)						
Spot USD/AUD 0.67, SOP US\$555/t.						
AUDUSD +/-10%						
0.26 / 0.35 (-12.3% / 14.4%)						
SOP +/-10%						
0.36 / 0.23 (19.3% / -22.9%)						
Production +/-10%						
0.36 / 0.23 (19.0% / -22.5%)						
Operating Costs +/-10%						
0.27 / 0.33 (-9.5% / 9.3%)						
Unpaid Capital						
Year Expires						
	No. (m)	\$m	Avg price	% ord		
30-Jun-19	0.0	0.0	0.0	0%		
30-Jun-20	48.3	9.7	0.2	14%		
30-Jun-21	9.4	1.4	0.2	3%		
30-Jun-22	49.1	6.0	0.1	14%		
TOTAL	106.8	17.2	0.16	30%		
Share Price Valuation (NAV)						
100% Lake Wells (pre-tax NAV at disc. rate of 10%)		Risked Est. A\$m		Est. A\$/share		
		352.7		0.32		
Other Exploration		30.0		0.03		
Forwards		0.0		0.00		
Corporate Overheads		-13.9		-0.01		
Net Cash (Debt)		3.0		0.00		
Tax (NPV future liability)		-42.8		-0.04		
Options & Other Equity		0.3		0.00		
Total		329.2		0.30		
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: 30/08/2019						

LAKE WELLS SOP PROJECT (LSOP)

DFS DELIVERED FOR SOP PRODUCTION

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

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

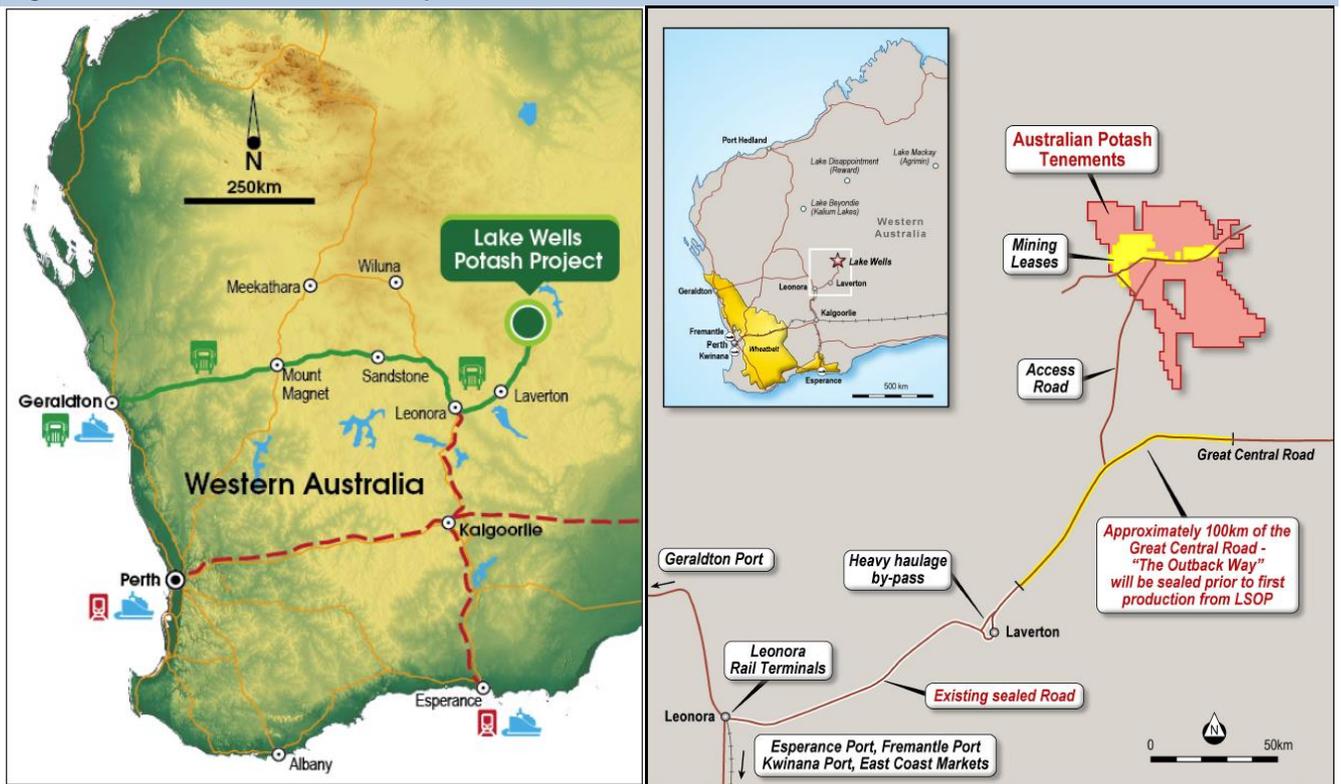
*Brine SOP projects
generally occupy the
lower end of
production cost curve
and have lower capital
hurdles than rock
potash projects*

