Australian Potash (APC)

Rating: Buy | Risk: High | Price Target: $0.32

From little things, big things grow

Key Information	
Current Price ($ps)	0.18
12m Target Price ($ps)	0.32
52 Week Range ($ps)	0.05 - 0.20
Target Price Upside (%)	80.5%
TSR (%)	80.5%
Reporting Currency	AUD
Market Cap ($m)	97
Sector	Materials
Avg Daily Volume (m)	0.8
ASX 200 Weight (%)	0%

Fundamentals

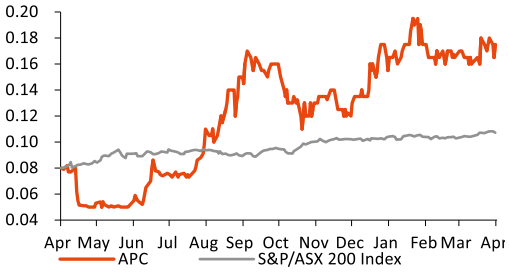
YE 30 Jun (AUD)	FY20A	FY21E	FY22E	FY23E
Sales ($m)	0	0	0	0
NPAT ($m)	(1)	(2)	(6)	(7)
EPS (cps)	(0.2)	(0.5)	(0.7)	(0.6)
EPS Growth (%)	nm	nm	(51.0%)	12.2%
DPS (cps) (AUD)	0.0	0.0	0.0	0.0
Franking (%)	100%	100%	100%	100%

Ratios

YE 30 Jun	FY20A	FY21E	FY22E	FY23E
P/E (x)	(29.9)	(37.7)	(25.0)	(28.4)
EV/EBITDA (x)	(227.0)	(64.4)	(61.5)	(126.4)
Div Yield (%)	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%

Price Performance

YE 30 Jun	1 Mth	2 Mth	3 Mth	1 Yr
Relative (%)	(0.7%)	(3.2%)	3.2%	84.8%
Absolute (%)	2.9%	0.0%	6.1%	118.8%
Benchmark (%)	3.6%	3.2%	2.9%	34.0%



Price performance indexed to 100 *Source:*

Major Shareholders

Yandal Investments Pty Ltd	7.8%
INDRISIE HENDRICUS PETRUS	4.0%
Acuity Capital Investment Management Pty	3.3%
FEATHERBY NATHAN JOHN	3.0%
CEN Pty Ltd.	2.7%

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Event

We initiate coverage on Australian Potash with a Buy recommendation and A$0.32ps price target. APC is preparing for start-up of its flagship 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia. The project is based on a 30-year mine life producing 170ktpa premium Sulphate of Potash (SOP). With full environmental approval, 90% of offtake secured, $140m NAIF financing approved, a Final Investment Decision (FID) for the LSOP project is pending. The company believes first production can be achieved within 24 months of an FID. We assume a full production ramp-up in CY24.

Highlights

- APC holds a 100% interest in the LSOP project, located approximately 500kms northeast of Kalgoorlie, in Western Australia's Eastern Goldfields. The LSOP project is a brine, solar salt project; the brine contains the potassium and sulphate bearing minerals from which SOP is refined.
- The company recently released a Front End Engineering and Design (FEED) update to develop the LSOP project into a 30-year 170ktpa Sulphate of Potash operation. The update shows sound economics and low technical risk.
    - 84% of the Life-of-Mine (LOM) output is based on exploiting the Reserve of 3.6Mt of SOP, and 16% of LOM output comes from the Measured Resource. SOP produced from Reserves and Resources is increased by ~40% through the addition and conversion of Muriate of Potash (MOP) to SOP; 120ktpa of SOP will be produced from brine and 50ktpa will be produced from MOP conversion (APC's kieserite process). There may be upside to the 30-year mine life given the 18.1Mt Resource, all of which is in the Measured category.
    - The key financials of the FEED update include (1) An NPV8 of A$398m and 18% IRR (post-tax) at an average realised SOP price of US$550/t. (2) Total capital expenditure of A$292m and competitive capital intensity of A$1,720/t. (3) Opex of US$251/t over LOM, which is first quartile.
- We believe the LSOP project is NPV positive at realised SOP prices of US$380/t. Our post-tax NPV of $252m and IRR of 17% is lower than the FEED update, mainly due to our higher WACC assumption of 10% and AUD:USD exchange rate of 0.75 (vs 0.70).
- We are positive Sulphate of Potash (SOP) markets.
    - Sulphate of Potash is a premium type of potash, a potassium carrying fertiliser with no substitutes. Potassium is one of the key nutrients required for crop growth.
    - Arable land per capita is reducing over time. Industry consensus Sulphate of Potash demand forecasts are for mid-single digit growth over the coming decades. APC intends to produce 170ktpa premium SOP, ~2% current global SOP demand.
    - Consensus forecasts are for a long-term SOP price in the range of US$450-600/t (2021 Real, ex-product premium). Our long-term realised price forecast is US$550/t (middle of the range once a 10% price premium is factored in for APC's product).
- The company carries no term debt and ~A$4.5m cash (end Dec20q).
- Key risks for the company include commodity price/FX, capital market funding, project development execution, safety of operations & maintaining key personnel.

Recommendation

We initiate coverage on APC with a Buy recommendation and A$0.32ps PT. We have set our price target at a fully diluted DCF valuation. We believe APC can proceed to gain the licences and permits required to commence the development of the LSOP project and look to secure the balance of project financing over the coming months. We assume an FID in FY22 and a ramp-up to nameplate production capacity through CY24.

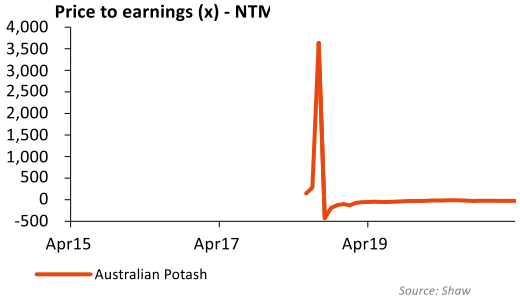
Australian Potash
Materials
Materials
FactSet: APC-AU / Bloomberg: APC AU

Key Items	Data
Recommendation	BUY
Risk	HIGH
Price ($ps)	0.18
Target Price ($ps)	0.32
52 Week Range ($ps)	0.05 - 0.20
Shares on Issue (m)	553
Market Cap ($m)	97
Enterprise Value ($m)	159
TSR (%)	80.5%

Company Description

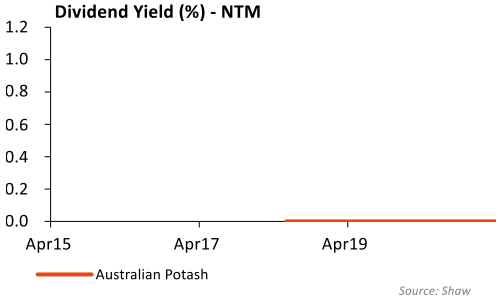
APC is preparing for start-up of its flagship 100%-owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia. The project is based on a 30-year mine life producing 170ktpa premium Sulphate of Potash (SOP). With full environmental approval, 90% of offtake secured, $140m NAIF financing approved, a Final Investment Decision (FID) for the LSOP project is pending. The company believes first production can be achieved within 24 months of an FID.

Price to earnings (x) - NTM



Source: Shaw

Dividend Yield (%) - NTM



Source: Shaw

Financial Year End: 30 June

Investment Summary (AUD)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS (Reported) (cps)	**0.0**	**(0.2)**	**(0.5)**	**(0.7)**	**(0.6)**
EPS (Underlying) (cps)	**0.0**	**(0.2)**	**(0.5)**	**(0.7)**	**(0.6)**
EPS (Underlying) Growth (%)	n/a	nm	nm	(51.0%)	12.2%
PE (Underlying) (x)	**nm**	**(29.9)**	**(37.7)**	**(25.0)**	**(28.4)**
EV / EBIT (x)	**1,105.4**	**(201.3)**	**(64.4)**	**(61.5)**	**(126.4)**
EV / EBITDA (x)	**905.5**	**(227.0)**	**(64.4)**	**(61.5)**	**(126.4)**
DPS (cps) (AUD)	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	100%	100%	100%	100%	100%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Free Cash Flow Yield (%)	(12.4%)	(18.9%)	(2.7%)	(67.3%)	(70.6%)

Profit and Loss (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	0	0	0	0	0
Sales Growth (%)	*n/a*	*n/a*	*(100.0%)*	*n/a*	*n/a*
Other Operating Income	2	2	0	0	0
EBITDA	**0**	**(1)**	**(2)**	**(2)**	**(2)**
EBITDA Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Depreciation & Amortisation	0	(0)	0	0	0
EBIT	**0**	**(1)**	**(2)**	**(2)**	**(2)**
EBIT Margin (%)	*nm*	*nm*	*nm*	*nm*	*nm*
Net Interest	0	0	0	(4)	(7)
Pretax Profit	0	(1)	(2)	(6)	(10)
Tax	0	0	0	0	2
Tax Rate (%)	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*(25.0%)*
NPAT Underlying	**0**	**(1)**	**(2)**	**(6)**	**(7)**
Significant Items	0	0	0	0	0
NPAT Reported	**0**	**(1)**	**(2)**	**(6)**	**(7)**

Cashflow (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
EBIT	0	(1)	(2)	(2)	(2)
Tax Paid	0	0	0	0	0
Change in Working Capital	0	0	0	(2)	0
Depreciation & Amortisation	0	(0)	0	0	0
Other	(1)	1	0	0	3
Operating Cashflow	**(1)**	**0**	**(2)**	**(4)**	**1**
Capex	(3)	(5)	0	(100)	(150)
Acquisitions and Investments	0	0	0	0	0
Disposal of Fixed Assets/Investments	0	0	0	0	0
Other	0	0	0	0	0
Investing Cashflow	**(3)**	**(4)**	**0**	**(100)**	**(150)**
Free Cashflow	**(4)**	**(4)**	**(2)**	**(104)**	**(149)**
Equity Raised / Bought Back	4	6	0	120	0
Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	100	120
Other	(0)	(0)	0	(9)	(11)
Financing Cashflow	**4**	**5**	**0**	**211**	**109**
Net Change in Cash	**(0)**	**1**	**(2)**	**107**	**(40)**

Balance Sheet (AUD) (m)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	2	3	1	108	68
Accounts Receivable	2	0	0	0	0
Inventory	0	0	0	0	0
Other Current Assets	0	0	0	0	0
PPE	0	0	0	100	250
Total Assets	**9**	**13**	**11**	**218**	**328**
Accounts Payable	3	2	2	0	0
Short Term Debt	0	0	0	0	35
Long Term Debt	0	0	0	100	185
Total Liabilities	**3**	**2**	**2**	**100**	**218**

Ratios	FY19A	FY20A	FY21E	FY22E	FY23E
ROE (%)	n/a	(9.1%)	(24.6%)	(9.8%)	(6.5%)
Gearing (%)	(48.1%)	(42.2%)	(11.1%)	(7.3%)	58.0%
Net Debt / EBITDA (x)	(11.2)	4.8	0.4	3.3	(61.7)

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Australian Potash financial summary

Profit & Loss	FY19	FY20	FY21f	FY22f	FY23f
Revenue	0.0	0.2	0.0	0.0	0.0
Expenses	0.2	-0.9	-2.5	-2.5	-2.5
Underlying EBITDA	**0.2**	**-0.7**	**-2.5**	**-2.5**	**-2.5**
Depreciation & Amort	0.0	-0.1	0.0	0.0	0.0
Underlying EBIT	**0.1**	**-0.8**	**-2.5**	**-2.5**	**-2.5**
Net Interest	0.0	0.0	0.0	-3.7	-7.5
Profit Before Tax	**0.1**	**-0.8**	**-2.4**	**-6.2**	**-9.9**
Tax	0.0	0.0	0.0	0.0	2.5
NPAT (Underlying)	**0.1**	**-0.8**	**-2.4**	**-6.2**	**-7.4**
Exceptional items	0.0	0.0	0.0	0.0	0.0
NPAT (reported)	**0.1**	**-0.8**	**-2.4**	**-6.2**	**-7.4**

Balance Sheet	FY19	FY20	FY21f	FY22f	FY23f
Cash	2.0	3.4	0.9	108.1	68.2
Net Receivables	1.6	0.3	0.3	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	**3.6**	**3.6**	**1.2**	**108.1**	**68.2**
Property, Plant & Equipment	0.1	0.1	0.1	100.1	250.1
Other	5.1	9.6	9.6	9.6	9.6
Non Current Assets	**5.2**	**9.8**	**9.8**	**109.8**	**259.8**
Total Assets	**8.8**	**13.4**	**11.0**	**217.9**	**328.0**
Trade Creditors	2.7	1.9	1.9	0.0	0.0
Borrowings	0.0	0.1	0.0	0.0	35.0
Other	0.1	0.2	0.2	0.2	-2.3
Current Liabilities	**2.8**	**2.2**	**2.1**	**0.2**	**32.7**
Borrowings	0.0	0.0	0.1	100.1	185.1
Other	0.0	0.1	0.1	0.1	0.1
Non Current Liabilities	**0.0**	**0.1**	**0.2**	**100.2**	**185.2**
Net Assets	**6.0**	**11.1**	**8.7**	**117.5**	**110.1**
Shareholder Capital	23.9	29.6	29.6	144.6	144.6
Retained earnings	-19.4	-20.2	-22.6	-28.8	-36.2
Minorities/others	1.5	1.6	1.6	1.6	1.6
Total Equity	**6.0**	**11.1**	**8.7**	**117.5**	**110.1**

