AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Fertoz Limited (FTZ)

May 2016

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INVESTMENT RESEARCH

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Fertoz Limited (FTZ)

Note: This report is based on information as at April 2016

Investment Profile	
Share Price ($) as at 28 April 2016	$0.16
Issued Capital:	
Ordinary Shares (M):	62.7m
Options (M)	32.8m
Performance Shares	0m
Fully Diluted (M)	95.5m
Market Capitalisation (M)	$10.0
12 month L/H ($)	0.125/0.28

Board and Management

Directors:
James Chisholm; Non-Executive Chairman
Stephen Keith: Managing Director
Adrian Byass: Non-Executive Director
Patrick Avery: Non-Executive Director
Jo Shearer: COO, Canada

Major Shareholders	%
James Chisholm (Chairman)	14.1%
Terra Capital	12.2%
Top 20	64.5%

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

NEAR TERM ORGANIC PHOSPHATE PRODUCER

Fertoz is in an ideal position to take advantage of the rapidly growing North American organic agriculture industry, by virtue of its key direct application phosphate assets located in British Columbia, close to target markets. Production has already commenced (making it Canada's only phosphate producer) by virtue of the permitting thus far of two 10,000t bulk samples, and we expect that the organically certified product should attract premium prices. Project economics are very attractive due to relatively low opex through grinding and milling being the only post mining processing required, and with the planned 75,000tpa operation only requiring minimal capex, largely funded out of cash flow.

KEY POINTS

Near Term Cash Flow: Fertoz is looking at commencing production from its Wapiti direct application phosphate project in CY2016, ramping up to a targeted 75,000tpa of product by CY2018, and potentially providing up to C$5-6 million free cash flow per annum by CY2018.

Low Cost Start-up: The Company estimates that capex requirements will be in the order of C$2.7 million over three years, which can largely be funded out of cash flow from product sales. In addition to the positive effect on project economics, this allows for the quick start-up without the need for any significantly dilutive equity raisings or the need to source debt, although there may be the need for a modest raise in 2016.

Robust Scoping Study: The above numbers came from the May 2015 Scoping Study update, which returned an NPV of $C20.1m, free cash flow of C$69.8m and an IRR of 82.4% for the modelled 20 year, 75,000tpa operation.

Suitable for the Organic Fertiliser Markets: Being direct application and organically certified, the Company's product is suitable for the growing North American organic producer market, with marketability being augmented by the high P2O5 availability of 10% as indicated by laboratory tests, and the high CaO level, which is suitable for the acidic soils as present in the potential market areas.

Growing Organic Markets: Recent years have seen significant expansions in the demand for organic foods, with this increasing globally from US$15.2bn in 1999 to US$72bn in 2013. This has resulted in a growth in organic farmland over the same period from 11Mha to 41Mha. This is reflected in the Canadian market where, between 2001 and 2011 the number of organic operations grew by 66%, and is continuing to expand, providing a market for Fertoz's products.

Readily Expandable: The Company's tenements potentially contain significantly more mineable resources than those used in the Scoping Study, and hence, when combined with the simple and low capex nature of the operation, any increases in demand should be able to be rapidly met by internally funded expansions of the operation.

Growth through Other Opportunities: The estimated cash flow will also give Fertoz the flexibility to explore other growth opportunities without the need for also "rattling the tin" and diluting shareholders.

Experienced and Incentivised Personnel: A key point for a company, Fertoz's Board and Management, and Marketing and Sales Partnership team are well connected and have extensive experience in the fertiliser and agriculture industries in North America, as well as in the resources sector as a whole. Personnel also have holdings in the Company, and thus are motivated to provide returns to shareholders.

VALUATION

Our base case undiluted valuation of A$21.1m is $0.34 per share, a 110% premium to the current market price, and is based on a risked NPV_8 valuation of the company's phosphate assets and actual cash figure. We see upside in this valuation with advancement of the projects, and realisation of positive cash flows from operations. The valuation is most sensitive to changes in phosphate price – a 10% increase increases the valuation from $0.34/share to $0.44/share. We note that Soda Springs has achieved sales of similar product at C$285/tonne, a 14% premium to the figure of C$250/tonne used in our modelling.

EARNINGS FORECAST

Y/E June	2014	2015	2016F	2017F	2018F
Revenue ($M)	0.1	0.1	0.5	9.2	16.4
EBITDA ($M)	-2.1	-1.6	-0.6	2.1	4.4
Reported NPAT ($M)	-2.2	-1.5	-0.9	1.6	2.7
Reported EPS (A$)	-5.3	-3.3	-1.5	2.5	4.3

PROFIT & LOSS ($M)					
Y/E June	2014	2015	2016F	2017F	2018F
Sales Revenue	0.1	0.1	0.5	9.2	16.4
Total Costs	-2.2	-1.8	-1.2	-7.1	-12.1
EBITDA	-2.1	-1.6	-0.6	2.1	4.4
Depreciation/Amortisation	0.0	0.0	-0.3	-0.4	-0.5
EBIT	-2.1	-1.6	-0.9	1.7	3.9
Interest	0.0	0.0	0.0	0.0	0.0
Pre-Tax Profit	-2.1	-1.6	-0.9	1.7	3.9
Tax expense	0.0	0.0	0.0	-0.2	-1.2
Net Profit After Tax	-2.1	-1.6	-0.9	1.6	2.7
Abnormals	-0.1	0.1	0.0	0.0	0.0
Reported Net Profit After Tax	-2.2	-1.5	-0.9	1.6	2.7

CASH FLOW (M)					
Y/E June	2014	2015	2016F	2017F	2018F
Receipts from customers	0.0	0.0	0.5	9.2	16.4
Payments to suppliers	-0.9	-1.3	-1.2	-7.1	-12.1
Net interest	0.1	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	-0.2	-1.2
Other	0.0	0.0	0.0	0.0	0.0
Operating Activities	-0.8	-1.2	-0.6	2.0	3.2
Capital Expenditure	0.0	0.0	-0.5	-1.0	-1.5
Exploration, Development, Evaluation	-1.4	-1.4	-0.5	-0.5	-0.5
Asset Sales/Acquisitions	0.1	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Investment Activities	-1.3	-1.4	-1.0	-1.5	-2.0
Share Issues /(Buybacks)	4.0	0.2	1.8	0.0	0.0
Debt Drawdown/ (Repaid)	0.0	0.3	-0.1	-0.1	-0.1
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Other	-0.4	0.0	-0.1	0.0	0.0
Financing Activities	3.6	0.5	1.6	-0.1	-0.1
Net Cash	1.5	-2.2	0.0	0.3	1.1
Cash at beginning	0.8	2.2	0.1	0.0	0.4
Cash at end	2.2	0.1	0.0	0.4	1.5

BALANCE SHEET (M)					
Y/E June	2014	2015	2016F	2017F	2018F
Cash	2.2	0.1	0.0	0.4	1.5
Trade and other Receivables	0.1	0.1	0.0	0.7	1.3
Inventories	0.0	0.2	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Current Assets	2.3	0.4	0.1	1.1	2.7
PPE	0.0	0.0	0.3	1.3	2.8
Investment in Joint Venture	0.0	0.0	0.0	0.0	0.0
Exploration & Evaluation	2.0	3.2	3.3	3.4	3.5
Other	0.0	0.0	0.0	0.0	0.0
Non-current Assets	2.0	3.2	3.6	4.8	6.3
Total Assets	4.3	3.6	3.7	5.9	9.0
Trade and other Payables	0.2	0.3	0.1	0.8	1.4
Short-term Debt	0.0	0.3	0.2	0.1	0.0
Long-term Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Total Liabilities	0.2	0.6	0.4	0.9	1.4
Net Assets	4.2	3.0	3.4	4.9	7.6
Share Capital	8.3	8.5	10.4	10.4	10.4
Reserves	0.9	1.2	1.2	1.2	1.2
Retained Earnings	-5.1	-6.6	-7.5	-5.9	-3.2
Shareholders' Equity	4.2	3.1	4.0	5.6	8.3
Minorities	0.0	-0.1	-0.1	-0.1	-0.1
Other	0.0	0.0	0.0	0.0	0.0
Total Equity	4.2	3.0	3.9	5.5	8.2
Shares on Issue (M)	41.5	45.9	62.7	62.7	62.7
Options Outstanding (M)	10.6	10.9	32.8	32.8	0.0
Fully Diluted (M)	52.1	56.8	95.5	95.5	62.7

SWOT ANALYSIS

STRENGTHS

- **Low Start-up Capital Cost**: This is a key strength of Fertoz, and dependent upon permitting and gaining sales, will allow the Company to quickly generate positive cash flow without the need to go to the market or take on onerous debt.
- **Certified for Organic Use**: The Company's rock phosphate has been certified for use as an input in organic plantations in both Canada and the USA, allowing more marketing opportunities with penetration into both organic and conventional markets.
- **Near Markets**: The Company's phosphate assets are located near key markets in British Columbia, north-eastern USA and the prairie provinces of Canada.
- **Simple, Coherent Mineralisation**: This will allow for predictable and simple mining operations, with the potential to provide a reliable, consistent product to market
- **Expandability**: Given the nature of the proposed Wapiti operation, should demand allow, it will be easily expanded at a minimal capital cost. This also extends to Fernie, which has the capacity, like Wapiti, to be a low start-up operation once resources are defined.
- **Internally Funded**: Should the cash flow forecasts prove to be correct, the Company will be able to largely internally fund ongoing activities, thus protecting shareholders from dilution.
- **Early and Successful First Nations Engagement**: The Company is well advanced with negotiations with the First Nations (and has signed the Protocol Agreement with the West Moberley group), and has support operating under the terms of Treaty 8.
- **Experienced Board and Management**: This is critical, with Fertoz's Board and Management having extensive experience in the fertiliser and agriculture space. This also extends to the Marketing and Sales Partnership, with this team being specialist agricultural professionals.

WEAKNESSES

- **Project Scale**: Some in the market will view the initial project scale and value negatively, however this is mitigated by the growth opportunities.
- **Permitting**: The Company is still awaiting the small mining permit for the Wapiti operation; however bulk sampling permits are in place at Wapiti and Fernie.
- **Sales**: There have only been contracted sales for 2,000t thus far – this needs to be grown considerably for a viable operation in what is still a relatively small market.

OPPORTUNITIES

- **Organic Growth**: This is the key opportunity for Fertoz: to be able to use cash flow to organically grow the planned operations business in response to increasing demand in the initially targeted organic market.
- **Suitability for Other Markets**: There is also the opportunity for sales to other consumers, including amongst others third party fertiliser manufacturers, micronizing and sales to conventional farmers looking to reduce the effects of algal blooms caused by standard phosphate sources.
- **New Acquisitions**: The Company, if things go as planned, will have the resources to be able to look at new opportunities without the distraction of thinking about how they are going to be funded.

THREATS

- **Permitting**: Any stalling of permitting will lead to delays in the start-up, loss of projected revenue and hence the need to go to the market to raise additional working capital. This may also lead to the loss of potential customers. However this is somewhat mitigated by bulk sampling permits (each of 10,000t) being issued for both Wapiti and Fernie – this is more than sufficient for the planned first years production.

- **Sales Penetration**: Given that this is a sales and marketing driven business, the Company will need to get sales penetration, which will involve displacing sales from other suppliers into the same market and proving that the product is superior. Farmers are naturally quite conservative, and hence this will take effort. To counter this Fertoz has set up its sales and marketing group, comprised of experienced and well-connected agribusiness professionals with links to a broad marketing network. The organic certification of the product also gives a broader potential market.

OVERVIEW

Fertoz is an ASX-listed junior phosphate developer with assets in British Columbia, Canada; and Idaho, USA. The Company began trading in September 2013 and listed on its existing assets. The head office is in Toronto, with management and key personnel located in Canada.

STRATEGY

The Company's strategy is to become an integrated fertiliser producer and marketer, supplying the organic and conventional markets. The prime focus is the short term, low cost development of its Wapiti asset in Canada, to generate cash flow from supplying direct application phosphate rock to organic and conventional users in Canada and the USA. Fertoz has also set up FertAg Agriculture Pty. Ltd. ("Fertag"), a marketing and distribution business in Australia selling specialist phosphate fertilisers sourced from Vietnam.

The longer term strategy is to use cash flow from operations to internally fund organic growth via expansions of existing operations and the acquisition and development of any new opportunities that may come up.

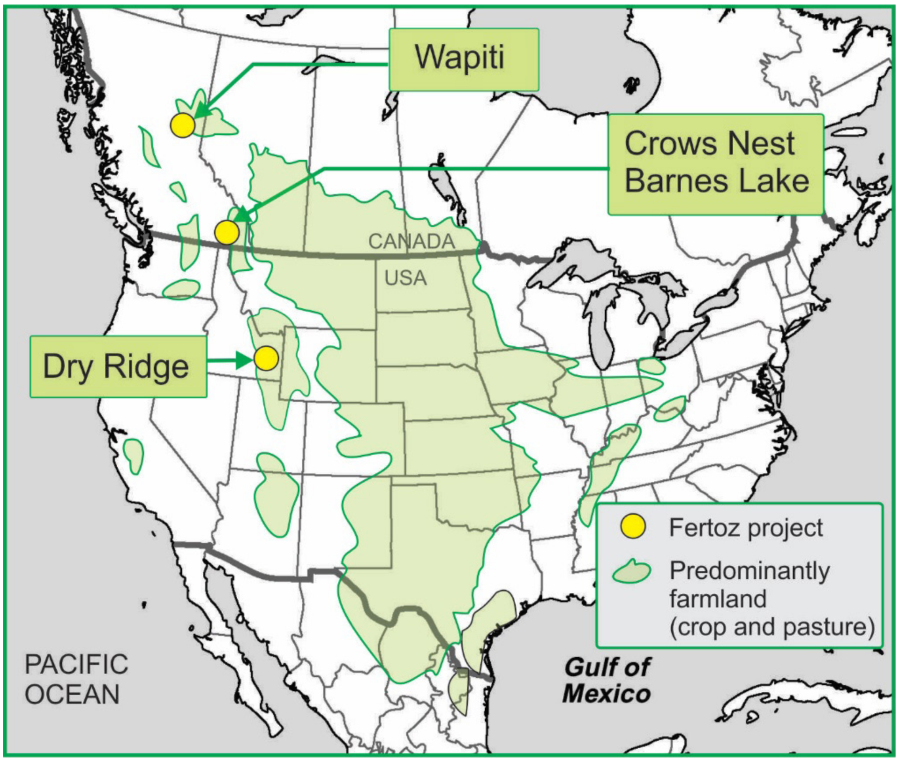
FINANCIAL POSITION

- As of 31 March 2016, the Company had $0.82 million in cash, and had a debt of $5k through a credit standby arrangement.
- Total expenditure for the nine months to 31 March 2016 was $1.1 million, largely spent on administration with only minor exploration and development activities undertaken.
- Cash has also been conserved through paying some costs, including directors and consultants fees through the issue of shares.
- Expenditures are expected to continue at similar levels for the next few quarters; however we may expect net revenue towards the end of CY2016 with the estimated sales of up to 10,000t of material from bulk samples collected at Fernie and Wapiti (there are permits for 10,000t bulk samples from each) – 2,000t of this has already been contracted for sale.
- We may expect a modest capital raise later in 2016 to top up working capital and provide some of the Wapiti start-up capital.

PROJECTS AND BUSINESSES

- Fertoz has 100% interests in two phosphate projects in Canada, Wapiti and Fernie (which includes Crows Nest, Barnes Lake and Mt. Lyne), and an option to acquire a 100% interest in the Dry Ridge Phosphate Project in Idaho, all of which are located close to agricultural land.
- As part of its marketing and distribution plans, Fertoz has teamed up with an independent team of experienced agricultural and fertiliser sales and marketing professionals, which gives the Company immediate access to marketing channels and networks, with marketing being a key aspect of the business. This agreement provides access to Agri-Trend Marketing, which as an arm of AGRI-TREND® has the largest network of independent agricultural consultants in North America, providing support to over 60 million acres of agricultural land.
- Fertoz has a 50% economic and 51% ownership interest in Fertag, which has a joint venture to import and distribute specialty fertilisers into Australia.

Figure 1: Fertoz Project Locations



Source: Fertoz Limited

WAPITI PHOSPHATE PROJECT, BRITISH COLUMBIA

- Wapiti, which covers some 189km2 is located 850km north-east of Vancouver, British Columbia, and 180km southeast of the rail hub of Dawson Creek.
- Phosphate mineralisation at Wapiti is hosted in a sedimentary phosphorite unit, with a true thickness of between 1.0 and 1.4m. Mineralisation has been identified over a cumulative strike length of 39.3km in two limbs of a fold, with only 12.4km of this being included in the resources of 1.54Mt grading at 21.3% P2O5 delineated to date. Drilling and bulk sampling has been completed by Fertoz on this outcropping, homogenous resource.
- The remaining 26.9km of strike remains open as an exploration target (2.9-3.3Mt grading at 20.8% P2O5), and thus demonstrates the potential for resource expansions to lead to a longer mine life or higher throughput (and cash flow) operation.

Wapiti Resources – 12.4km strike length

Category	Tonnes (M)	P_2O_5 (%)	Al_2O_3 (%)	CaO (%)	MgO (%)	SiO_2 (%)	Fe_2O_3 (%)
Inferred	0.73	21.3	1.9	43.6	1.3	13.7	1.2
Indicated	0.81	22.3	2.0	43.1	1.3	14.0	1.3
Total	1.54	21.6	1.9	43.4	1.3	13.8	1.3

Wapiti Exploration Target – 26.9km strike length

Category	Tonnes (M)	P_2O_5 (%)	Al_2O_3 (%)	CaO (%)	MgO (%)	SiO_2 (%)	Fe_2O_3 (%)
Exploration Target	2.9-3.3	20.8	-	-	-	-	-

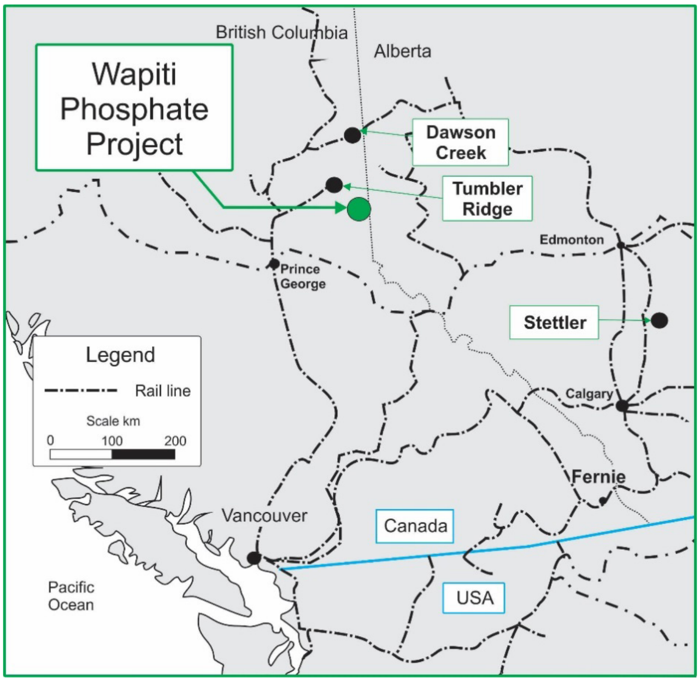
- Fertoz completed a Scoping Study in 2015, predicated on a 20 year, 75,000tpa operation based on the Indicated and Inferred Resources only.
- Key assumptions and outcomes are given in the table below:

Wapiti Study Assumptions and Financial Metrics

Item	Unit	Value
Project Life	Years	20
Mined Resource (Diluted)	kt	1,236 @ 20% P2O5
Capital Cost	C$m	2.7
Stage 1 Resource Mined to 7m	kt	361
Stage 2 Resource Mined to 19m	kt	600
Stage 3 Resource Mined to 31m	Kt	375
Stage 1 Mining Cost to 7m	C$/t	24.3
Stage 2 Mining Cost to 19m	C$/t	40.4
Stage 3 Mining Cost to 31m	C$/t	56.3
Processing Cost	C$/t	15.0
Freight to Processing Site	C$/t	20.0
Freight to Distributor	C$/t	60.0
Distribution Cost	% of selling price	20
Selling Price	C$/t	250.0
Discount Rate (Real)	%	10
Project NPV	C$m	20.1
Project IRR	%	82.4

- The Company is planning to commence production in CY2016, ramping up to an annualised production of 75,000t by 2018, for total production (after mining dilution) of 1.336Mt. It is expected that the C$2.7million capex will be largely funded out of product sales, and will be paid back by 2018.
- A three stage mining operation is envisaged, initially mining to 7m which will provide some 361kt of product at a low 1.6:1 strip ratio, and then progressively mining to 19m and then 31m.
- It is planned to crush the mined material on site, and then truck to Dawson Creek for grinding, with the processed product to be railed to the town of Stettler, close to the Fernie Project and Alberta farmlands. The potential to truck mined rock to Dawson Creek for comminution is also being investigated – this will negate the need for any plant, other than mining equipment, to be provided on site. Further upgrading, including pelletising and granulising to achieve premium prices is planned at Stettler, once steady state production is reached at Wapiti.
- The Company is also stockpiling close to Wapiti at Grande Prairie in central-west Alberta, with the possibility of sales closer to there.
- It is envisaged that the bulk of the mining and processing can be done by contractors and major equipment can be rented on an "as required" basis, which should lead to reductions in the estimated capex. The Company currently has access to a horizontal recirculating hammer mill in Stettler, which it plans to relocate to Dawson Creek once Wapiti production commences.
- Permitting is now underway for a small scale mine. The Company is well advanced in negotiations with provincial agencies and the First Nation groups (it has recently signed a Protocol Agreement with the West Moberley First Nation group), with permits expected to be granted soon. The small scale mine classification results in less onerous permitting and environmental procedures and conditions. Permitting should also be facilitated by there being no use of reagents on site.
- The product has now received organic certification for Canada and the USA.
- Farm trials are ongoing – previous trials have produced positive results.

Figure 2: Wapiti project and infrastructure



Source: Fertoz Limited

FERNIE PHOSPHATE PROJECT, BRITISH COLUMBIA

- Fernie (including Crows Nest, Barnes Lake and Mt. Lyne), which covers an area of ~70km^2, is located in south-eastern British Columbia, near the borders with Alberta and the USA.
- A key to the project is its proximity to phosphate consumers, transport and power. In this regard it is a superior project to Wapiti, and could potentially result in a lower cost operation, largely by virtue of lower transport costs.
- Although there has been no resource estimated by Fertoz, the area saw historic exploration and mining in the 1920's.
- Fertoz has a permit to extract a 10,000t bulk sample, with 990t being mined and crushed thus far. It is expected to mine and crush an additional 2,000t in Q3 of CY2016 to meet signed sales agreements, with additional material mined later in the year to help deliver the planned 10,000t sales target for 2016.
- The Company has beneficiated bulk sample material at the mill it has access to in Stettler. As stated earlier it is planned to move the mill to Dawson Creek once operations commence at Wapiti.

DRY RIDGE PHOSPHATE PROJECT, IDAHO

- Fertoz has an option to acquire 100% of Dry Ridge from Solvay USA and Sulfate Resources, with the initial 80% being acquired for US$0.8m on the condition that a resource of 12Mt grading at a minimum grade of 24% P_2O_5 is defined.
- Dry Ridge is in an area of major phosphate producers in south-eastern Idaho, with multiple major mines within 30-140km operated by three producers.
- Any potential mining will be open cut, with typical mining costs in the order of US$8/tonne mined, and strip ratios of ~4:1. The project has the potential to be larger than either Wapiti or Fernie, however would take significantly longer to permit and develop.
- The strategy with regards to Dry Ridge is to attract a joint venture partner to fund and manage the exploration (for which Fertoz has received approvals for exploration from both the Bureau of Land Management and US Forestry Service), which will allow Fertoz to concentrate activities on its Canadian direct application assets.

NORTH AMERICAN SALES AND MARKETING

- As stated earlier the Company has teamed up with an independent group of highly experienced and connected North American professionals to advance the sales and marketing of the direct application organically certified products, as well as look at the potential to use the phosphate in conventional fertilisers.
- As part of the sales and marketing process farm trials are underway.

FERTOZ AGRICULTURE (FERTAG) PTY LTD

- FertAg is a semi-autonomous, self-funded business within Fertoz, set up to distribute specialist phosphate fertilisers initially within eastern Australia. The business in managed by Mr. Les Szonyi, former MD of Fertoz.
- The strategy is to grow sales of the products (sourced from Vietnam), with December 2015 quarter sales of $104,000, in comparison to sales of $236,000 in the preceding 12 months.

INDUSTRY ANALYSIS

- Phosphate is one of the three major nutrients essential for plant growth (along with potassium and nitrogen), for which there is no substitute, and which is non-renewable.
- 90% of the world's seaborne phosphate is supplied out of major operations in North Africa and the Middle East, being shipped to the customer countries for downstream processing. Most advanced agricultural producers are net importers of phosphate.
- Moroccan (FOB) rock phosphate prices have remained reasonably stable over the last few years
- With the global population growing faster than the available land for agriculture, the intensity of phosphate use is growing to enable each hectare of land to be more productive. In addition the generally increasing affluence of the global population is driving increasing demand per head for foodstuffs, thus applying more pressure on available agricultural land to produce.
- Most fertilisers used today are beneficiated, including superphosphate, DAP and MAP products – these require high capex processing facilities and relatively high operating costs.
- Affluent western nations are seeing increases in the demand for organic foodstuffs, which require organic inputs, including fertilisers, in their production. Direct application phosphate, such as Fertoz is planning on producing is an organic fertiliser, with these requiring significantly less capex than that required by beneficiated fertilisers
- The global organic food market has grown from US$15.2bn in 1999 to US$72bn in 2013, a nominal CAGR of close to 10%. In the same period the amount of organic farmland has grown from 11Mha to 41mha, a CAGR of 8%.
- This is being seen in the USA and Canada, with organic products commanding price premiums in the range of 50% to 300%. As such the demand for organic fertilisers, including non-beneficiated, direct application rock phosphate is also increasing.
- The organic fertilisers likewise attract premium prices – bulk rock phosphate from Soda Springs in Idaho (similar to what Fertoz is looking at delivering) has recently sold for C$285/tonne. Specialised products however command significantly higher prices; for example some bagged (~25kg) ground products are selling between US$600-700/tonne, and micronized product in 5-10kg bags can bring an equivalent price of up to C$5,600/tonne.

PEER GROUP ANALYSIS

- There are a number of ASX and TSX listed phosphate explorers and developers.
- These include a few producers, including Dusolo which is currently producing direct application rock phosphate in Brazil, and MBAC, whose Itafos SSP operation is currently under care and maintenance pending a re-financing of the company.

- Near, small scale producers include Fertoz, Great Quest and Avenira.
- A number of the companies have projects that are stranded, and need significant transport infrastructure. Although they are close to or are ready for development, funding will be hard to come by in the current tight capital markets, which is reflected in heavily discounted market valuations.
- This highlights a natural advantage of Fertoz, being both located close to markets and only requiring minimal capex.
- We have converted market capitalisations to Australian Dollars for direct comparison

Peers

Company	Code	Key Projects	Undiluted MC (A$m)	Global Tonnage (Mt)	Grade (% P2O5)
Arianne Phosphate	DAN: TSX	Lac a Paul, Quebec	$116.4	1,198	6.47%
Avenira	AEV: ASX	Baobab, Senegal Wonorah, Georgina Basin, Northern Territory	$82.5	1,506	13.86%
Aguia Resources	AGR: ASX	Tres Estradas, Rio Grande do Sul, Brazil	$36.6	125	5.18%
Rum Jungle Resources	RUM: ASX	Barrow Creek, Georgina Basin, Northern Territory	$17.3	1,145	14.26%
Fertoz Limited	FTZ: ASX	Wapiti and Fernie, British Columbia	$10.0	1.54	21.83%
Great Quest	GQ: TSX	Tilemsi, Eastern Mali	$10.0	50	24.30%
Celamin Holdings	CNL: ASX	Chaketma, Tunisia	$9.9	159	18.78%
Potash West	PWN: ASX	Dandaragan Basin, WA	$7.5	120	2.80%
MBAC Fertiliser Corp	MBC: TSX	Itafos, Tocantins State, Brazil	$5.7	180	7.31%
DuSolo Fertilisers	DSF: TSX	Bomfin, Tocantins State, Brazil Sao Roque, Minas Gerais	$4.9	19	6.45%
Phosphate Australia	POZ: ASX	Highland Plains, Georgina Basin, Northern Territory	$4.5	53	16.00%
Strata Minerals	SMP: TSX	Diamond Mountain, Utah	$0.1	61.00	33.37%

VALUATION

- We have undertaken a sum of the parts NAV valuation for Fertoz. We have considered Wapiti, Fernie and cash – no value has been ascribed to either Dry Ridge (not acquired yet) or FertAg (self-funding). Results are given in the table below.
- In converting costs from CAD to AUD we have used an AUD;CAD exchange rate of 0.95, which is the average over the last five years.
- We have assessed Wapiti on an after tax basis, using a real discount rate of 8% and largely using inputs as used in the Fertoz Scoping Study.
- We have calculated our own mining costs for the three stages; we initially estimated incremental strip ratios for stages 2 and 3 (we used Fertoz's stage 1 figure), and then applied a scaled unit mining cost based on C$4.00/t for a 1mtpa (ore plus waste) operation. Our figures were broadly similar (and well within the degree of accuracy inherent in a Scoping Study) with those presented by the Company.
- Our Wapiti extension un-risked valuation has been based on our NPV for Wapiti of A2,614/km. We have then multiplied this by the exploration target strike length of 26.9km to arrive at an un-risked NPV. We have used the Wapiti un-risked valuation for Fernie
- The un-risked NPV's have been risked according to the confidence level of resources – indicated resources are risked at 50%, inferred at 20%, the Wapiti exploration target at 10% and Fernie at 5%.
- We have also undertaken a sensitivity analysis on operating costs and sales price, the inputs to which the project is most sensitive.
- Using a sales price of C$285/tonne (as per Soda Springs), our risked valuation increases to $0.49/share.

Valuation					
Asset	**Unrisked AUD m**	**Risk Factor**	**Risked AUD m**	**Risked per share**	**Notes**
Wapiti After Tax	$32.42	36%	$11.60	$0.19	8% DR, risked for resource confidence
Wapiti Extensions	$70.34	10%	$7.03	$0.11	Unrisked value is based on Wapiti NPV/km
Fernie	$32.42	5%	$1.62	$0.03	Assumed same unrisked NPV as Wapiti
Dry Ridge	$0.00	N/A	$0.00	$0.00	Not yet acquired - no value ascribed
Cash	$0.82	100%	$0.82	$0.01	March 31, 2016
Total	$136.19	15%	$21.08	$0.34	

Opex and Sales Price Sensitivity – Per Share						
		Change in Opex				
		-10%	**-5%**	**0%**	**5%**	**10%**
Change in Phosphate sales price	**-10%**	$0.30	$0.26	$0.23	$0.19	$0.16
	-5%	$0.35	$0.32	$0.28	$0.25	$0.21
	0%	$0.41	$0.37	$0.34	$0.30	$0.26
	5%	$0.46	$0.43	$0.39	$0.35	$0.32
	10%	$0.52	$0.48	$0.44	$0.41	$0.37

PRODUCTION AND FINANCIAL FORECASTS

- Our production and operational forecasts are given in the table below.
- This is based on the figures used in our NPV modelling of Wapiti, and head offices costs of A$0.8 million/annum.

Operational Forecasts					
Y/E 30 June	**Unit**	**2014**	**2015**	**2016F**	**2017F**
Phosphate Sold	kt	0.0	0.0	2.0	35.0
Sales Price	C$/t	250	250	250	250
Exchange Rate	AUD:CAD	0.95	0.95	0.95	0.95
Sales Price ($A/t)	A$/t	263	263	263	263
Sales Revenue	A$m	0.0	0.0	0.5	9.2
Operating Costs	A$m	0.0	0.0	-0.4	-6.3
Head Office Costs	A$m	0.0	0.0	-0.8	-0.8
EBITDA	A$m	-2.1	-1.6	-0.6	2.1
D & A	A$m	0.0	0.0	-0.3	-0.4
EBIT	A$m	-2.1	-1.6	-0.9	1.7
Net interest	A$m	0.0	0.0	0.0	0.0
EBT	A$m	-2.1	-1.6	-0.9	1.7
Tax Liability/Benefit	A$m	0.0	0.0	0.0	-0.2
NPAT	A$m	-2.1	-1.6	-0.9	1.6

CAPITAL STRUCTURE

- As of 31 March, 2016, Fertoz had 62.7 million shares on issue, with Mr. James Chisholm (Chairman) and associates holding 14% and Terra Capital holding 12.8%. The top 20 hold 64.5%, with Fertoz being illiquid in trading.
- Options on issue at the same date include 15.5 million listed options, 13 million unlisted options with various expiry dates (largely within 2017) and strike prices, and 4.33 million unlisted underwriter options.
- We may expect a modest capital raising this year.
- Recent changes include:
  - Issue of 3.35 million shares, 3.14 million listed options, 2.33 million underwriter options and 2.10 million unlisted options on 22 March, 2016, in lieu of fees, loan repayments and incentive options

- The last capital raising was in late 2015, where $1,847,875 was raised, before costs, by way of an underwritten rights issue and a placement, arranged by Blackwood Capital, and was the maximum allowed under the Company's existing placement capacity.

INVESTMENT CASE

- Our base case valuation of $0.34/share is at a 110% premium to the current price, and has significant upside.
- Key points regarding Fertoz are that it provides a quick, simple low start-up capital operation (largely funded out of cash flow) close to markets, and with well understood mineralisation.
- This will provide cash flows in the short term and thus only minimal dilution to shareholders without the need for significant capital raisings.
- Although the operation is of a relatively small scale to start with, it will be readily expandable should demand require, with expansions again funded out of cash flows, and thus provides very good medium term growth potential.
- Forecast cash on hand also provides the opportunity to readily look at other growth opportunities.
- The Company is targeting, in organic producers, a steadily growing agricultural market that commands premium prices.
- Finally and vitally, key personnel in, and associated with the Company have extensive experience and a proven track record in the agribusiness sector.

RISKS

Here we have considered the British Columbian projects only, given plans for Idaho are to find a JV partner to manage the project.

- **Sales and Prices (moderate to high)**: We believe this to be the key risk for Fertoz, with the Company needing to gain market penetration with existing competition in British Columbia. There is always the chance, that in premium markets, existing suppliers will seek to drive newcomers out of the market by undercutting prices. This is largely mitigated by the organic certification, the marketing team that the Company has engaged, and also the Company has been approached by major distribution groups.
- **Permitting (moderate)**: The risk here will be permitting timeframes and not whether permits will be issued in British Columbia, given that progress has already been made in this regard, including the protocol already signed with the first nations. This risk is mitigated by the small scale nature of the projects, and the permitting of bulk samples at Fernie and Wapiti.
- **Resource (low for Wapiti, moderate for Fernie)**: Wapiti is well understood, being a coherent body of mineralisation. The resource has thrown up no surprises to date, and we would expect no surprises in future expansions. Although a bulk sample pit is present at Fernie, this is higher risk by virtue of no drilling being completed.
- **Development (low)**: By virtue of the simple operation, we consider development risk at Wapiti (and down the track at Fernie) to be low.
- **Sovereign (low)**: Canada is a stable and relatively mining friendly, and likewise British Columbia, both of which rank reasonably high in the Fraser Institute rankings.
- **Finance (Low)**: Given the low capex nature of the planned operation, and market capitalisation of the Company, we see little risk in financing – any capital raisings that need to be done should results in only minor dilution to shareholders, with development largely funded through cash flow.

BOARD AND MANAGEMENT

- **James Chisholm – Non-Executive Chairman**: Mr. Chisholm, who has a background in engineering and corporate finance, has had 30 years' experience in the resources sector, He is also a Non-Executive Director of Atrum Coal NL (ASX: ATU)
- **Stephen Keith – Managing Director**: Mr Keith has 20 years' experience in mining, fertiliser, finance and Canadian investment banking, with specialties including engineering and corporate finance. He was previously CEO of TSX listed Rio Verde Minerals which had a direct application phosphate project in Brazil, and which was sold in 2013
- **Adrian Byass – Non-Executive Director**: Mr. Byass is a geologist, with 20 years' experience in the mining and minerals industry. He is currently MD of Plymouth Minerals (ASX: PLH), which has tungsten and potash projects
- **Patrick Avery – Non-Executive Director**: Mr. Avery brings extensive mining and agriculture expertise to Fertoz, having worked in various roles, including fertiliser, specialty chemicals and mining amongst others. He was formerly COO of TSX listed Intrepid Potash and VP?GM of JR Simplot.
- **Jo Shearer – Chief Operating Officer, Canada**: Mr. