



Potash West NL (PWN)

Potential for significant potassium deposits

Recommendation: Speculative BUY

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Company Information

| | |
|-----------------|------|
| ASX Code | PWN |
| Share Price A\$ | 0.20 |
| Ord Shares | 75m |
| Escrowed Shares | 32m |
| Market Cap A\$ | 15m |
| Cash A\$ | 6m |
| Total Debt A\$ | - |
| EV A\$ | 9m |

Source: Potash West

Directors

| | |
|-------------------|------------------|
| Non-Exec Chairman | Adrian Griffin |
| Managing Director | Patrick McManus |
| Non-Exec Director | George Sakalidis |
| Non-Exec Director | Gary Johnson |

Source: Potash West

Company Details

| | |
|---------|--|
| Address | 1/135 Great Eastern Hwy Rivervale WA 6103 |
| Phone | +618 9479 5386 |
| Web | www.potashwest.com.au |

Source: Potash West

Top Five Shareholders

| | |
|-----------------|--------|
| Elsinore Energy | 16.70% |
| Siak Poh Yeo | 2.40% |
| Patrick McManus | 2.30% |
| Miew Leng Lee | 2.00% |
| Goon Eng Chua | 2.00% |

Source: Potash West

Key Points

- **Successful A\$6m IPO closed early and oversubscribed**
- **Tenure over one of the world's largest known glauconite deposits**
- **Significant potassium resource potential**
- **High recoveries possible with new 'simple' extraction technology**
- **Glauconite deposits are near surface or outcropping**
- **Potash demand is likely to remain robust**

Potash West is an exploration company focused on developing potassium-rich glauconite deposits in West Australia's Perth Basin. The company aims to define a substantial resource base and investigate how best to recover potash from the mineral. A successful commercial outcome will allow the company to become a major contributor to the potash market at a time of heightened demand.

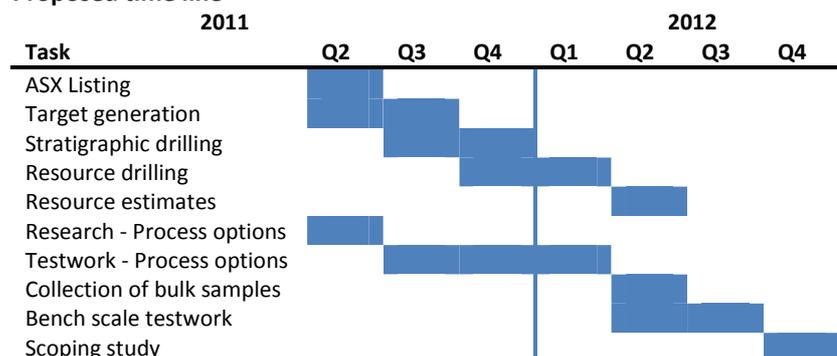
Company Overview

Potash West (PWN) was incorporated on the 12 November 2010 to consolidate the rights to both glauconite and phosphate mineralisation identified in the greensands which occur throughout much of the Dandaragan Trough within the Perth Basin in WA.

Glauconite is a potassium-rich mineral which the company intends to exploit in the production of commercial quantities of potash. Recent technological advances indicate potassium recoveries of ~95% are possible with a relatively simple extraction process.

The recent successful A\$6m IPO closed early and oversubscribed. The company is now cashed up and is moving forward to prove up the initial target 50 million JORC resource and undertake metallurgical test work on the processing systems aimed at extracting the potassium from the glauconite.

Proposed time line



Source: Potash West



Investment Review

Control of one of the largest known glauconite deposits

Through the amalgamation of tenements, Potash West now has the mineral rights to five exploration licences, with a further six under application, leaving the company with the major land holding over one of the world's largest known glauconite deposits.

Previous exploration, albeit limited, indicates glauconite sediments are continuous for more than 150km along strike and 15km in width. Mineralisation is generally close to surface, outcropping in many areas.