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

*Maiden reserve of
3.6Mt of SOP grading
7,415mg/L SOP,
provides 95% of the
LOM*

APC released a maiden SOP resource for its Lake Wells Project in late June 2016, updated the resource for the Scoping Study (March 2017) and has upgraded the resource 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. LOM plan is expected to

Highlights from the DFS 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

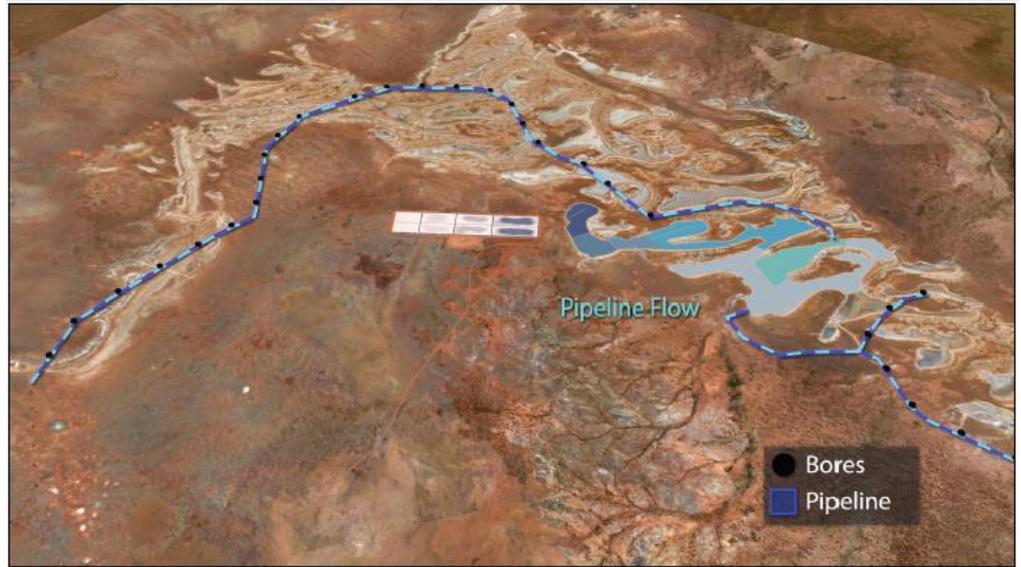
Palaeochannel System



Source: APC

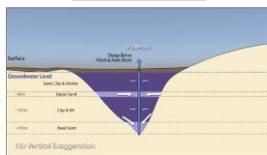
The Project will use a bore-field to abstract brine

Fig. 3: LSOP Borefield – 78 bores 800m spaced



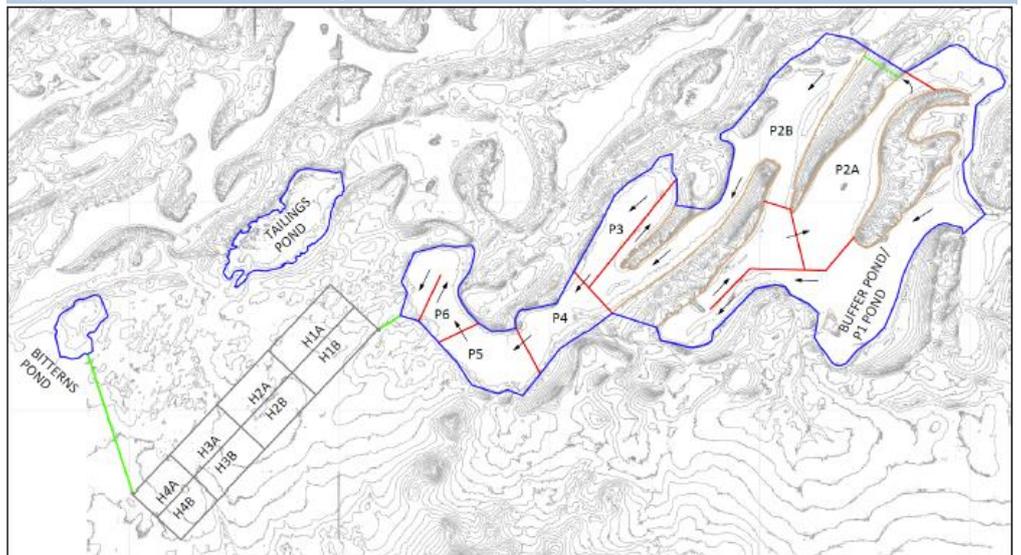
Source: Australian Potash Limited

Bore Design



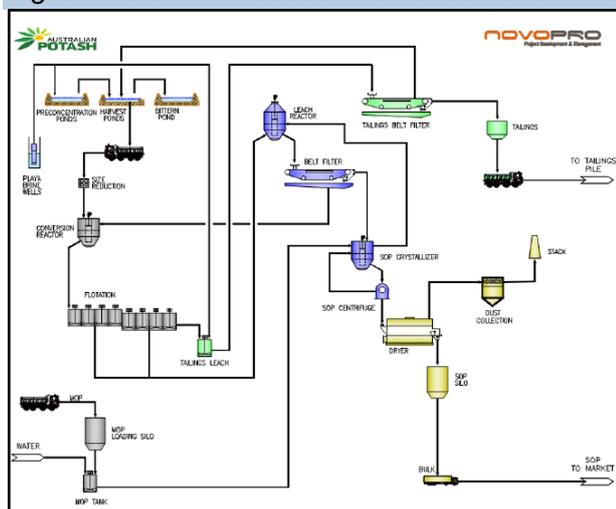
Source: APC

Fig. 4: LSOP – Evaporation Pond Layout



Source: Australian Potash Limited

Fig. 5: LSOP - Process Flowsheet and Design Parameters



Parameter	Value
Playa Brine Feed	19.4 Mtpa
Harvest Salts to Plant	117.2 dry tph
MOP Addition	5.6 tph
Annual Plant Availability	7800 hours
SOP Production	150,000 tpa
Overall Process Potassium Recovery	81.5%

Source: Australian Potash Limited

PEERS – APC APPEARS UNDERVALUED

APC and Kalium Lakes (KLL) are the only two ASX listed stocks to have completed final studies (DFS and BFS). APC appears undervalued when compared to KLL, the projects are comparable, whereas KLL is now largely funded to complete construction.

KLL has a two staged ramp-up to achieve 164ktpa SOP production, whereas APC is planning on a 150ktpa SOP from the start

KLL appears to be largely funded to production, whereas APC is working on offtakes and project financing solutions

APC's capital intensity is A\$1,387/t vs KLL's A\$1,737/t

Project returns are similar, though a slightly higher SOP price has been used by APC in its study

Fig. 6: ASX-listed Peers – APC and KLL

	Units	APC	KLL
Project		Lake Wells	Lake Bonyndie
Commodity		SOP	SOP
Interest	%	100%	100%
Study Level		DFS	DFS
Consultant		Lycopodium	K-UTEC
Ord Shares	M	357.6	386.5
Price	S/s	\$0.110	\$0.50
Market Cap	A\$M	\$39.3	\$191.3
Cash	A\$M	\$3.0	\$87.4
Debt*	A\$M	\$0	\$176
EV	A\$M	\$36	\$280
EV adj	A\$M	\$244	\$285
	x		7.7
Resource	Mt	LOM	LOM
Reserve	Mt	18.1	19.6
Mining Inventory	Mt	3.6	5.1
	Mt	3.8	4.7
Mine Life	yrs	30	30
Extraction	Type	<i>Bores</i>	<i>Trenching/Bores</i>
SOP Production	ktpa	150,000	164,000
SOP Resource (drainable)- M&Ind	Mt	18.1	10.9
SOP Resource (drainable)- Inf	Mt	0.0	8.8
SOP Resource (drainable)	Mt	18.1	19.7
K Grade	mg/L	3,343	5,585
SOP Grade	mg/L	7,455	12,455
Road Distance to Port	km	1,060	1,088
Port		Geraldton	Fremantle
Brine Extraction/Evaporation Ponds	A\$M	74.0	68
Plant	A\$M	58.0	102
Other infrastructure	A\$M	19.0	48.6
Indirect	A\$M	37.0	35.8
Contingency	A\$M	20.0	25.0
Total Capex	A\$M	208	285
Sustaining Capex - LOM	A\$Mpa	3.3	6.9
LOM Capex	A\$M	306	491
Cash costs	US\$/t	262	200
Cash costs	A\$/t	391	274
AISC (est)	US\$/t	285	226
AISC (est)	A\$/t	425	310
Capital Intensity	US\$/t	929	1268
Capital Intensity	A\$/t	1387	1737
Revenue to Cost Ratio	LOM	2.3	3.0
EV/Production t SOP	A\$/t SOP	242	1707
Price SOP used	US\$/t	614	606
FX A\$/US\$	A\$/US\$	0.67	0.73
Price SOP used	A\$/t	916	830
Payback (pre-tax)	years	4.0	7.0
Payback (post-tax)	years	4.8	8.3
Discount Rate		8%	8%
NPV (pre-tax)	A\$M	\$665	\$575
NPV (post-tax)	A\$M	\$441	\$347
NPV/Total Capex	x	3.2	2.0
NPV/LOM Capex	x	2.2	1.2
IRR (pre-tax)	%	25%	20%
IRR (post-tax)	%	21%	15%

Source: Hartleys Estimates; Company Reports

VALUATION AND PRICE TARGET

POTENTIAL FOR FIRST SOP MID-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. We have now adjusted timing for first production to mid-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 now use a discount rate of 10% (down from 12%). Upon commencement of production our discount rate will be further lowered.

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

Updated 12-month price target of 30cps (up from 25cps)