Cash Flow	FY19	FY20	FY21f	FY22f	FY23f
Receipts	0.0	0.2	0.0	0.0	0.0
Payments	-1.6	-2.4	1.5	1.5	-2.5
Other Operating Cash Flow	0.9	2.6	-4.0	-5.6	3.2
Operating Cash Flow	**-0.7**	**0.4**	**-2.4**	**-4.1**	**0.8**
Capex	0.0	0.0	0.0	-100.0	-150.0
Other Investing Cash Flow	-3.4	-4.4	0.0	0.0	0.0
Investing Cash Flow	**-3.5**	**-4.4**	**0.0**	**-100.0**	**-150.0**
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	0.0	0.0	0.0	100.0	120.0
Net equity raised	3.9	5.5	0.0	115.0	0.0
Other	0.0	0.0	0.0	-3.8	-10.7
Financing Cash flow	**3.9**	**5.5**	**0.0**	**211.2**	**109.3**
Total Cash Change	-0.3	1.4	-2.4	107.2	-39.9

Company Information	
Financial Year End Date	30 June
Share Price	0.175
Market Capitalisation	85
Valuation	0.32
Recommendation	Buy
Risk	High

Per Share Data (c)	FY19	FY20	FY21f	FY22f	FY23f
Shares (m)	358	487	560	1,208	1,208
Normalised EPS	0.0	-0.2	-0.5	-0.7	-0.6
Dividends	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Book Value	0.02	0.02	0.02	0.10	0.09
Normalised P/E	439.3	-95.2	-37.7	-25.0	-28.4
EV/EBITDA (underlying)	348.6	-86.2	-25.1	-22.2	-87.1

Valuation (fully diluted)	A$m	A$ps
Lake Wells	252	0.21
Net debt	120	0.10
Development assets	25	0.02
Corporate costs	-15	-0.01
Total Valuation	**382**	**0.32**

Assumptions	FY19	FY20	FY21f	FY22f	FY23f
Prices					
A$/US$	0.71	0.67	0.71	0.73	0.74
SoP (US$/t)	0	0	550	562	575
SoP (A$/t)	0	0	770	773	773

Operating Metrics	FY19	FY20	FY21f	FY22f	FY23f
Production (kt)					0
Average price (A$/t)					0
Average cost (A$/t)					0
EBITDA margin (A$/t)					0

Financial metrics (%)	FY19	FY20	FY21f	FY22f	FY23f
EBITDA margin	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT margin	0.0%	0.0%	0.0%	0.0%	0.0%
ROIC	0.0%	0.0%	0.0%	0.0%	0.0%
Return on Assets	1.6%	-7.0%	-20.0%	-5.4%	-2.7%
Return on Equity	2.4%	-9.1%	-24.6%	-9.8%	-6.5%

Balance sheet metrics	FY19	FY20	FY21f	FY22f	FY23f
Net Debt (m)	-2	-3	-1	-8	152
ND / ND+E	n/a	n/a	-1.4%	-14.7%	70.8%

Source: Company reports, Shaw and Partners analysis

Executive Summary – a premium product and strategically located

Australian Potash is a Sulphate of Potash (SOP) exposure with its key asset in Australia. We initiate coverage on APC with a Buy recommendation and A$0.32ps price target. APC is preparing for start-up of its flagship 100% owned Lake Wells Sulphate of Potash Project (LSOP) in Western Australia. The company is planning for a 30-year 170ktpa SOP operation and a Final Investment Decision (FID) is pending. The company believes first production can be achieved within 24 months of an FID. We assume a full production ramp-up in CY24.

Core drivers and catalysts

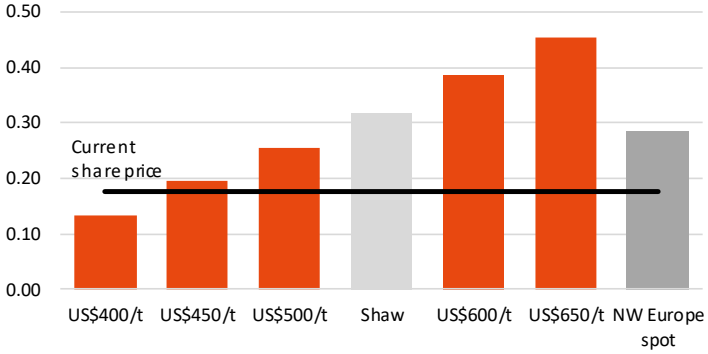
- **APC holds a 100% interest in the LSOP project**, located approximately 500kms northeast of Kalgoorlie, in Western Australia's Eastern Goldfields. The LSOP project is a brine, solar salt project; the brine contains the potassium and sulphate bearing minerals from which SOP is refined.
- We believe the **LSOP project is NPV positive at realised SOP prices of US$380/t. Using our base case SOP price deck of US$550/t (2021 Real) the project has a post-tax NPV of $252m and IRR of 17%.** Key components of our model include (1) 170ktpa SOP operation over 35 years. (2) Total capital expenditure of A$292m and competitive capital intensity of A$1,720/t. (3) Opex of US$251/t over LOM, which is first quartile.
- **The LSOP project is progressing and derisking.** Recently, APC announced: (1) Full environmental approval. (2) 90% of offtake secured. (3) $140m Northern Australia Infrastructure Facility (NAIF) funding approved. We believe APC can proceed to gain the licences and permits required to commence the development of the project and look to secure the balance of project financing. A Final Investment Decision is pending.
- **We are positive Sulphate of Potash (SOP) markets.** SOP is a premium type of potassium carrying fertiliser with no substitutes. Arable land per capita is reducing over time, and industry consensus SOP demand forecasts are for mid-single digit growth over the coming decades. Consensus forecasts are for a long-term SOP price in the range of US$450-600/t (2021 Real). Our long-term realised price forecast is US$550/t, in the middle of this range once factoring in the ~10% premium for APC's product.
- **A premium product and asset strategically located.** APC intends to produce a premium quality SOP from brine production (i.e. no Mannheim Process) in Australia. Australia is proximate to emerging Asian markets, which are driving the globe's mid-single digit SOP growth. In addition, the company expects realised product prices to include a ~10% product quality premium for the product being 'green' (i.e. organic / non-Mannheim Process), granular (as opposed to powdered) and higher K_2O content than standard SOP (usually on a pro rata basis above standard SOP K_2O content of 50%). Offtakes have been structured to pass through this price premium.
- **Other exploration assets close to Lake Wells appear interesting.** APC also holds significant tenement positions at the Lake Wells Gold Project and Laverton Downs Project. St Barbara (SBM) has earned a 70% interest in the Lake Wells Gold Project and APC will be free carried until a bankable feasibility study is completed. APC is conducting early low-cost exploration on Laverton Downs to develop targets which may attract a major partner to fund on-going work.
- In our view the **management team is strong**, led by CEO and MD Matt Shackleton. Matt has over 20 years' experience in senior management and board roles, including MD of ASX listed WA gold developer Mount Magnet South, and a founding director of ASX listed and West African gold and bauxite explorer Canyon Resources.

Figure 1: APC valuation (fully diluted)

Australian Potash Valuation - diluted	A$m	A$ps
Lake Wells	252	0.21
Net debt	120	0.10
Development assets	25	0.02
Corporate costs	-15	-0.01
Total Valuation	**382**	**0.32**

Source: Company reports, Shaw and Partners analysis

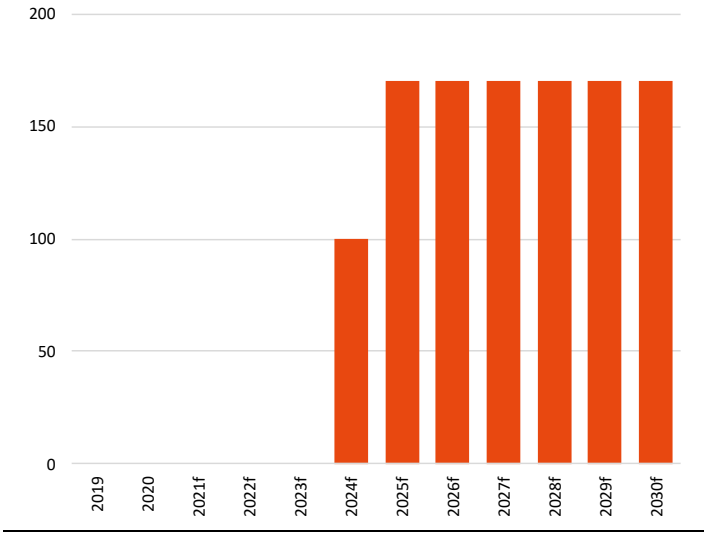
Figure 2: APC DCF valuation sensitivity to SoP prices



Source: Company reports, Shaw and Partners analysis

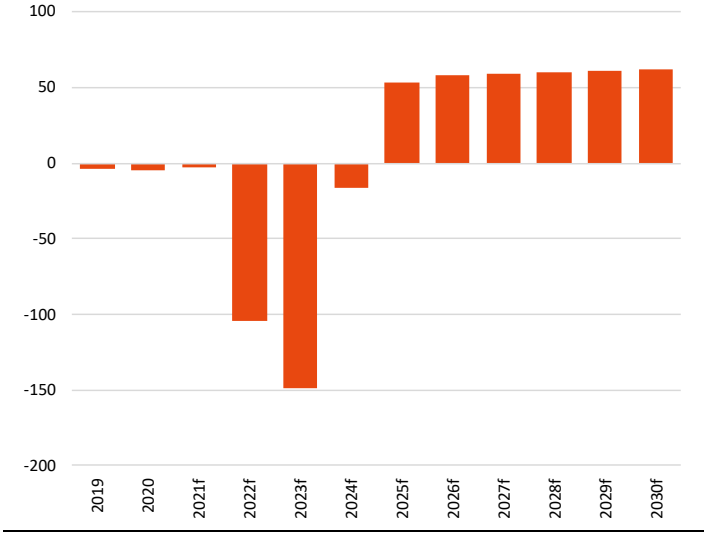
Company overview in charts

Figure 3: Production profile (Mlbs)



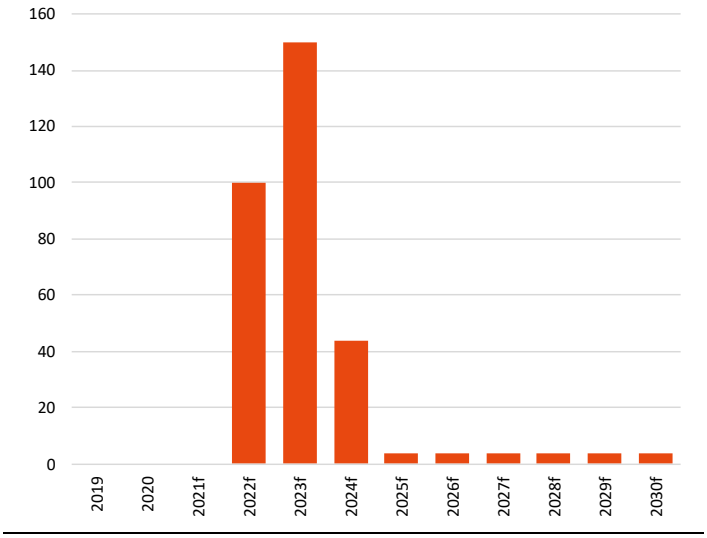
Source: Company data & Shaw and Partners analysis

Figure 4: Free cash flow (A$m)



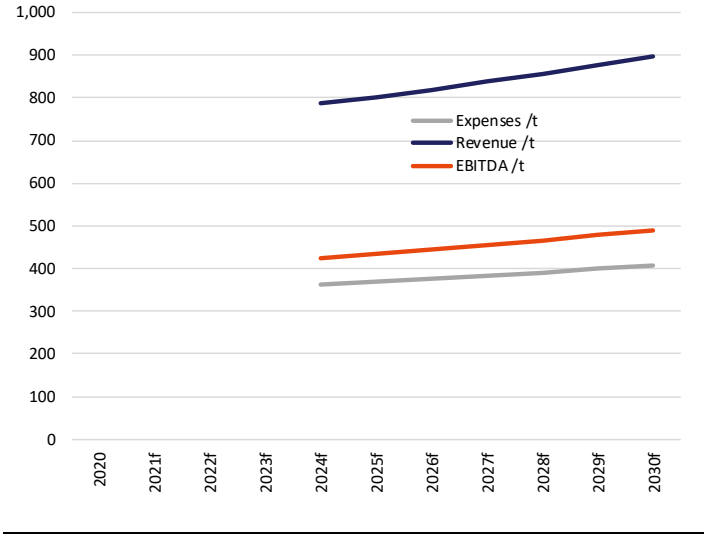
Source: Company data & Shaw and Partners analysis

Figure 5: Capex (A$m)



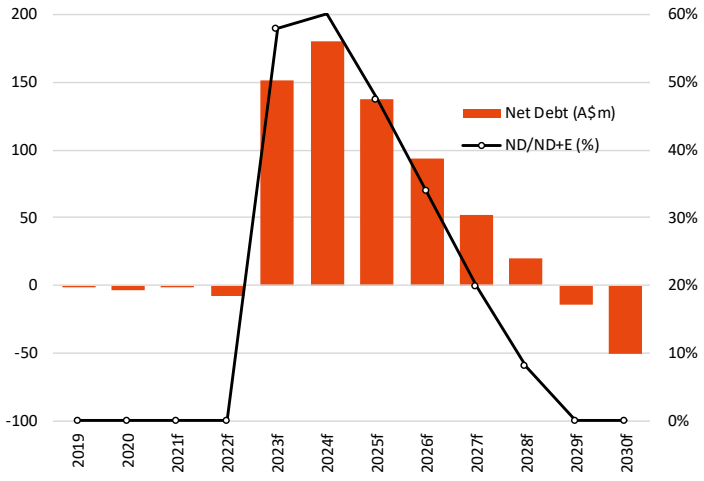
Source: Company data & Shaw and Partners analysis

Figure 6: Pricing, costs and margin (A$/t)



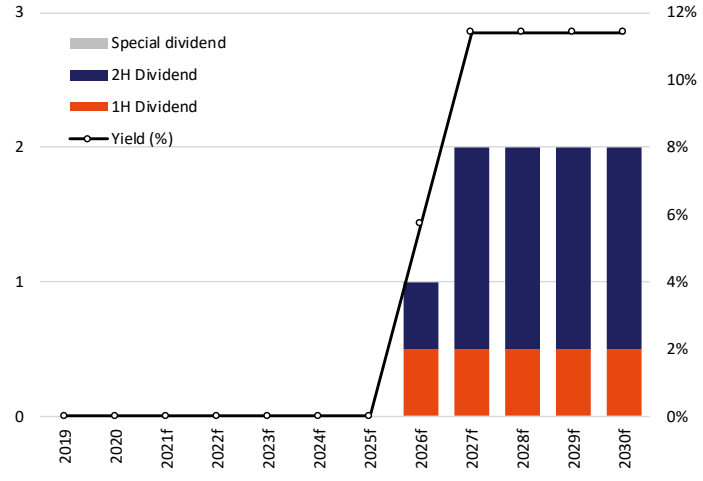
Source: Company data & Shaw and Partners analysis

Figure 7: Net debt and gearing (A$m, %)



Source: Company data & Shaw and Partners analysis

Figure 8: Dividends (cps) and yield (%)



Source: Company data & Shaw and Partners analysis

Key risks

As a small mining company broadly exposed to a single commodity and a single asset we consider an investment in Australian Potash to be high risk. The key risks include;

- Potash markets are opaque and difficult to forecast. The actual SOP price may differ substantially from our forecasts.
- Several secondary approvals are required before pre-mining operations can begin, and there is no guarantee that these may be obtained in a timely manner.
- Operations for APC have not yet started and there is a risk that they may be unable to bring the LSOP to production. The project may cost more than expected and may not operate as expected.
- APC will need to recapitalise to fund the commencement of operations. There is a risk that capital markets are not willing to fund the project.
- Forecasting future operating costs has considerable uncertainty. Our forecasts may prove to be too optimistic. If each company's costs are higher than we expect then our cash flow forecasts will be too high.
- Smaller companies carry more significant 'key personnel' risk than larger organisations. If senior management depart APC it could delay projects or exacerbate operational risks.
- Safe and reliable production from operations once projects are operational. The inability to maintain safe and reliable operations may result in a sustained, unplanned interruption to production and impact the company's licence to operate and financial performance. Production facilities are subject to operating hazards associated with major accident events, cyber-attack, inclement weather and disruption to supply chain, that may result in a loss of uranium (radioactive material) containment, harm to personnel, environmental damage, diminished production, additional costs, and impacts to reputation or brand.

Potash Markets

- Potash is a potassium carrying fertiliser with no substitutes. Potassium is one of the key nutrients required for crop growth. Industry consensus potash demand forecasts are for 2-6% CAGR over the coming decades, driven by a reduction in arable land per capita over time
- There is a geographic imbalance between potash supply and demand centres. The top four potash consumers – China, Brazil, The United States and India - account for 60% of consumption but only 13% of global potash production. The geographic imbalance has created fragmented potash markets, with transportation costs and product quality causing pricing differences across the world. There are opportunities for premium new supply in jurisdictions proximate to emerging demand centres.
- The two most common forms of potash are MOP (Muriate of Potash) and SOP (Sulphate of Potash) - SOP is a higher quality fertiliser. It can be used in every application for which MOP is used and is preferred and is more effective in enhancing yield and quality. APC intends to produce a premium SOP.
- MOP and SOP are effectively separate commodity markets but linked. A large portion of SOP supply comes from MOP feedstock – in the Mannheim Process. This means that:
  - SOP generally trades at a premium price to MOP (~+US$250/t), and
  - FOB SOP has a relatively flat cost curve at US$400-450/t.
- In our view APC is well placed; the company intends to produce a premium quality SOP from brine production (i.e. no Mannheim Process) in Australia. Australia is proximate to emerging Asian markets.
- We assume a realised FOB SOP price of US$550/t (2021 Real) in our APC model and a long-term AUD:USD exchange rate of 0.75. The company's FEED update also uses an average LOM realised SOP price of US$550/t (2021 Real) but assumes an AUD:USD exchange rate of 0.70. The company notes these realised prices include product quality premiums (expected to be ~10%). This implies our realised pricing expectations sit in the middle the consensus range of long-term SOP price forecasts (US$450-600/t).

Figure 9: Commodity price assumptions

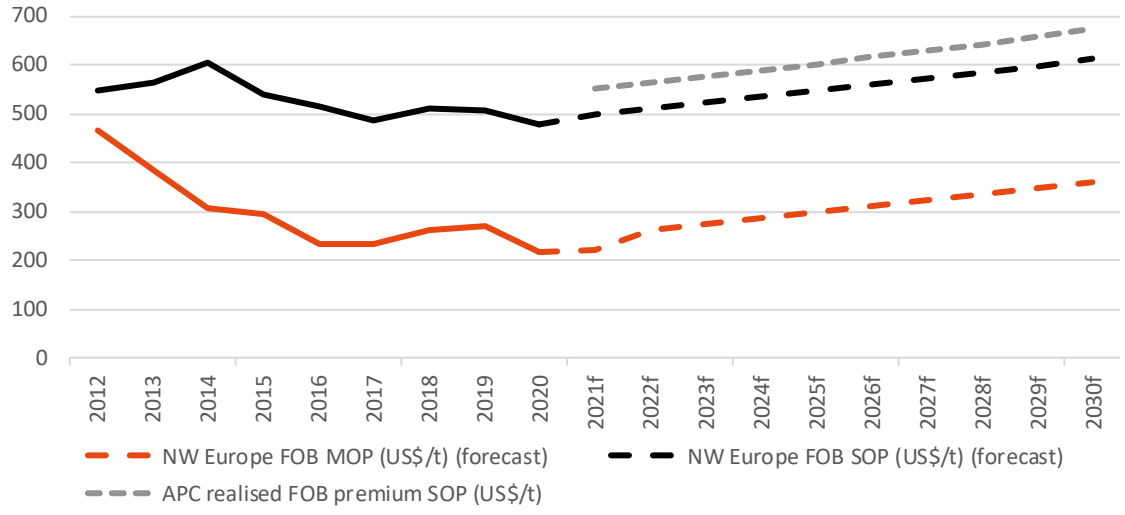
We use a similar deck price deck compared to APC's FEED update, and assume realised FOB prices of US$550/t (2021 Real) and a long-term AUD:USD exchange rate of 0.75 (vs 0.70).

Commodity price forecast	2019	2020	2021f	2022f	2023f	2024f	2025f	Long term (2021 Real)
NW Europe FOB MOP price (US$/t)	268	215	220	261	273	285	297	271
NW Europe FOB SOP price (US$/t)	505	477	500	511	523	535	547	500
APC FOB SOP realised price (US$/t)			550	562	575	588	601	550
AUD:USD	0.71	0.67	0.71	0.73	0.74	0.75	0.75	0.75

Source: Argus, APC, Shaw and Partners analysis

Figure 10: Potash price forecasts (US$/t)

The NW European market is the most actively traded global MOP and SOP market. SOP is a higher quality fertiliser than MOP and as such there is a premium for SOP of ~US$250/t. We expect APC to receive a premium of ~10% for its SOP product.



Source: Argus, APC, Shaw and Partners analysis

Fertilisers are required help to increase food supplies

The United Nations estimates that the world population will reach 9.7 billion in 2050 and could peak at nearly 11 billion around 2100. That's an increase of 23% by 2050 from today (7.9 billion).

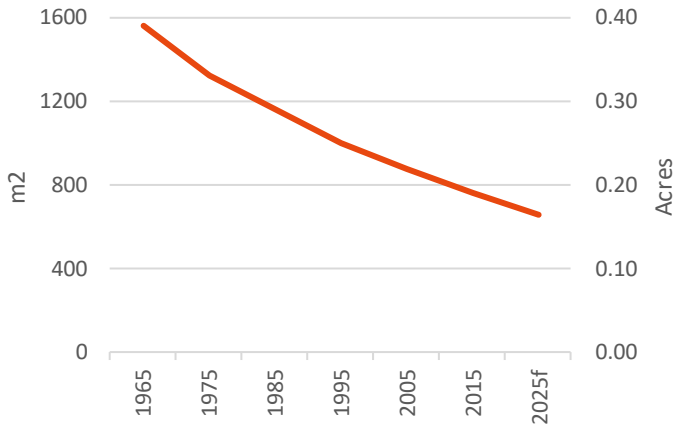
Although demand for food will increase as population increases, the area of cultivated land will not increase significantly. Arable land per capita is reducing over time (figure 11).

In addition - through agriculture - soils become depleted of key nutrients required for crop growth i.e. macro nutrients nitrogen, phosphorus, potassium and secondary macro nutrients sulphur and magnesium (figure 12).

For this reason, methods for improving crop production must be found to satisfy the nutritional requirements of the expanding population.

The use of fertilisers – natural or manufactured chemicals to improve yields and crop nutrition - is one way to increase food supplies.

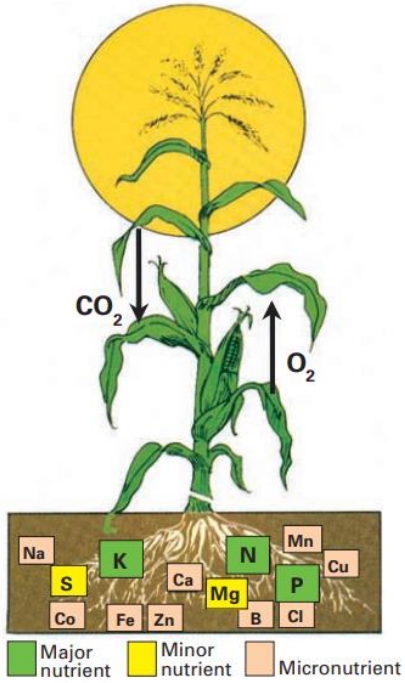
Figure 11: Arable land (m2 / acres) per capita



Source: Company reports, Shaw and Partners analysis

Figure 12: Plant nutrition for optimum growth

N.B. Another essential requirement is water.



Source: USGS

Potash – a potassium carrier mostly used as a fertiliser

Potash refers to any of the various mined and manufactured salts that contain potassium (K) in water-soluble form. It is primarily used in fertilisers (~95%) to support plant growth, increase crop yield and disease resistance, and enhance water preservation. There are no substitutes, given potassium is an essential nutrient for plants. Small quantities are also used in manufacturing potassium-bearing chemicals such as detergents and pharmaceuticals.

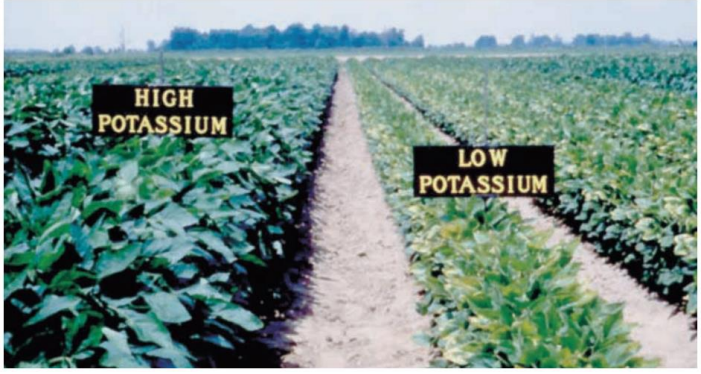
Potash is produced at underground mines, from solution-mining operations, and through the evaporation of lake and subsurface brines. The two most common forms of potash are MOP (Muriate of Potash) and SOP (Sulphate of Potash), summarised in figure 13.

Figure 13: A summary of the two most common types of potash – MOP and SOP

	MOP (Muriate of Potash)	SOP (Sulphate of Potash)
Molecular formula	KCl (potassium chloride)	K_2SO_4 (potassium sulphate)
Nutrient content (w/w)% *N.B. Potassium is reported in K_2O equ. (potassium oxide)*	~60% K_2O	~50% K_2O + 17% S
Application	Basic & most economic fertiliser, for broad-acre, **low margin crops**. It **generally cannot be used on chloride-sensitive crops**, where soil salt levels are high or increasing, or where irrigation water has high salt levels.	**Premium fertiliser**, essential for food crops **(generally high value crops in more advanced markets such as Brazil and the US)**. It can be used in every application for which MOP is used as well as high saline environments. It is more effective than MOP in enhancing yield and quality, extending the shelf life of produce and improving taste. That is because (1) It is **chloride free** - important for chloride intolerant crops. (2) **Contains the secondary nutrient sulphur**, a key nutrient for plants to produce proteins, amino acids, enzymes and vitamins.
Production process	Primarily from potassium ores - conventional underground mines ~80% (crystalline potash deposits), and underground solution mines ~6%. The remainder is obtained by harvesting natural brines from potassium-rich water bodies, typically using solar evaporation.	Primary production (brine) and reacted salts (~40% capacity or 4.8Mt) or from processed MOP using the Mannheim process (~60% of capacity or 6.4Mt).
Global annual supply/ demand	~66Mt 2020s consensus demand CAGR 2-3% Window for new supply open from the late 2020s or early 2030s.	~7Mt vs production capacity of ~11Mt. 2020s consensus demand CAGR 3-6% Cost curve support for FOB SOP given Mannheim Process makes up the majority of spare capacity.

Source: USGS

Figure 14: A soybean test plot demonstrating the improved growth obtained with the addition of potash

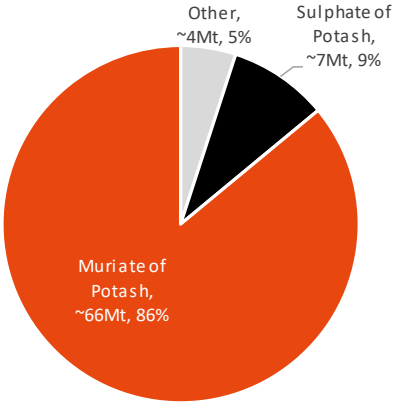


Source: USGS

Figure 15: Potash sales by type

This supply is met primarily from existing major suppliers including Nutrien (~21 Mtpa), Uralkali (~13 Mtpa), Belaruskali (~13 Mtpa) & Mosaic (~12 Mtpa).

N.B. 'Other' is primarily made up of Nitrate of Potash (NoP) and Sulphate of Potash Magnesia (SoPM).



Source: APC & Kore Potash company presentations, Shaw.

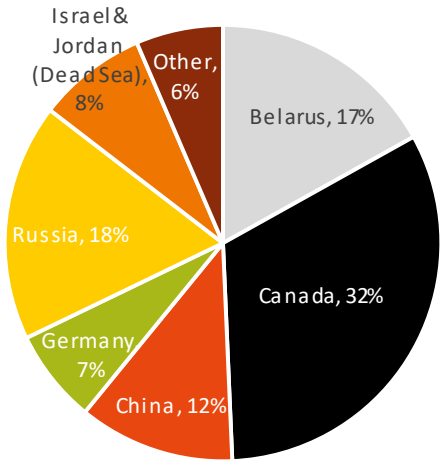
Potash supply

Like lithium, potash deposits are not rare; the USGS estimates the globe has an existing reserve life of over 90 years. However, most deposits are either too small or low grade to be commercial. Factors influencing commerciality include the potash deposit's:

- **Size / ore reserves** - the reported range of tonnages for commercial potash deposits ranges from a few tens of millions to more than 100Bt. Examples include Elk Point Basin in Canada, the Pripyat Basin in Belarus, the Solikamsk Basin in western Russia, and the Zechstein Basin in Germany.
- **Grade (mineable % K_2O)** - average reported potash grades in explored crystalline deposits (80% MOP production) range from 5-40% K_2O. Most reported grades in operating mines range from 10-25% K_2O and the lowest associated cutoff grades below 4% K_2O.
- **Location** - the deposit's distance from the markets, the cost of transportation, government royalties/ tax, proximity to power/ water etc.
- **Cost of mining and processing** i.e. depth to the ore, thickness and uniformity of the potash bed, the amount of impurities present/ costs to separate, and other general mining considerations (strength and integrity of overlaying strata/ roof, risk of water intrusion / flooding, problems with combustible gases etc.)

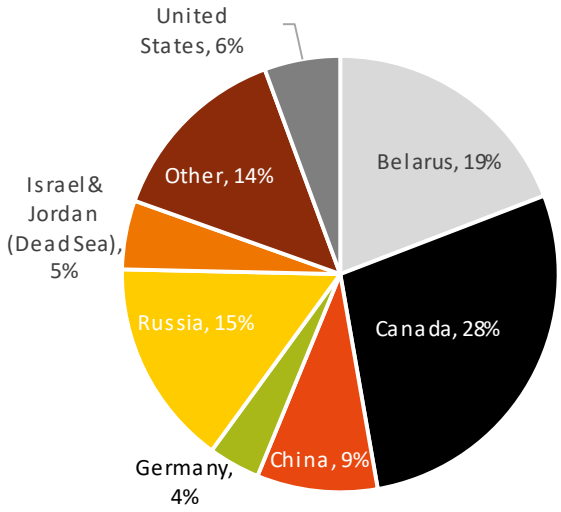
The biggest potash producers are Canada, Russia, Belarus, China and Israel. The Elk Basin in Saskatchewan, Canada is the world's largest source of potash, having provided at least 20% of the world's potash supply for ~50 years.

Figure 16: Potash mine production by country (2020)



Source: USGS

Figure 17: Potash mine reserves by country (2020)

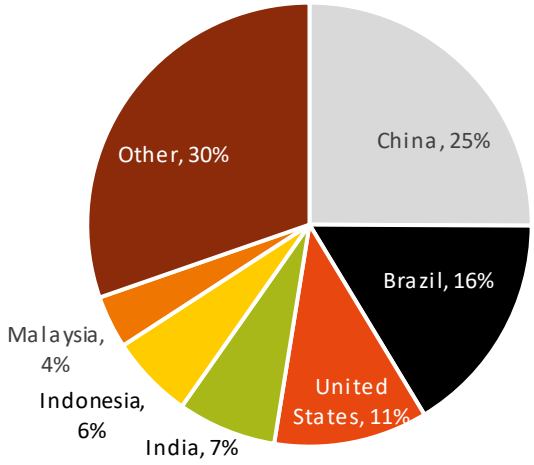


Source: USGS

Potash demand

Annual potash demand is ~77Mt (figure 18). Areas of significant potash demand come from countries that have high population centres - China, Brazil, United States, India and Indonesia. Demand in these populous regions will continue to grow as arable land per capita reduces over time.

Figure 18: Potash demand



Source: USGS

There is a geographic potash supply / demand imbalance

While the earth contains enough potash to meet the increased global demand for crop production, some regions lack potash deposits needed to satisfy local demand.

There is a geographic imbalance between potash supply and demand centres. The top four potash consumers – China, Brazil, The United States and India - account for 60% of consumption but only 13% of global potash production.

The geographic imbalance has created fragmented potash markets, with transportation costs and product quality causing pricing differences across the world.

In our view APC is well placed to capitalise on the imbalance; the company intends to produce a premium quality SOP and has jurisdictional advantages given its key asset is located in Australia. Australia is proximate to emerging Asian markets.

SOP is a premium form of potash and attracts premium prices

SOP is a premium fertiliser, essential for food crops (generally high value crops in more advanced markets such as Brazil and the US). It can be used in every application for which MOP is used and is preferred and is more effective in enhancing yield and quality, extending the shelf life of produce and improving taste.

MOP and SOP are effectively separate commodity markets but linked. A large portion of SOP supply comes from MOP feedstock – in the Mannheim Process.

The Mannheim Process is a reaction of potassium chloride (MOP) and sulphuric acid, to produce potassium sulphate (SOP) and hydrochloric acid by-product. The majority of the cost of this process is from the MOP primary input, which means that SOP trades at a premium price to MOP (~US$250/t over the past 5 years). A premium of ~US$100/t over MOP price considered floor premium; this is the Mannheim MOP conversion cost (energy, sulphur acid, labour, acid disposal and processing).

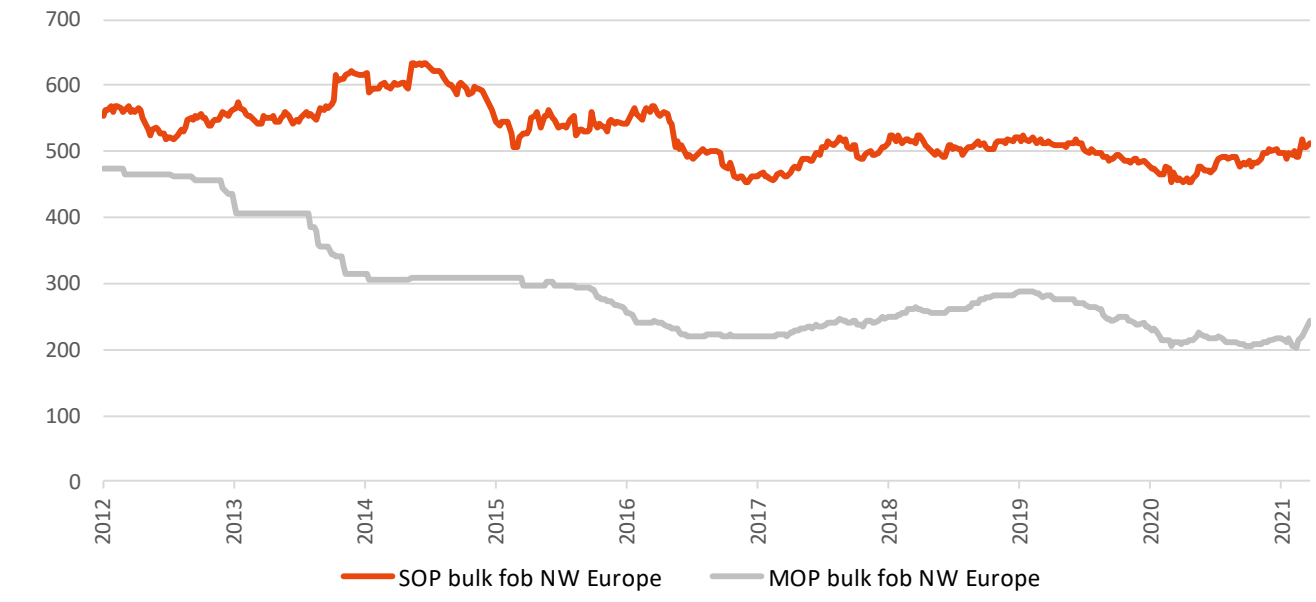
Consensus FOB SOP realised pricing expectations sits in the range of US$450-600/t.

Figure 19: SOP trades at a premium to MOP

NW Europe SOP and MOP Historical Prices. The NW European market is the most actively traded global SOP market, and shows a premium for SOP of ~US$250/t compared to MOP over the past 5 years.

CoVID-19 contributed to a weak demand environment for MOP and SOP. Production (including ramp–ups in Canada and Russia) was not disrupted in the same way. Prices came under downward pressure into the June quarter of 2020. From that point, demand has strengthened materially to pre-COVID levels (>66Mtpa for MOP and >7Mtpa for SOP).

SOP prices currently range from US$450/t in China to US$600–750/t in the USA and US$500–550/t elsewhere, with transportation costs and product quality reflected in the difference.



Source: Argus, APC

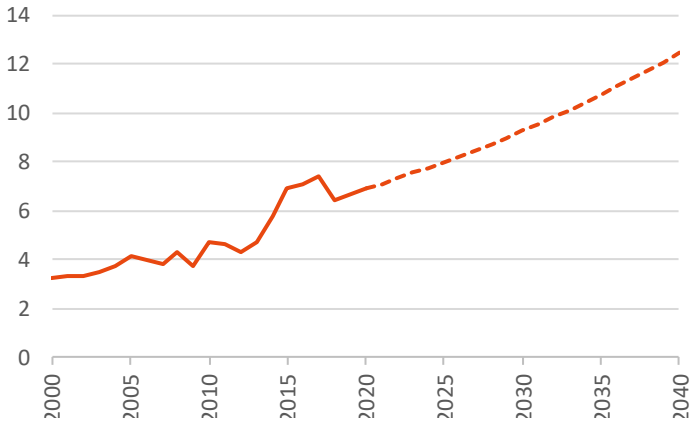
Cost curve support for SOP at US$400-450/t FOB

Most industry forecasters believe global SOP demand is expected to grow over the coming decades at 3-6% CAGR from current levels (~7Mtpa). This is driven by very strong growth in emerging Asia, given an increase in soil salinity from MOP usage.

China, for instance, has emerged over the past two decades from close to zero SOP consumption, to close to ~50% of the world's ~7Mtpa SOP demand. The large majority of this supply comes from Chinese producers via the Manheim Process.

Figure 20: SOP demand (Mt)

We take a conservative approach and sit at 3% CAGR over the coming decades, which is at the bottom of the SOP consensus CAGR range of 3-6%.



Source: Company reports, Shaw and Partners

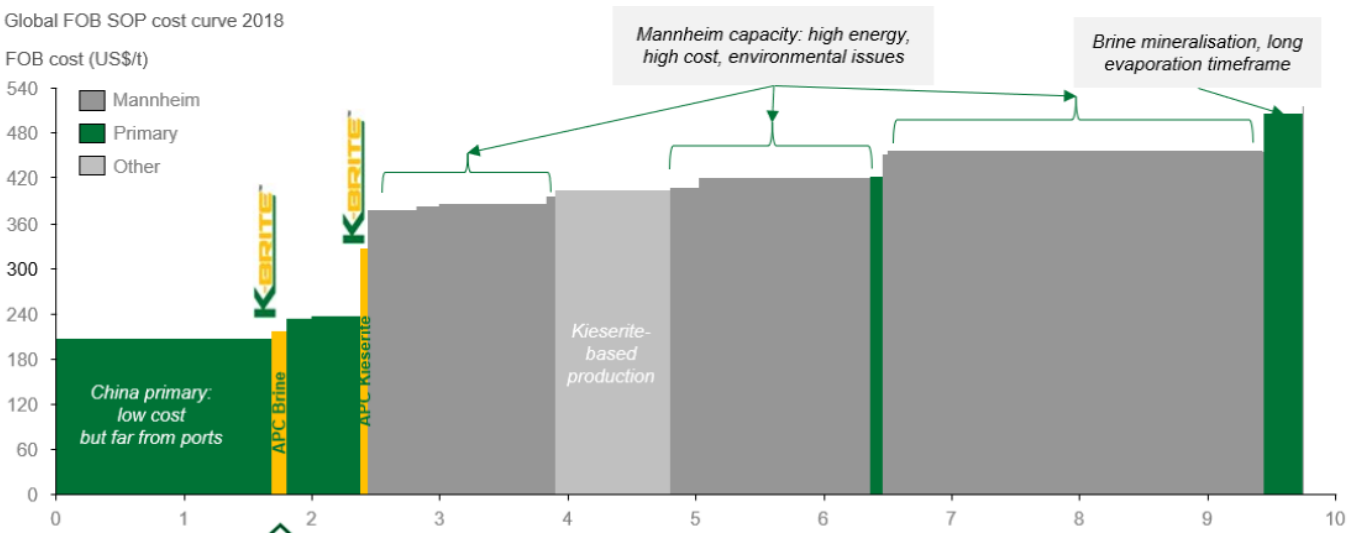
Furthermore, we note that existing SOP capacity is at ~11Mtpa

- ~40% (or 4.8Mtpa) of SOP production capacity comes from primary production (brine) or reacted salts. This is how APC intends to produce SOP.
- The balance comes from MOP using the Mannheim Process (~60% of capacity or 6.4Mt).

Whilst current SOP demand sits at ~7Mtpa and existing SOP capacity is at ~11Mtpa we believe much of the FOB cost curve is relatively flat at US$400-450/t. Most existing SOP capacity uses the Mannheim Process.

With the Mannheim Process acting as the marginal SOP producer in key markets such as Emerging Asia, the United States and Europe, we believe APC is well positioned. FOB cash costs for APC's SOP product are expected to be ~US$251/t (brine SOP at US$221/t and MOP conversion at US$328/t for a combined US$251/t) which means APC's product is competitive in multiple markets:

Figure 21: Global FOB SOP cash cost curve (US$/t vs nameplate capacity Mt)



Source: April 2021 company presentation

Lake Wells – providing first quartile, long life, premium SOP supply

Australian Potash is developing the Lake Wells Sulphate of Potash Project (LSOP) located in Western Australia. The project is 100% owned and operated by APC and lies ~160km NE of the Eastern Goldfield town of Laverton on tenements covering an area of 1,300km^2.

The company recently released a Front End Engineering and Design (FEED) update to develop the LSOP into a 30-year 170ktpa Sulphate of Potash operation. The update showed sound economics and low technical risk. The results are summarised below:

- 170ktpa of SOP for a total 30-year mine life. SOP produced from Reserves and Resources is increased by ~40% through the addition and conversion of Muriate of Potash (MOP) to SOP; 120ktpa of SOP will be produced from brine and 50ktpa will be produced from MOP conversion.
- 84% of LOM output is based on exploiting the Reserve of 3.6Mt of SOP, and 16% of LOM output comes from the Measured Resource. There may be upside to the 30-year mine life; the Measured Resource estimate of 18.1Mt of drainable SOP presents strong upside potential.
- Key financials of the FEED update include (1) An NPV8 of A$398m and 18% IRR (post-tax) at an average realised SOP price of US$550/t. (2) Total capital expenditure of A$292m and competitive capital intensity of A$1,720/t. (3) Opex of US$251/t over LOM, which is first quartile.

There have been several favourable developments for the LSOP recently:

- In November 2020, the company signed its fifth binding agreement regarding offtake. The company has secured 90% of forecast FEED output under binding take-or-pay agreements.
- In February 2021, the company received full environmental approval for the LSOP via a Ministerial Statement from the WA Minister for Environment. The approval means Australian Potash can proceed to gain the licences and permits required to commence the development of the project.
- In March 2021, the company secured Northern Australia Infrastructure Facility (NAIF) funding. It will provide $140m of funding for the LSOP. This significantly de-risks the Lake Wells project. Subsequent to this announcement, the company announced conditional approval for a $45m loan from Export Finance Australia. The balance of funding will be provided by a combination of strategic and capital markets debt/equity.

A Final Investment Decision (FID) for the LSOP is pending. The company believes first production can be achieved within 24 months of an FID.

Figure 22: Location of the Lake Wells Project

Source: Company reports

Resource

APC is producing SOP from an underground solution mine. This means the 'mined ore' is effectively the brine that is abstracted from the aquifers. Hence, the 'mining method' used for the Reserve estimate is a brine bore-field abstraction model.

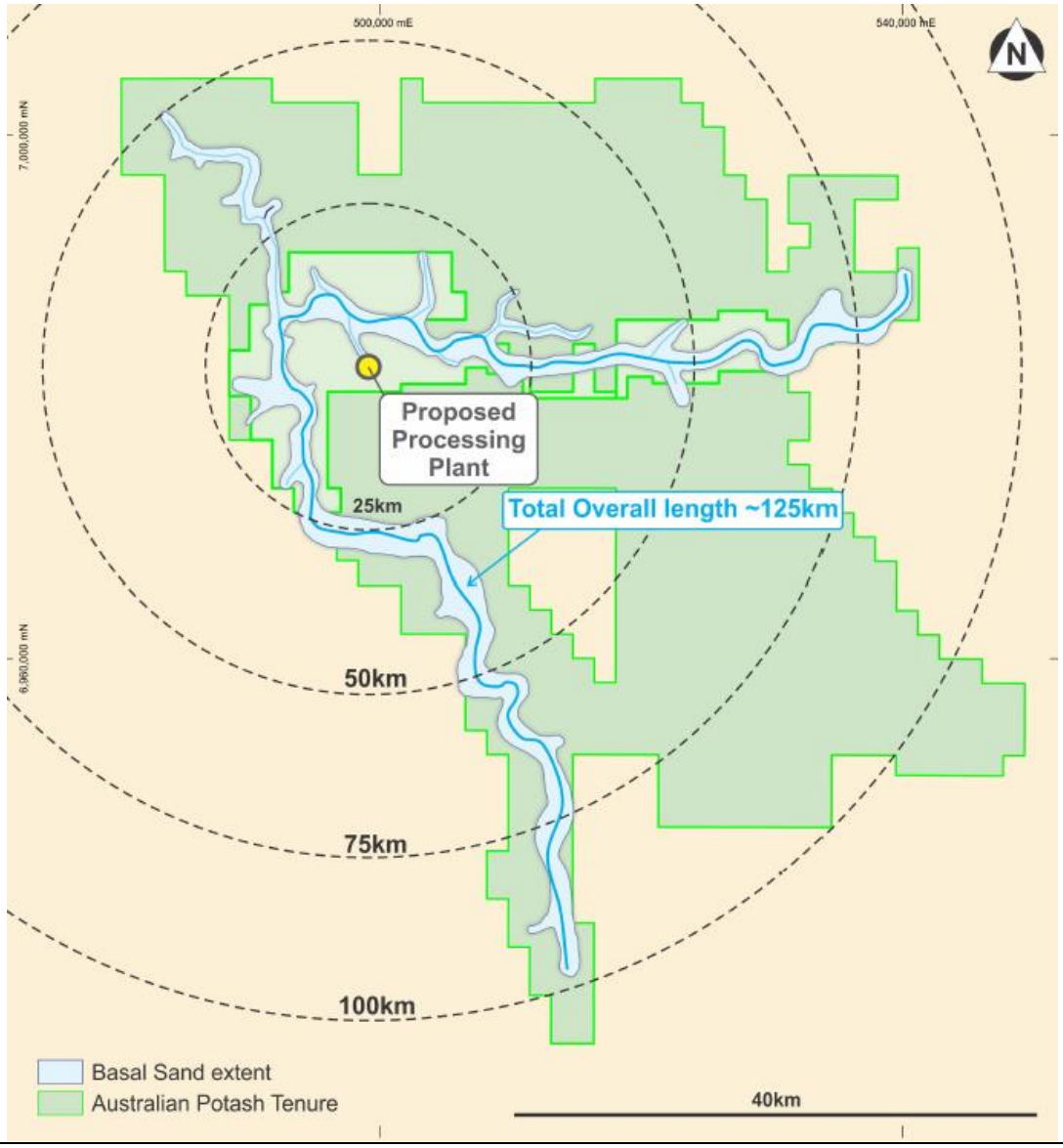
APC has completed extensive fieldwork to prove up the Reserve and Resource, with 305km of seismic surveys and eighty brine exploration drill holes across the LSOP area. Hydraulic properties have been determined from downhole bore magnetic resonance logging, test pumping and particle size distribution analysis.

The resource covers >70km length of paleochannel thalweg (i.e. the valley of an inactive river that has been filled by sediment), and many additional kilometres of tributary river and streambeds. On the surface of the lake system, this translates into two broad sections (figure 23):

1. An East-West section that measures 50x4km that tapers to ~200m at its base, and a vertical thickness of ~155m from surface, and
2. A North-South section that measures 15x4km that tapers to ~800m at its base, and a maximum thickness of ~175m from surface.

Figure 23: APC has delineated the paleochannel over ~125km2

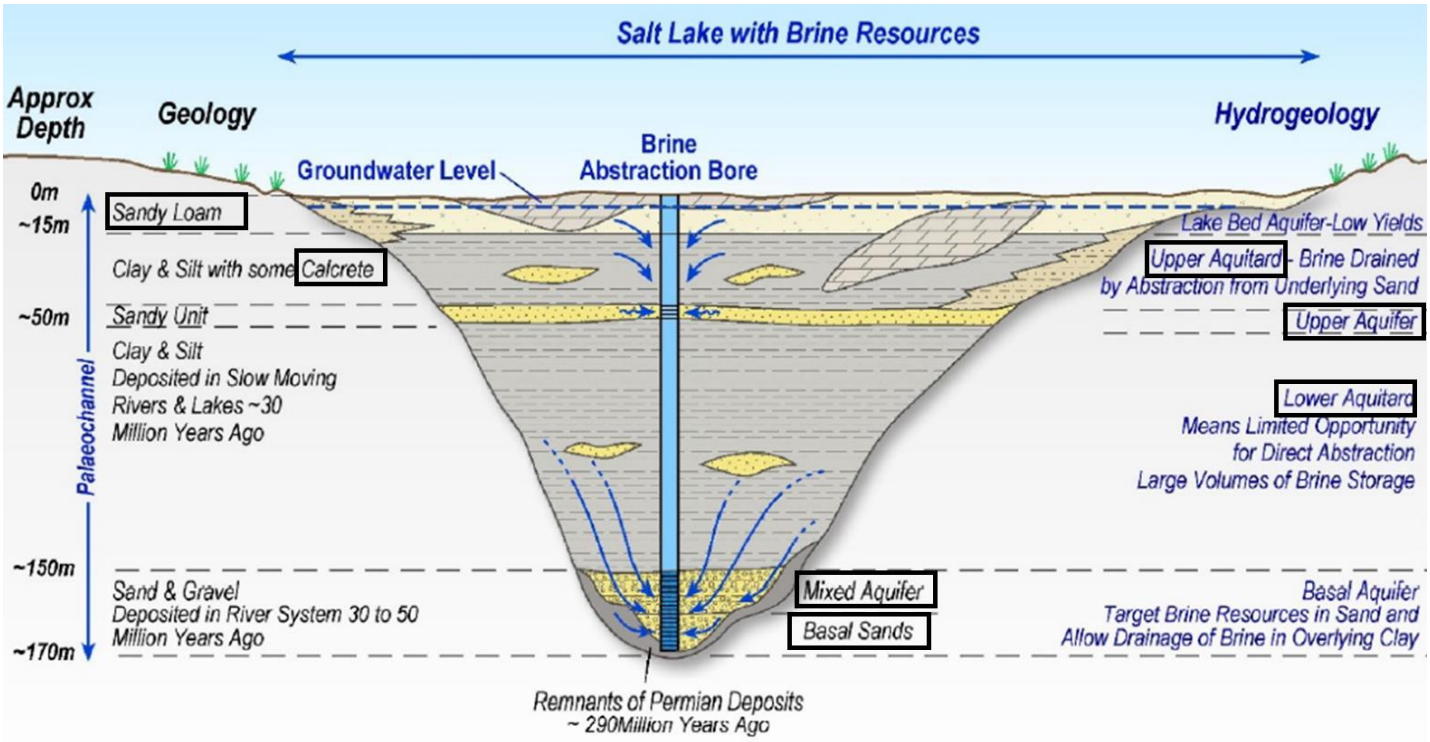
The LSOP covers an area of 1,300km^2 and comprises six granted Mining Leases and fifteen exploration licenses, on the edge of the Great Victorian Desert. APC has delineated the paleochannel over ~125km^2 of this tenure. Bore field design comprises 79 bores located along the thalweg of the paleochannel at ~800m spacing.



Source: Company reports

The valley fill is consistent through the deposit and seven hydro-stratigraphic units have been identified, divided on hydrogeologic characteristics (figures 24 & 25). The upper and basal sand aquifer units are targeted as producing intervals given their better flow characteristics (i.e. higher permeabilities and porosities).

Figure 24: Conceptual brine abstraction scheme with seven hydro-stratigraphic units



Source: Company reports

Both field and laboratory test work studies have been completed to test the efficiency and viability of extraction method options. Test pumping over long periods of time (~30 days) has been conducted at the seven production bores to determine aquifer flow properties. The produced potassium concentration was consistent over the course of each pumping test, showing no evidence of blending with low grade groundwater.

The brine contained in the aquifer sequence is enriched in potassium, at a weighted mean average potassium concentration of 3,402mg/L. The overall grade of the entire borefield remains above 0.3% (3,000mg/L K) for the life of mine, which means the company does not need to apply a cut-off grade to its resource (the constraining factor on the resource is the physical extent of the aquifer system or tenement boundaries).

The combined resources of 8.1 Mt potassium imply 18.1Mt SOP. The measured potassium content in brine can be expressed in units of sulphate of potash (SOP or K_2SO_4) by multiplying by 2.229 (= 174 / 78, the MW of K_2SO_4 is 174 g/mol, of which 2K is 78g/mol).

Figure 25: Measured Resource for APC Lake Wells Sulphate of Potash Project

Measured Mineral Resource estimate is measured using Specific Yield (drainable porosity). 100% of the Resource is in the Measured category.

Hydrogeological Unit	Volume of Aquifer MCM	Specific Yield Mean	Drainable Brine Volume MCM	K Conc (mg/l) Wgt Mean Ave	K Tonnes Mt	SOP Mt
	A	B	C = A x B	D	E = C x D	F = E x 2.229
Loam	5,180	10%	518	4,009	2.08	4.6
Upper Aquitard	10,772	7%	754	3,020	2.28	5.1
Crete	479	5%	24	2,386	0.06	0.1
Upper Sand	801	17%	136	3,435	0.47	1
Lower Aquitard	9,502	8%	760	3,367	2.56	5.7
Mixed Aquifer	440	17%	75	3,645	0.27	0.6
Basal Sand	503	23%	116	3,415	0.4	0.9
Total	27,677	9%	2,383	3,402	8.11	18.1

Source: Company reports

Processing

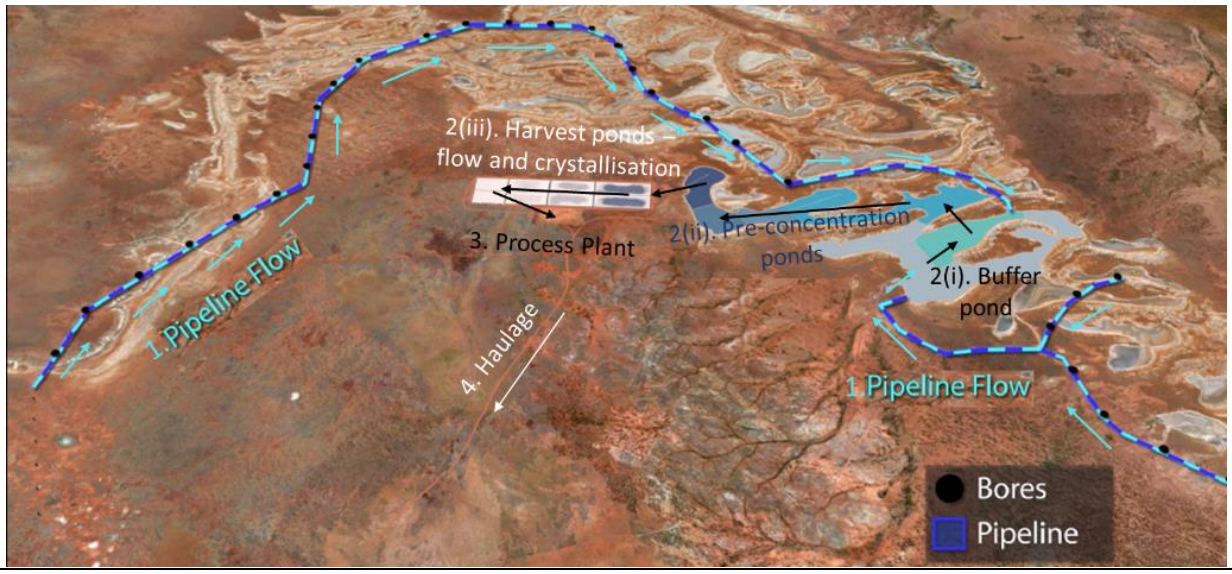
The process follows a brine evaporation, salt crystallisation and salt conversion flowsheet to produce a high purity sulphate of potash product.

3. A bore-filed pipeline network is used to abstract and transport the brine to the evaporation ponds. It comprises 79 bores and over time will be ~77km in length. The brine contains the potassium and sulphate bearing minerals from which SOP is refined.
4. The evaporation pond development comprises unlined buffer and pre-concentration ponds and lined harvest ponds. They are designed based on grade and climate modelling (sun and wind do the work). There are three ponds in the sequence:
    i. Buffer pond - where brine is stored and released to buffer seasonable variations in evaporation.
    ii. Pre-concentration ponds - where the brine is concentrated up to the sodium chloride saturation point.
    iii. Harvest ponds - where the potassium bearing salts are deposited in lined ponds for harvesting and transporting to the processing plant.
5. The processing facility is designed to produce 170ktpa of SOP. The plant operates by reacting mixed salts recovered from the harvest ponds, with recirculated brine. Following floatation to remove the gangue material, the sodium and magnesium salts are removed from the system via leaching. MOP is then added to the circuit where it reacts with excess sulphate to increase SOP output. A significant portion of potassium fed to the plant is recirculated within the plant and recycled through the harvest ponds.
6. Product logistics - bulk SOP transported via Narngulu to the mid-west Port of Geraldton using super-quad trucks backloaded with MOP for the process plant (~55ktpa), and containerised SOP (bagged) exported via the rail terminal at Leonora through Fremantle Port (~115ktpa).

Figure 26: Production process block diagram

Source: Company reports

Figure 27: Production process – bore field development, followed by brine evaporation, salt crystallisation and salt conversion.



Source: Company reports, Shaw analysis

Products

APC will produce 120ktpa of brine SOP and 50ktpa of kieserite SOP. Kieserite SOP is produced from reacting muriate of potash (MOP) with excess sulphate in the brine solution to convert the KCl into K_2SO_4. Unlike the Mannheim Process this does not consume sulphuric acid and is a low temperature process, and so is considerably lower cost. In addition, it produces significantly less carbon emissions.

APC will source its MOP from off-spec products (e.g. off-colour, impurities) which cannot be sold into traditional fertiliser markets. The MOP will be shipped into Geraldton and back-hauled to Lake Wells on the same trucks that delivering SOP to the port for export.

APC estimates an operating cost of the Brine SOP of US$221/t and for Kierserite SOP of $328/t – this compares to around US$400/t for the Mannheim Process.

APC will produce three different SOP products, all under the K-Brite brand. The potassium content ranges from 51-53% (K_2O equ.) which is slightly higher than the 50% typically produced in the Mannheim Process.

APC will produce a premium product and is also installing a granulation and bagging plant to optimise its pricing premiums.

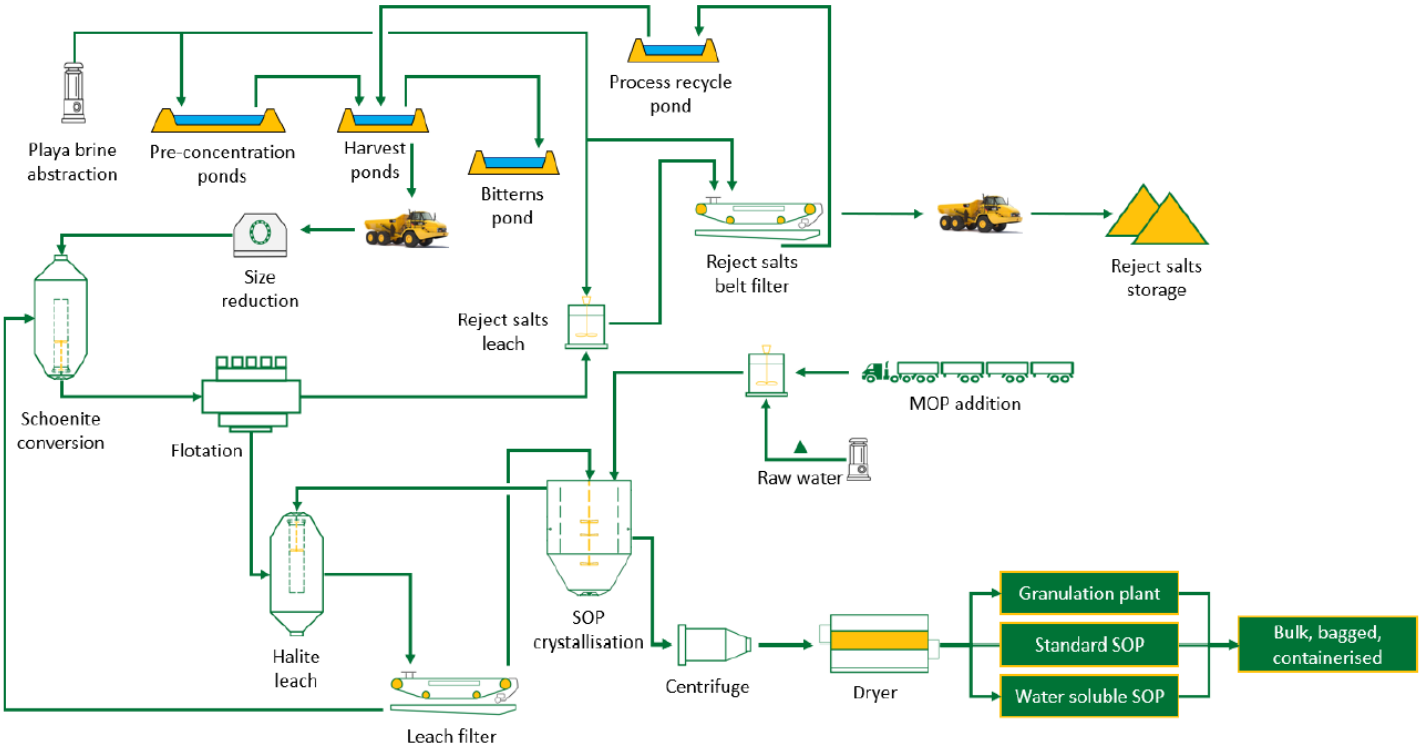
We expect a ~10% product quality premium above standard SOP for the product being 'green' (i.e. organic / non-Mannheim Process), granular (as opposed to powdered) and higher K_2O than standard SOP (usually on a pro rata basis above K_2O content of 50%). Offtakes have been structured to pass through this price premium.

Figure 28: APC's product suite – attracting a premium price compared to standard SOP
Standard SOP contains 50% K_2O; one of the price premium mechanism for APC's product is due to higher K_2O content. The content premium is usually on a pro-rata basis.

	K_2O%	Sulphur (S)	Chloride (Cl)
K-Brite Standard	52%	18%	<0.3%
K-Brite Granular	51%	18%	<0.3%
K-Brite Water-Soluble	53%	18%	<0.1%

Source: Company reports

Figure 29: LSOP Process Flow sheet.



Source: Company reports

Leveraged to the SOP price

APC is highly leveraged to rising SOP markets. We note the following regarding the Lake Wells project:

- It generates ~A$10m additional free cash flow per annum for every US$50/t move in the SOP price once operations are fully ramped up (FY25).
- NPV break-even at realised SOP prices of US$380/t.

APC completed its FEED update using an average LOM realised SOP price of US$550/t (2021 Real) and an AUD:USD exchange rate of 0.70. We also assume APC's realised FOB SOP price is US$550/t (2021 Real) and a long-term AUD:USD exchange rate of 0.75. Our SOP pricing assumptions include the product premiums APC expects to receive (~10%) and hence sit in the middle the consensus range of long-term SOP price forecasts (US$450-600/t).

Financial modelling assumptions and risks

Key features from the Apr-21 FEED update:

- A 30-year 170ktpa Sulphate of Potash operation from an underground solution mine via a bore-filled pipeline network. The process follows a brine evaporation, salt crystallisation and salt conversion flowsheet to produce a high purity sulphate of potash product.
- 84% of LOM output is based on exploiting the Reserve of 3.6Mt of SOP, and 16% of LOM output comes from the Measured Resource.
- Total capital expenditure of A$292m and competitive capital intensity of A$1,720/t.
- Opex of US$251/t over LOM, which is first quartile.
- An NPV8 of A$398m and 18% IRR (post-tax) at an average realised SOP price of US$550/t (2021 Real) and AUD:USD exchange rate of 0.70.

Figure 30: Lake Wells financial model

Our post-tax NPV of $252m and IRR of 17% is lower than the FEED update, mainly due to our higher WACC assumption of 10% and AUD:USD exchange rate of 0.75. This is slightly offset by a 35-year mine life (vs FEED update 30 years).

Financial Summary	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Total Sales (kt)	0	0	100	170	170	170	170	170	170
Revenue	0	0	79	136	139	142	146	149	152
Expenses	0	0	36	63	64	65	66	68	69
EBITDA	0	0	42	74	75	77	79	81	83
D&A	0	0	17	17	17	17	17	17	17
EBIT	0	0	25	56	58	60	62	64	66
Net Operating Assets	100	250	277	263	249	236	222	208	195
Capex	100	150	44	4	4	4	4	4	4
EBITDA Margin (%)	0%	0%	54%	54%	54%	54%	54%	54%	55%
EBIT / Assets (%)	0%	0%	9%	21%	23%	25%	28%	31%	34%
Revenue /t	0	0	787	802	820	838	857	876	896
Expenses /t	0	0	362	368	376	383	391	399	407
EBITDA /t	0	0	424	433	444	455	466	477	489
D&A /t	0	0	173	102	102	102	102	102	102
EBIT /t	0	0	251	331	342	353	364	375	387
Nominal Tax @ 30%	0	0	-8	-17	-17	-18	-19	-19	-20
Cash Flow	-100	-150	-9	53	54	56	57	58	59

Source: Company reports, Shaw analysis

Balance Sheet and Cash Flow

Currently no term debt and A$4.5m cash

At the end of the Dec-20q the company had no debt and a cash balance of $4.5m (vs $1.4m end Sep-20q).

The company has recently completed three separate equity raisings:

- In December 2019, a $1.6m placement of 23m shares at 7cps to sophisticated and professional investors.
- In May/June 2020 the company completed a $2m placement of 40m shares at 5cps to sophisticated and professional investors and an entitlement issue raised ~$2.2m on a 1:7 basis at 5cps.
- In November 2020, the company completed a placement to institutional and sophisticated investors to raise $7m at 11.1cps for 63m shares.

Requirement to raise ~A$120m equity in FY22 to sanction and develop the project

With pre-production capital requirements of ~$290m, we believe APC requires ~$340m ($220m/$120m debt/equity) to re-capitalise the company prior to a Lake Wells Final Investment Decision. We assume this occurs in FY22 and will fully fund the development and commissioning of the project.

The $260m recapitalisation is broken into four components:

- **$140m NAIF facility.** In March 2021 the company secured Northern Australia Infrastructure Facility (NAIF) funding. It will provide $140m of funding for the Lake Wells Project. This has been approved ahead of the commercial debt tranche, and in our view significantly de-risks the Lake Wells project.
- **$45m Export Finance Australia (EFA) loan.** In April 2021 the company announced it has conditional approval for a A$45m loan facility.
- **$35m commercial debt.** We expect a commercial debt package of around ~$35m to be announced shortly.
- **$120m equity**. The balance of funding will be provided by a combination of strategic and capital markets equity. We assume an $120m equity raise in FY22.

The advantage of the NAIF facility is that it is long duration and doesn't need to be repaid until after the commercial debt is paid back. This gives APC the ability to gear the project with more debt than would be usual and may allow APC to begin distributing cash flow to equity holders early in the project life. We model dividends commencing in FY26.

Gearing to peak at 60% in FY24

This will leave APC with gearing (ND / ND+E) of 60% at the end of FY24. Debt servicing ratios will be very strong once the company is at full production ramp-up (FY24/25). EBITDA / gross interest is 7x and Gross debt / EBITDA is 2.2x in FY25. Our forecast has APC net cash in FY29.

Figure 31: APC Cash Flow (A$m)

CASH FLOW (AS$m)	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Operating activities												
Receipts from customers	0	0	0	0	0	79	136	139	142	146	149	152
Payments to suppliers and employe	-2	-2	2	2	-2	-39	-65	-66	-68	-69	-70	-72
Income taxes paid	0	0	0	0	0	2	-3	-11	-12	-13	-15	-15
Net cash flow from operating activities	**-1**	**0**	**-2**	**-4**	**1**	**28**	**56**	**62**	**63**	**64**	**64**	**65**
Investing activities												
Payments for PPE	0	0	0	-100	-150	-44	-4	-4	-4	-4	-4	-4
Net cash flow from investing activities	**-3**	**-4**	**0**	**-100**	**-150**	**-44**	**-4**	**-4**	**-4**	**-4**	**-4**	**-4**
Free cash flow	**-4**	**-4**	**-2**	**-104**	**-149**	**-16**	**53**	**58**	**59**	**60**	**60**	**61**
Financing activities												
Proceeds from issue of shares	4	6	0	120	0	0	0	0	0	0	0	0
Payment of capital raising costs	0	0	0	-5	0	0	0	0	0	0	0	0
Proceeds from borrowings	0	0	0	100	120	0	0	0	0	0	0	0
Repayments of borrowings	0	0	0	0	0	-35	-35	-35	-35	-35	-35	-10
Dividends paid	0	0	0	0	0	0	0	-6	-13	-26	-26	-26
Other	0	0	0	-4	-11	-13	-10	-7	-5	-2	0	0
Net cash flow from financing activities	**4**	**5**	**0**	**211**	**109**	**-48**	**-45**	**-49**	**-53**	**-63**	**-61**	**-36**
Net increase/(decrease) in cash	0	1	-2	107	-40	-64	8	9	6	-3	-1	26

Source: Company reports, Shaw analysis

Figure 32: APC Balance Sheet (A$m)

BALANCE SHEET (A$m)	2019	2020	2021f	2022f	2023f	2024f	2025f	2026f	2027f	2028f	2029f	2030f
Cash and cash equivalents	2	3	1	108	68	5	12	22	28	25	25	51
Trade and other receivables	2	0	0	0	0	6	11	11	12	12	12	13
Other	0	0	0	0	0	13	22	23	23	24	24	25
Total current assets	**4**	**4**	**1**	**108**	**68**	**24**	**46**	**56**	**63**	**61**	**62**	**88**
Property, plant and equipment	0	0	0	100	250	277	263	249	236	222	209	195
Exploration and evaluation expendi	5	9	9	9	9	9	9	9	9	9	9	9
Total non-current assets	**5**	**10**	**10**	**110**	**260**	**286**	**273**	**259**	**245**	**232**	**218**	**205**
TOTAL ASSETS	**9**	**13**	**11**	**218**	**328**	**311**	**319**	**315**	**309**	**293**	**280**	**293**
Trade and other payables	3	2	2	0	0	3	5	5	5	5	6	6
Borrowings	0	0	0	0	35	35	35	35	35	35	10	0
Total current liabilities	**3**	**2**	**2**	**0**	**33**	**41**	**51**	**53**	**54**	**55**	**31**	**22**
Borrowings	0	0	0	100	185	150	115	80	45	10	0	0
Total non-current liabilities	**0**	**0**	**0**	**100**	**185**	**150**	**115**	**80**	**45**	**10**	**0**	**0**
TOTAL LIABILITIES	**3**	**2**	**2**	**100**	**218**	**191**	**167**	**133**	**99**	**65**	**31**	**22**
NET ASSETS	**6**	**11**	**9**	**117**	**110**	**119**	**152**	**182**	**210**	**228**	**248**	**271**
Net debt	-2	-3	-1	-8	152	180	138	93	52	20	-15	-50
Gearing (ND/ND+E %)	0%	0%	0%	0%	58%	60%	47%	34%	20%	8%	0%	0%

Source: Company reports, Shaw analysis

Valuation and Price Target

Our preferred valuation technique is a discounted cash flow (DCF) valuation with post-tax operational cash flows discounted at APC's weighted average cost of capital of 10%.

Our undiluted DCF valuation is $0.47ps, and APC is currently trading at a 63% discount to this valuation. We apply a notional asset value of A$25m for the company's exploration assets, discussed in more detail in Appendix B.

In our base case forecast we assume that APC will raise A$120m of equity in FY22 at a share price of A$0.19ps. In figure 34 we show a forward DCF valuation of APC post the equity raising. The valuation drops to A$0.32ps due to the dilution, but this is highly dependent on the price the additional equity is issued at.

Figure 33: DCF valuation - undiluted

Australian Potash Valuation	A$m	A$ps
Lake Wells	252	0.45
Net debt	2	0.00
Development assets	25	0.04
Corporate costs	-15	-0.03
Total Valuation	**263**	**0.47**

Source: Company reports, Shaw and Partners analysis

Figure 34: DCF valuation - diluted for ~A$120m equity raising

Australian Potash Valuation - diluted	A$m	A$ps
Lake Wells	252	0.21
Net debt	120	0.10
Development assets	25	0.02
Corporate costs	-15	-0.01
Total Valuation	**382**	**0.32**

Source: Company reports, Shaw and Partners analysis

We use NW Europe FOB SOP prices as a reference point for our APC valuation, currently ~US$525/t. In our view NW Europe FOB SOP prices are a conservative analogue to APC's realised SOP pricing. The company expects realised prices to include a ~10% product quality premium for the product being 'green' (i.e. organic / non-Mannheim Process), granular (as opposed to powdered) and higher K_2O content than standard SOP (usually on a pro rata basis above standard SOP K_2O content of 50%). Offtakes have been structured to pass through this price premium.

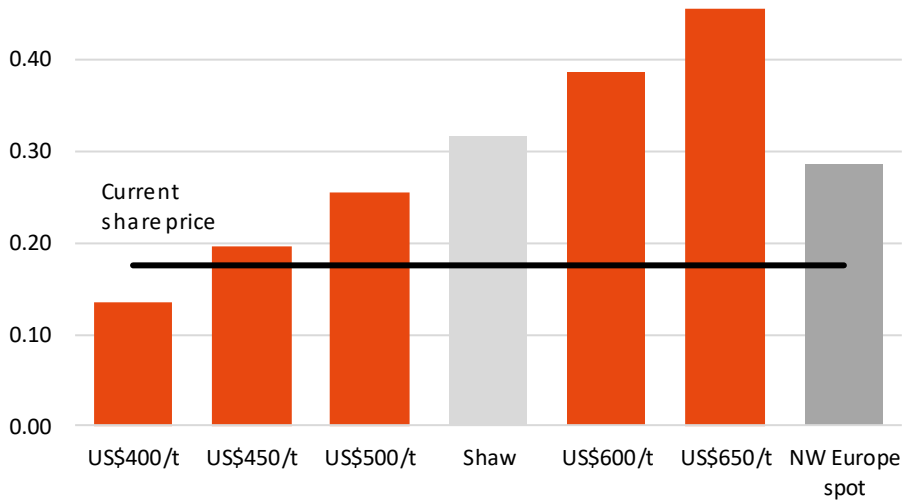
Figure 35: DCF valuation – spot prices undiluted

Australian Potash Valuation	A$m	A$ps
Lake Wells	215	0.38
Net debt	2	0.00
Development assets	25	0.04
Corporate costs	-15	-0.03
Total Valuation	**227**	**0.40**

Source: Company reports, Shaw and Partners analysis

The main valuation sensitivity is to the SOP price. In figure 36, we outline the APC DCF valuation at a range of realised SOP prices. Every US$50/t move in the SOP price impacts our DCF valuation by A$0.06ps.

Figure 36: Australian Potash fully diluted DCF valuation sensitivity (A$ps) to realised SOP price (US$/t)



Source: Company reports, Shaw and Partners analysis

Appendix A: Key Personnel

Board of Directors

Jim Walker | Non-Executive Chairman

Mr Walker has over 45 years' experience in the resources industry, at both senior management and board level. Prior to retiring from the position in 2013, Mr Walker was the Managing Director and Chief Executive Officer of WesTrac Pty Ltd, during which time that company enjoyed significant expansion across Australia and into north-east China. From January 2015 through to July 2015, Mr Walker performed the Executive Chairman's role at Macmahon Holdings Ltd as that company sought a replacement CEO. Mr Walker was a member of the Macmahon board since 2013, and was the non-executive Chair from 14 July 2015 until 27 June 2019.

Brett Lambert | Non-Executive Director

Mr Lambert is a mining engineer and experienced company director in the Australian and international mineral resources industry. Over a career spanning 35 years, Mr Lambert has held senior management roles with Western Mining Corporation, Herald Resources, Western Metals, Padaeng Industry, Intrepid Mines, Thundelarra Exploration and Bullabulling Gold. He has successfully managed several of green-fields resource projects through feasibility study and development and has been involved in numerous facets of financing resource project development. Mr Lambert has experience as a director of companies listed on the Australian Securities Exchange, AIM and the Toronto Stock Exchange and holds a B.App.Sc. (Mining Engineering) degree from Curtin University in Western Australia and is a Member of the Australian Institute of Directors.

Cathy Moises | Non-Executive Director

Ms Moises holds a Bachelor of Science with Honours in Geology from the University of Melbourne and a Diploma of Finance and Investment from the Securities Institute of Australia. She has extensive experience in the resources sector having worked as a senior resources analyst for several major stockbroking firms including McIntosh (now Merrill Lynch), County Securities (now Citigroup) and Evans and Partners where she was a partner of that firm. More recently in 2017-2019, Ms Moises was Head of Research at Patersons Securities Limited. Ms Moises brings substantial experience to APC in company management, capital markets and institutional investor engagement. Her key areas of industry experience include gold, base metals, mineral sands and the rare earths sector.

Executive Team

Matt Shackleton | Managing Director and Chief Executive Officer

Mr Shackleton is a Chartered Accountant with over 20 years' experience in senior management and board roles. Previously the Managing Director of ASX listed Western Australian gold developer Mount Magnet South NL, Mr Shackleton was a founding director of ASX listed and West African gold and bauxite explorer Canyon Resources Limited. He has also held senior roles with Bannerman Resources Limited, a uranium developer, Skywest Airlines, iiNet Limited and DRCM Global Investors in London. Mr Shackleton holds an MBA from The University of Western Australia, is a Fellow of The Institute of Chartered Accountants, Australia and New Zealand and a Member of the Australian Institute of Company Directors.

Scott Nicholas| Chief Financial Officer and Company Secretary

Scott is a Chartered Accountant with 15 years experience in the resources industry. Scott was previously CFO for MACH Energy Australia and Atlantic Ltd in which he involved in over A$1 billion in debt and equity financings to develop and operate Australian resource assets. Scott has been involved in taking greenfield resource assets through to production including feasibilities, construction, operations, and offtake and marketing. Scott began his career with KPMG and Ernst & Young in audit and corporate finance. Scott has a Bachelor of Law and Commerce from Murdoch University, a graduate Diploma of Applied Finance from FINSIA, and is a Chartered Accountant.

Rhett Brans | Project Director

Mr Brans is an experienced director and civil engineer with over 45 years' experience in project developments. He is currently a Non-executive Director of AVZ Minerals Limited and Carnavale Resources Ltd. Previously, Mr Brans was a founding director of Perseus Mining Limited and served on the boards of Tiger Resources Limited, Monument Mining Limited and Syrah Resources. Throughout his career, Mr Brans has been involved in the management of feasibility studies and the design and construction of mineral treatment plants across a range of commodities and geographies. Mr Brans holds a Dip. Engineering (Civil), and is a member of the Institution of Engineers, Australia.

Jay Hussey | Chief Commercial Officer

Jay Hussey is a highly experienced fertiliser industry executive, with an extensive background in Sulphate of Potash (SOP) marketing, Potash (MOP) supply contracting, and off-take & joint venture negotiations throughout Asia, Europe, North America and South America. Jay served for 10 years as Vice-President of China-based Migao Corporation in both Toronto and Beijing. During his time with Migao, he was responsible for in excess of US$160m in equity and debt financings, which allowed that company to grow into China's largest non-State owned SOP producer.

Appendix B - Other Assets

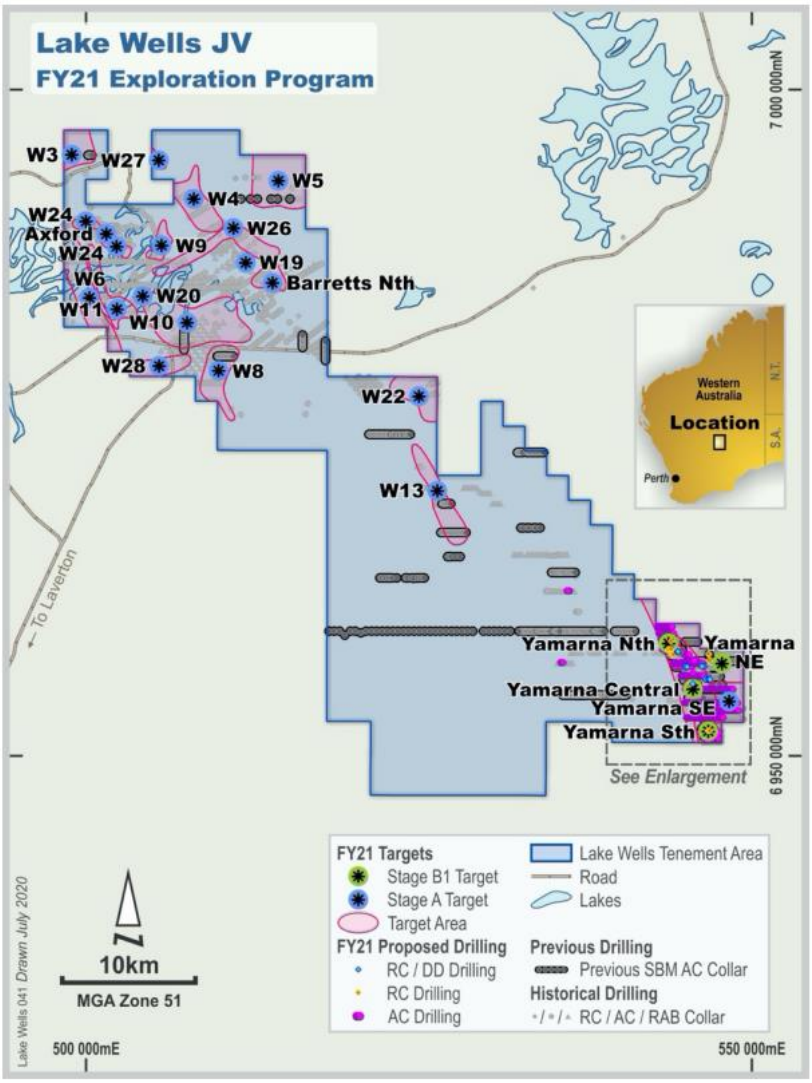
Lake Wells Gold Project

APC and St Barbara Limited (SBM) have formed an unincorporated Joint Venture to explore and development mineral resources on the Lake Wells tenements.

SBM has earned a 70% interest in the JV through the expenditure of A$7m since October 2018 and APC will be free carried until such time as SBM has completed a bankable feasibility study into the development of any non-potash orebody on the project tenements.

During 2019 and 2020, SBM conducted an extensive exploration program including two large programs of AC drilling. In the past six months SBM has conducted a further extensive drilling program including air-core, reverse circulation and diamond drill holes.

Figure 37: Lake Wells JV FY21 Exploration Program



Source: 2020 Annual APC Report

Laverton Downs

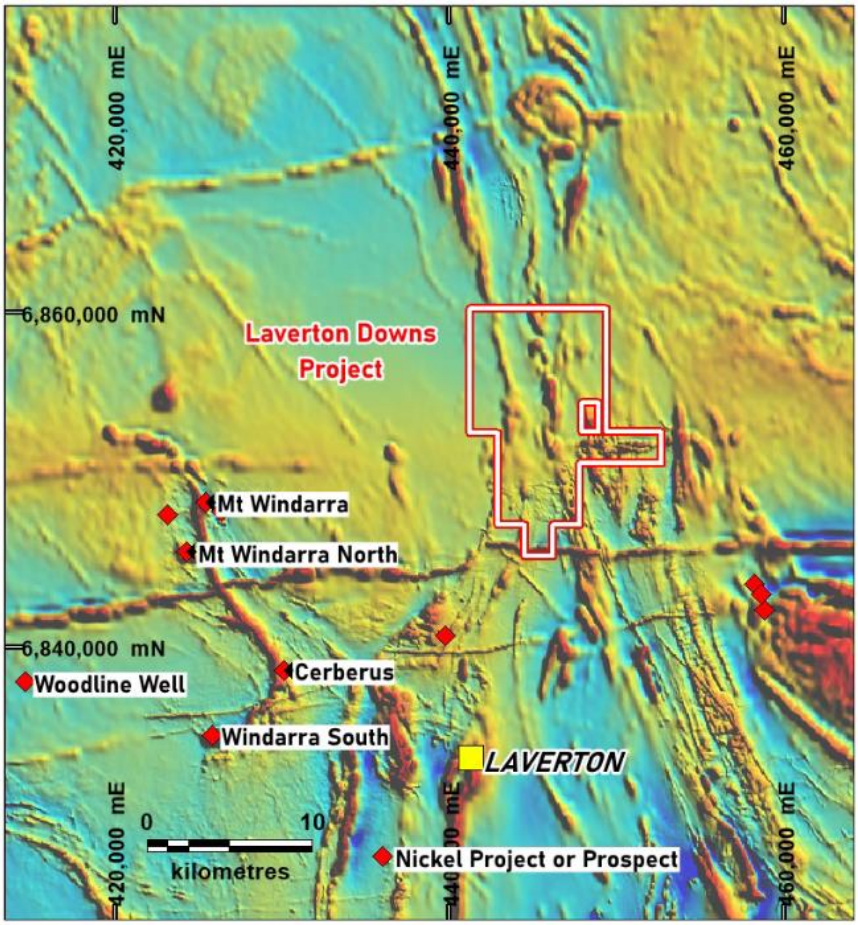
The Laverton Downs Project is located 20kms north of Laverton in the Eastern Goldfields of Western Australia.

At Laverton Downs, APC is following the same pathway as at the Lake Wells Gold Project. APC is conducting early low-cost exploration to develop targets which may attract a major partner to fund on-going work.

APC has conducted a Versatile Time Domain Electromagnetic (VTEM) survey which has identified six well-defined conductive plates interpreted to be indicative of massive sulphides. The geological setting and initial geochemical analysis indicate the potential for these to be nickel sulphides.

APC has identified three high priority targets and is making plans to drill test them.

Figure 38: Laverton Downs location showing known nickel sulphide deposits



Source: APC ASX release April 2021

Rating Classification

Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

Risk Rating

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market

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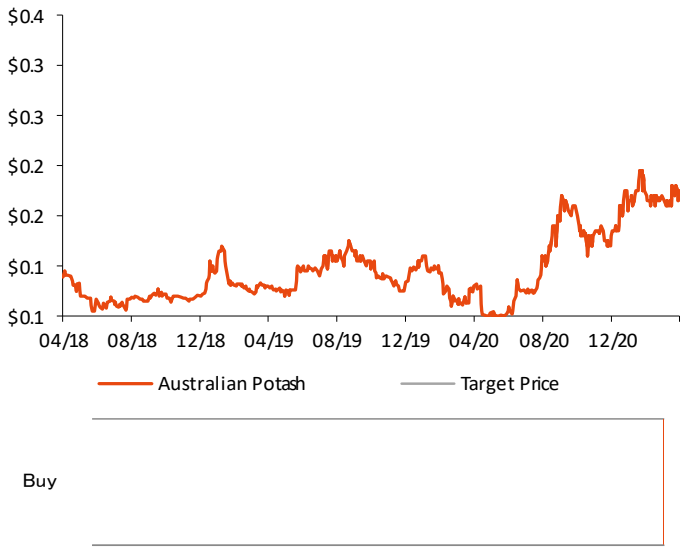
Distribution of Investment Ratings

Rating	Count	Recommendation Universe
Buy	67	83%
Hold	13	16%
Sell	1	1%

History of Investment Rating and Target Price - Australian Potash

Date	Closing Price ($)	Target Price ($)	Rating
22-Apr-21	0.18	0.32	Buy



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