Technological advances have led to increased recoveries of potassium

Glauconite is a potassium rich mica mineral, and has been used as a slow release fertiliser for many years. Realising the potential value of glauconite, India has led the world in processing research and has achieved recoveries of 96% on similar Indian deposits. This technological advance provides the potential for Potash West to produce a low-cost, slow-release fertiliser with minimal processing.

Peer Comparison

| Company | Ticker | Project | Location | Status | MCap(M) |
|----------------------|-------------------|-------------------------------|-------------------------|-------------------------------------|---------------|
| Western Potash | TSX: WPX | 2 MOP* ¹ | Canada | 1 Exploration 1 Resource | C\$286 |
| Potash One | TSX: KCI | MOP | Canada | PFS completed Take over from K&S | C\$430 |
| Allana Potash | TSX V: AAA | MOP | Ethiopia | Resource | C\$298 |
| Athabasca Potash | TSX: API | MOP | Canada | Takeover by BHP | C\$341 |
| Sirius Minerals | AIM: SXX | 3 MOP 1 MOP/SOP* ² | UK, Australia USA | 4 Exploration | £153 |
| Amazon Mining | TSX V: AMZ | Glauconite | Brazil | 1 Resource | C\$279 |
| Elemental Minerals | ASX: ELM | MOP | Congo | 1 Exploration | A\$368 |
| South Boulder | ASX: STB | MOP | Eritrea | Resource | A\$509 |
| Agua Resources | ASX: AGR | Phosphate & MOP | Brazil | Exploration | A\$66 |
| Potash West | ASX: PWN | Glauconite | Australia | Exploration | A\$15 |

Company valuations with potash exposure remain strong

Source: Potash West *¹ MOP – Muriate of Potash (KCl) *² SOP- Sulphate of Potash (K₂SO₄)
MCAP is fully diluted and approximate, Feb 2011

Amazon Mining is a Brazilian based company and is similar to Potash West in that it is involved in the extraction of potassium from glauconite deposits. A Preliminary Economic Assessment completed by the company indicated total capex of ~US\$200M would be required for a 1Mtpa plant. Ongoing operating costs were estimated at approximately US\$42/t, to create a Thermo Potash product which is estimated to sell at ~US\$180/t. This gives a project payback of just 2.5 years.

Global demand for potash set to increase by 8% in 2011

The global demand for Potash remains robust with total growth forecasted to increase by 8% for 2011. Current KCl prices are ~US\$400/t FOB and are likely to continue to trend up as further demand/supply constraints impact the market. Australia currently imports 100% of its total consumption, providing a ready market for new local producers to enter the market.

Potash West has a dominant tenure position over one of the largest known glauconite deposits. High recovery rates with a simple potassium extraction method are possible as already demonstrated by the Indian test work. **Potash west is now in prime position to exploit these technology developments to commercialise the large potassium rich deposits of the Perth Basin.**



The interest in Potash

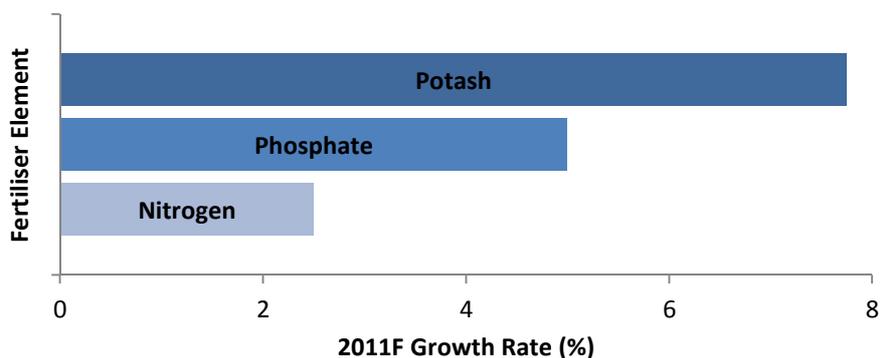
N,P,K essential in the production of fertiliser

Estimated 2011 demand for KCl is ~58 million tonnes

The term 'potash' refers to a group of **water soluble potassium salts** and is the key source of potassium (K) used in fertiliser production. Fertilisers also require two other vital elements namely; nitrogen (N) and phosphorous (P).

Current population growth and the associated global demand for food and bio fuels is placing pressure on fertiliser supplies for agriculture. According to the International Fertiliser Industry Association (IFA), the expected growth rate in 2011 for potash alone is ~8%, with total projected demand estimated at ~58 million tonnes. This increase in demand is mainly attributable to developing markets where potash has historically been under applied.

World fertiliser consumption growth forecast for 2011



Source: IFA and Potash Corp

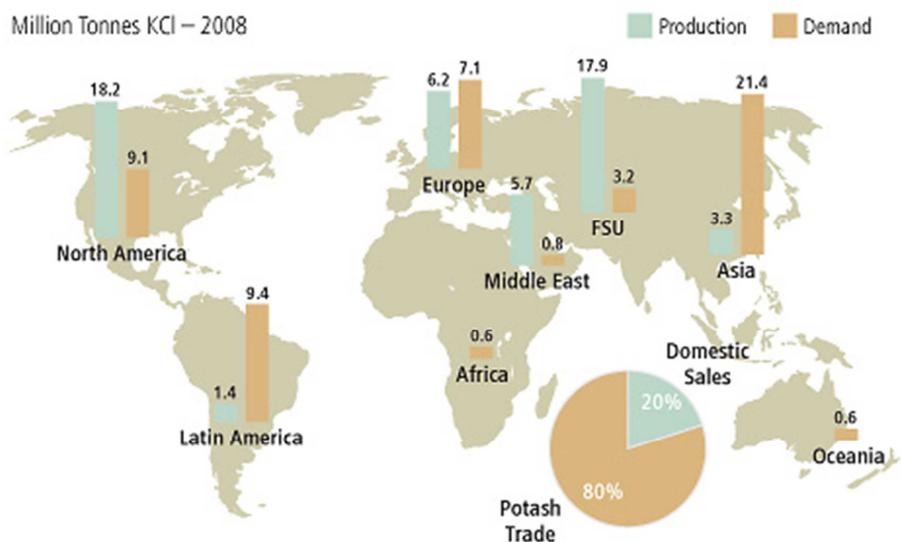
Potash is only produced in 12 countries

Potash is consumed in ~160 countries however there are only 12 countries and 13 companies which have any significant production. Canada, Russia and Belarus account for over two-thirds of world production and more than 80% of known reserves. As a result, approximately 80% of potash is typically traded across borders.

Ready Asian markets

With little or no indigenous production capability, major consuming countries in Asia and Latin America rely primarily on imports to meet their rising demand. This provides a significant opportunity for new producers to deliver into these markets. Australia imports all of its potash requirements of ~400kt annually worth ~A\$140m/p.a.

World Potash Production and Demand



Source: Fertecon, Potash Corp

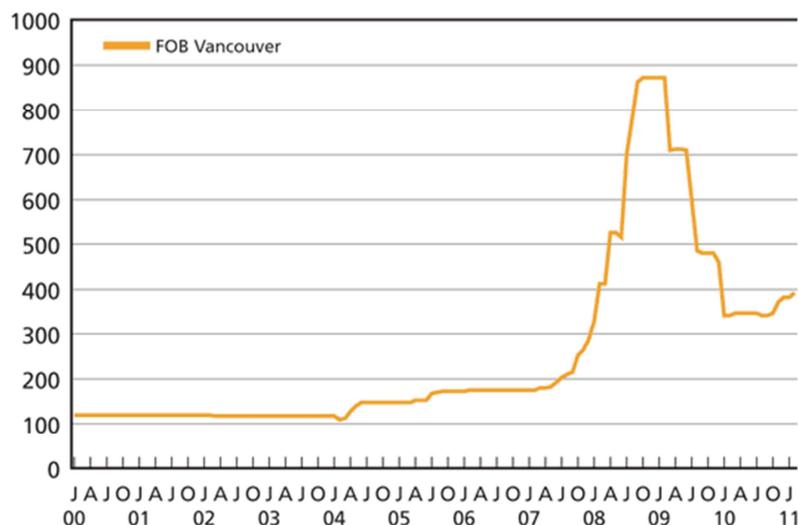


Potash prices peaked at US\$870/t

The potash/potassium chloride (KCl) price has been volatile in recent times, reaching a high of US\$870/t in 2009 and subsequently correcting in the midst of the GFC as distributors greatly reduced inventories and farmers cut application rates. Prices seem to have now stabilised in the US\$400-450/t range.

Price trend still remains up

Potassium Chloride (KCl) – US\$/Mt (standard grade)



Source: Fertecon

'Greensands' and 'Glaucanite'

The term 'greensand' refers to a specific formation, generally sandstone, which contains 'glaucanite'. Glaucanite is an iron potassium, aluminium silicate (mica) with very low weathering resistance and as such, greensand formations tend to be weak and friable.

Glaucanite typically contains ~6% K₂O

Greensands are characterised by their high total iron content (Fe₂O₃) and high K₂O content, with glaucanite typically containing ~6% K₂O.

Early in the last century, glaucanite was recognised as a source of potassium for the production of potash in New Jersey, USA, when occurrences were examined for the potential application in the agriculture industry. In India and South America, production of low-grade fertiliser from glaucanite, with minimal processing, has been practiced for many years.

In the 1960's the West Australian government realised that the Dandargan Trough hosted many greensand occurrences and undertook a drilling campaign to evaluate the stratigraphic setting in which glaucanite accumulated. Drilling showed that the greenstone beds have a thickness of up to 200m in some areas.

Low historical potash prices did not warrant technological development

Potash prices in the 1960's did not warrant extensive downstream processing of glaucanite to yield potash. With continued upward pressure on fertiliser prices, especially potash, there looks to be an opening for glaucanite to be brought online as a regular feedstock to the fertiliser industry.



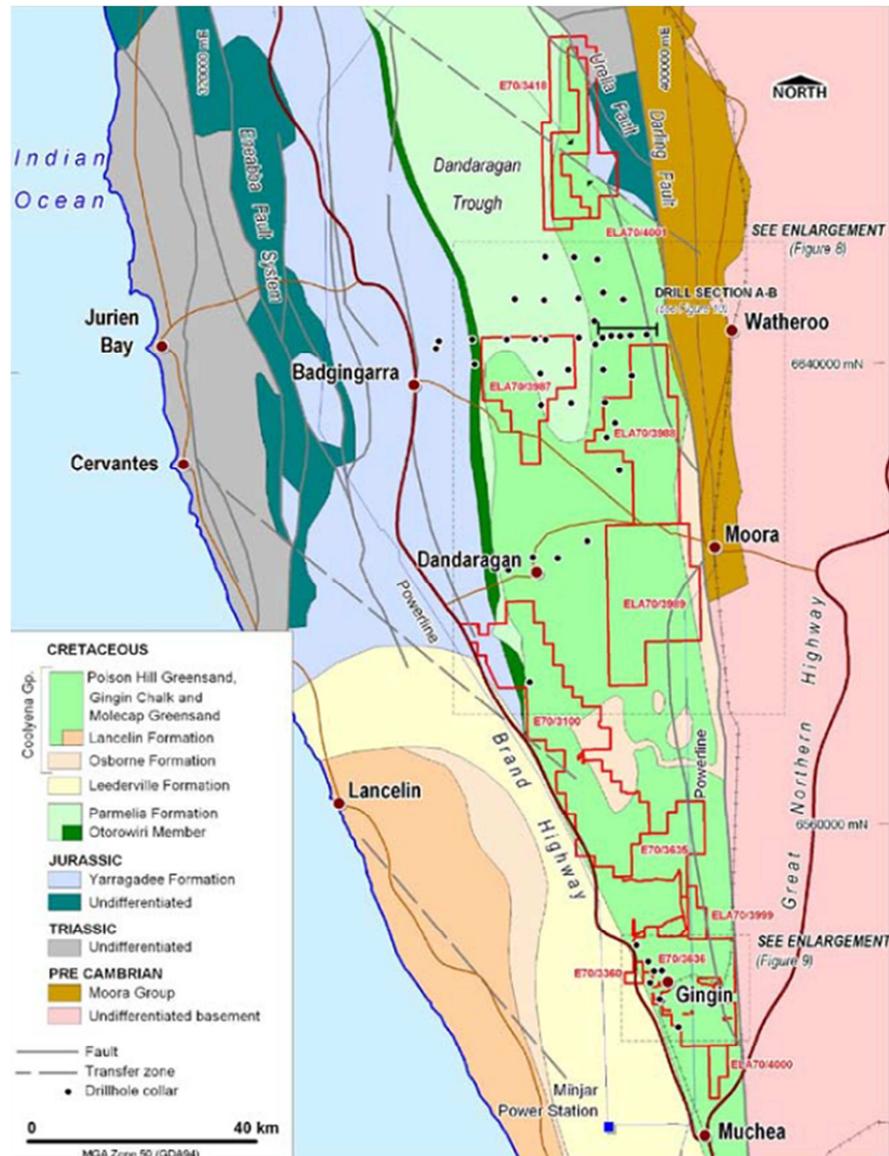
Project Review

Tenure covers 5 exploration licenses and 6 licence applications

The company's Perth Basin Potash project consists of the right to explore for potash and phosphate within five exploration licenses and six licence applications covering an area of 2,107km². The 11 tenements are located between 50 and 230km north of Perth and are variously held by Image Resources, Richmond Resources, Torbinup Resources and Adrian Griffin.

Project Tenement Map

2,107km² of the Dandaragan Trough



Source: Potash West

Agreements are in place between each of the tenement holders and Potash West, whereby Potash West holds the rights to the glauconite and phosphate minerals within the tenements. Potash West also hold the rights to any by-products produced by processing these minerals.



Tenement Summary

| Tenement | Grant Date | Holder | Area (km ²) | Annual expenditure A\$ | Annual rent A\$ |
|------------|------------|----------------|-------------------------|------------------------|-----------------|
| E70/3100 | 4/05/2010 | Image | 488 | 170,000 | 20,589 |
| E70/3360 | 7/04/2010 | Adrian Griffin | 9 | 15,000 | 363 |
| E70/3418 | 8/02/2011 | Image | 95 | 32,000 | 3,876 |
| E70/3635 | 2/12/2010 | Richmond | 122 | 46,000 | 5,571 |
| E70/3636 | 2/12/2010 | Torbinup | 253 | 101,000 | 12,232 |
| ELA70/3987 | NA | Richmond | 225 | NA | NA |
| ELA70/3988 | NA | Richmond | 293 | NA | NA |
| ELA70/3989 | NA | Richmond | 360 | NA | NA |
| ELA70/3999 | NA | Image | 24 | NA | NA |
| ELA70/4000 | NA | Image | 24 | NA | NA |
| ELA70/4001 | NA | Image | 214 | NA | NA |

Source: Potash West

The tenements cover the Gingin Chalk and three greensand formations within the Cretaceous Coolyena group; the Poison Hill Greensand, the Molecap Greensand and the Osborne Formation.

Coolyena Group stratigraphy

Formations within tenements boundary's prospective for glauconite

| Formation | Thickness | Features |
|-----------------------|-----------|--|
| Poison Hill Greensand | 0-60 m | Glauconitic quartz sandstone, shallow marine |
| Gingin Chalk | 10-40 m | Chalk; locally glauconitic |
| Molecap Greensand | 10-30 m | Glauconitic quartz sandstone, shallow marine |
| Osborne Formation | 60-180 m | Glauconitic sandstone, siltstone and claystone |

Source: Potash West

Historical Mining and Exploration

Previous mining, exploration and process development has been very limited

Between 1932 and 1962, 35,000t of greensand was mined from a small quarry at Molecap Hill located 1.4km south of Gingin. The mining produced 6,510t of glauconite for use as a water softening agent. The quarry is now overgrown and partly filled in at the base however the walls still provide excellent exposures of the Gingin Chalk and the underlying Molecap Greensand.

After the mining operations shut down in 1962, there have been a number of explorers looking for phosphates and potash. The most advanced explorer was Solbec Pharmaceuticals, which held E70/2248 encompassing 35km strike length of the Poison Hill and Molecap Greensand. Much of Solbec's efforts were focused around laboratory scale process investigations on greensand samples.



Directors and Management

Non-Executive Chairman

Adrian Griffin specialises in mine management and production and has had exposure to metal mining and processing worldwide during a career spanning over 30 years. He has helped develop extraction technologies for a range of minerals over the years. Previous positions held include former CEO of Dwyka Diamonds Limited, an AIM- and ASX-listed diamond producer, a founding executive director of Washington Resources Limited and also a founding director of Empire Resources Limited, Ferrum Crescent Limited and Reedy Lagoon Corporation. Currently he is a founding non-executive director of ASX-listed Northern Uranium Limited and managing director of ASX-listed Midwinter Resources NL, an African focused iron ore project developer.

Managing Director

Patrick McManus has a degree in mineral processing from Leeds University and an MBA from Curtin University. He has been involved with the mining sector for more than 30 years. Over this period, he has worked in operational, technical and corporate roles for Rio Tinto, RGC Limited and Bemax Resources Limited. He was a founding director and, from January 2007 to March 2010, managing director of ASX-listed Corvette Resources Limited.

Non-Executive Director

George Sakalidis is an exploration geophysicist of more than 20 years. His career has encompassed extensive exploration for gold, diamonds, base metals and mineral sands and, with others, he compiled one of Australia's largest aeromagnetic databases held by Image Resources. Using this database, he has contributed to a number of discoveries, including gold discoveries such as the Three Rivers and the Rose deposits in Western. He is a director of Magnetic Resources, North Star Resources NL, Image Resources and the unlisted Imperium Minerals Limited.

Non-Executive Director

Gary Johnson is a metallurgist with more than 30 years of broad experience in all aspects of the mining industry. In his early career, he gained operational and project expertise with a range of metals in operations in Africa and Australia. Later, he was a member of the team operating the metallurgical pilot plant at the giant Olympic Dam copper, gold and uranium project in South Australia.

In 1998, after 10 years as chief metallurgist for a large gold producer, he formed his own specialised hydrometallurgical consulting company. During this period he worked closely with LionOre Mining International to develop the Activox® process for treating sulphide concentrates. In 2006, LionOre acquired Gary's company and he joined LionOre as a senior executive. In 2007, LionOre was taken over by MMC Norilsk Nickel and in 2009 became managing director of the MMC's Australian operations.

MR Johnson runs his own consulting company, which specialises in high-level metallurgical and strategic advice. He also holds several patents in the field of hydrometallurgy and is a director of the TSX-listed Hard Creek Nickel Corporation.



Analyst Verification

We, Gavin Wendt and Andrew McLeod, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

Disclosure

Breakaway Investment Group (AFSL 290093) may hold direct and indirect shares in Potash West. It has also received a commission on the preparation of this research note.

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