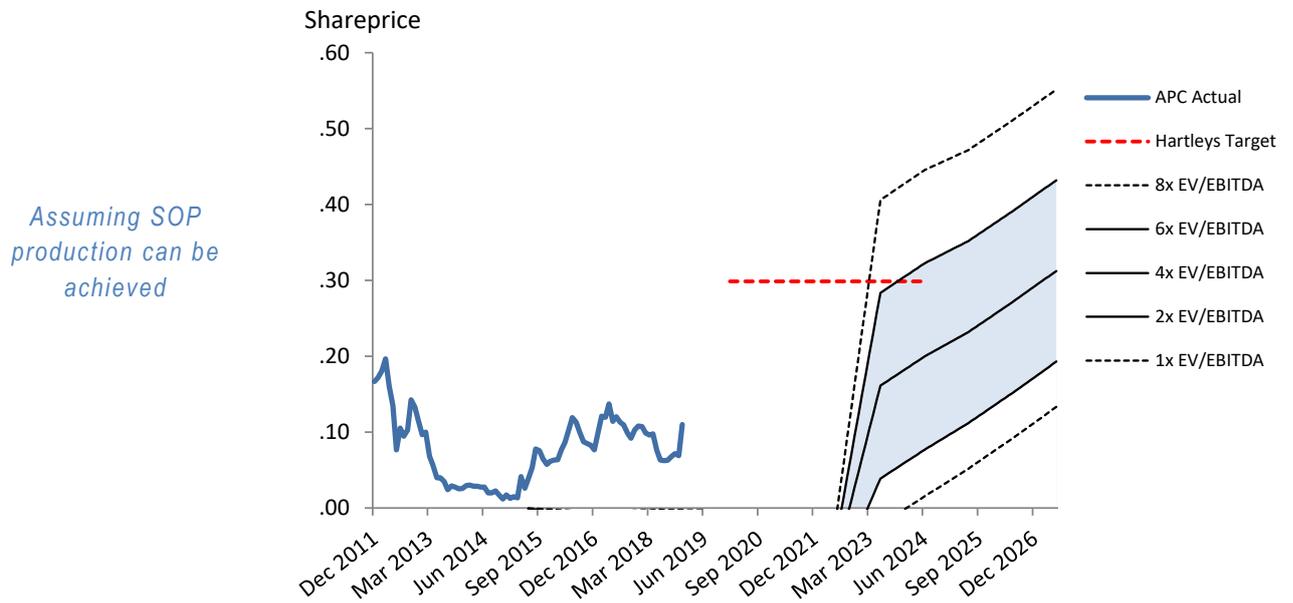
Fig. 7: APC Price Target Methodology

Price Target Methodology	Weighting	Spot	12 mth out
NPV base case (DR 10%), debt/equity funded 60/40	45%	\$0.30	\$0.32
NPV base case (DR 8%), debt/equity funded 60/40	25%	\$0.37	\$0.40
Cash backing	12%	\$0.01	\$0.01
NPV spot prices (DR 10%) debt/equity funded 60/40	18%	\$0.26	\$0.29
Risk weighted composite		\$0.27	
12 Months Price Target		\$0.30	
Shareprice - Last		\$0.110	
12 mth total return (% to 12mth target + dividend)		171%	

Source: Hartleys Estimates

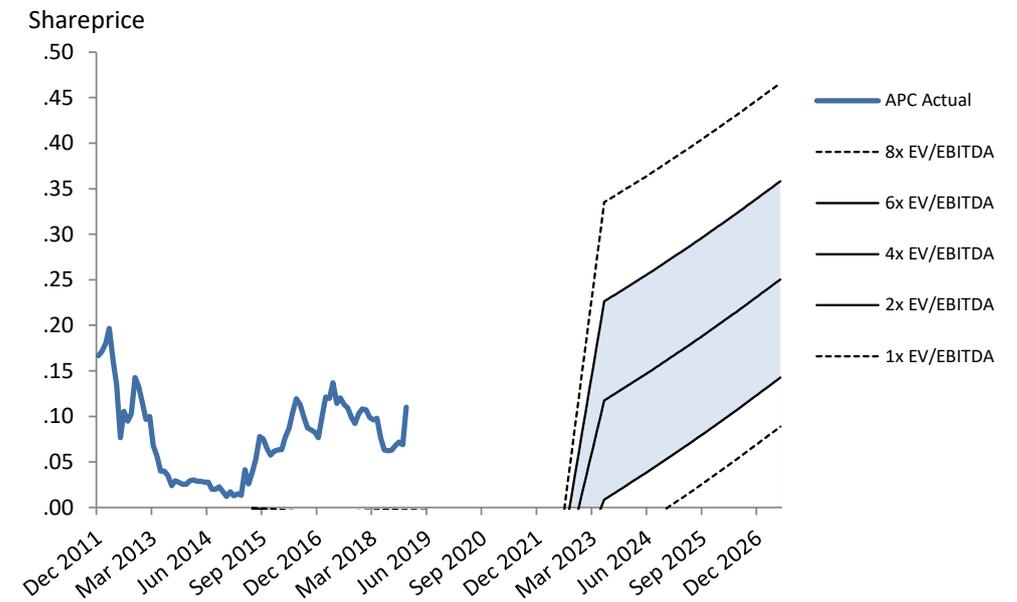
EV/EBITDA BANDS

Fig. 8: Using Hartleys Base Case Commodity Forecasts



Source: Hartleys Estimates

Fig. 9: 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. 10: 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\$3M. As an explorer with no current production assets, ongoing funding will be required. We assume FEED activities will commence, offtakes can be secured and ultimately the project can be financed.

Conclusion

We have made significant assumptions but believe these are achievable.

Source: Hartleys Research

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Hartleys Recommendation Categories

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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