

South Harz Potash

Bulk sampling from Bernterode shafts highlights underground infrastructure potential

South Harz Potash (“SHP”) has today announced the use of the Bernterode shafts, in the historic Bernterode potash area, to take a five tonne bulk sample for testing with K-UTEC. This will allow further testing of the processing route outlined in the 2022 Scoping study ahead of the PFS due Jan’24. The two Bernterode shafts lie 1.5km east of Ohmgebirge, from which the tunnels extend ~3km NNW to just 700m from the Ohmgebirge license where the bulk sample was taken. The information from this sample is very valuable to SHP and comes at a fraction of the cost thanks to historical mining in the area, illustrating the “brownfield” aspects of the project. Furthermore, we see potential for this shaft and other underground infrastructure already in place to be utilised by SHP in future. Ohmgebirge continues to offer a streamlined path to production and proximity to logistics in a favourable jurisdiction, in our view. Unencumbered by any royalties, the project already boasts a perpetual mining license and has received ~US\$115m (H&Pe) of historic exploration spending in today’s terms.

Unique cheap opportunity for 5t bulk sample to aid process design and derisk
Just 1.5km to the east of the Ohmgebirge mining license boundary are the two Bernterode shafts. The sample was taken 790m down, ~3km north-northwest of the shaft, ~700m from the Ohmgebirge license border (see map on pg. 2). This gave SHP a unique opportunity to utilise the existing development at the historic Bernterode potash area to take a bulk sample at a fraction of the cost. The sample has now been sent to K-UTEC who also carried out the bench scale metallurgical test work, with results expected at the end of July. This will allow SHP to develop its understanding of the Ohmgebirge resource, as well as how the processing flowsheet design can be fine-tuned including grind size optimisation for leach recovery and backfill material design and engineering. Given NDHE/Deusa use the shafts only for backfilling and not production, we see scope for SHP to use them in tandem, which could unlock significant synergies, assuming commercial terms can be agreed. Current scoping study level shaft capex is estimated at US\$89m, ~14% of total capex incl. contingency.

Ohmgebirge and exploration licenses continue to develop

This bulk sample analysis follows recent derisking through bench scale metallurgical work that confirmed the Ohmgebirge processing route. In particular, the global potash industry standard K60 grade MOP and the NaCl by-product were both produced, as well as potential for Mg(OH)₂ and CaCO₃ by-products. SHP has also appointed ERM consultants for the Environment Impact Assessment and permitting, as well as hiring Hatch to lead a team of top industry specialists for the PFS due Jan’24. Elsewhere, in Dec’22 the Thuringia mining authority extended the Gräfentonna exploration license to Jan’26. Like the Kullstedt exploration license extension, the granting of the permit was just one month after application, showing continued government endorsement in an attractive jurisdiction. Gräfentonna borders the south of the Ebeleben mining license and holds potential to add ~3Bt @ 4.3%-25% K₂O.

New COO brings skills to advance strategically important project

SHP continues to make strides towards the successful development of Ohmgebirge. The appointment in Dec’22 of Lawrence Berthelet as COO adds valuable project execution and proven management skills in the potash space, including leading Mosaic’s US\$2.9bn K3 expansion. With clear support from the Thuringia mining authority, we believe Ohmgebirge ticks multiple boxes as a strategically important project – particularly in light of the increased emphasis on security of supply across Europe – which should allow SHP to achieve a high proportion of debt funding. We see a precedent in key peer Highfield Resources’ Muga asset, which last year secured ~US\$310m of debt for a ~US\$400m Phase 1 MOP project in Spain.

Valuation: A\$0.42/sh target price

Given the early stage of development, future funding requirements and uncertain nature of our modelling assumptions, we apply a 0.2x target P/NPV to our June 2023E US\$1.1bn valuation to derive a fully diluted target price per share of A\$0.42. This offers >9x upside from the current share price. No further drilling is required to reach FS stage, allowing SHP to keep a lean cost structure ahead of project financing if just focusing on Ohmgebirge.

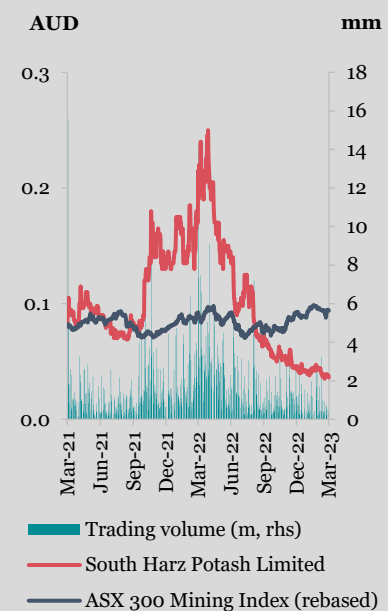
GICS Sector	Materials
Ticker	ASX: SHP
Market cap 7-Mar-23 (US\$m)	15.1
Share price 7-Mar-23 (A\$ cents)	4.0
Target price Jun-23 (A\$ cents)	42

>9x

Upside from current share price to our A\$0.42/sh risked NPV

26.6%

Post-tax IRR for Ohmgebirge on recent SHP scoping study



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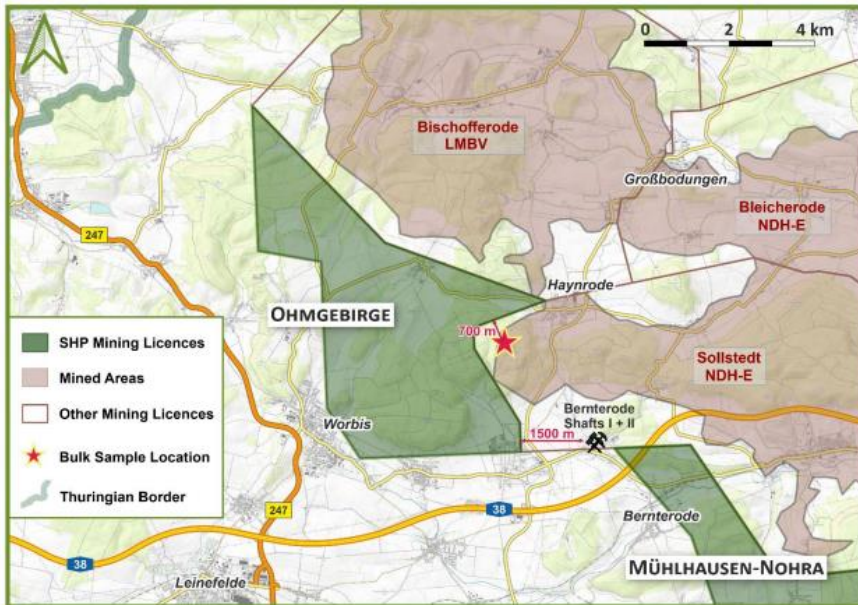
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Ohmgebirge bulk sampling via the Bernterode shafts in the historic Bernterode potash area

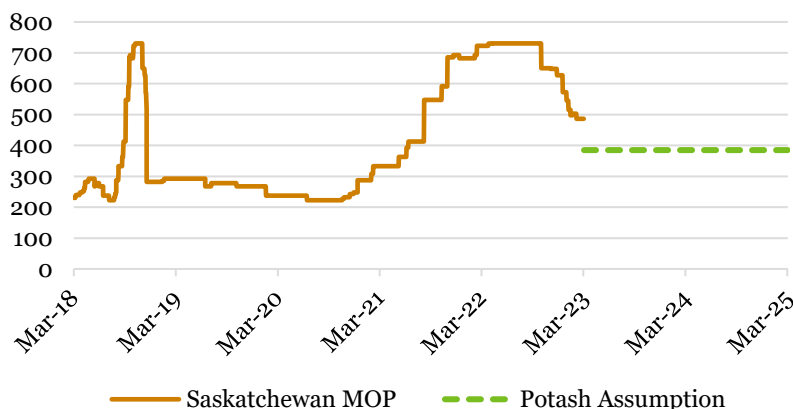


Source: Company reports

Recent potash price moves driven by reset of trade flows

After Russia’s invasion of Ukraine last year, Russian potash supply to the world was expected to fall on the back of sanctions, which in turn gave a boost to the commodity’s value. However, very little of this materialised with Russian supply to the market remaining at 85%-90% of its usual capacity (S&P Global). Instead, it is likely that the main impact from the sanctions was an alteration of trade flows. In 2022 Brazil, one of the top potash consumers globally, only reduced their Russian imports by 13.7% YoY, whilst other countries such as the U.S. and Finland decreased their Russian imports by 38.7% and 92.1% respectively, replacing this with imports from Canada. Overall, this has driven a rally followed by a pull back in potash pricing. However, there are also long term supply implications from this with an anticipated reduction in investment into Russian and Belarusian potash projects, which should help to sustain higher long term average prices. Despite this 33% decline in price since Sep’22, the current price is still 26% above our H&P potash forecast.

MOP Pricing has fallen steeply in recent months after Russian sanctions did not materialise to the anticipated degree



Source: Bloomberg

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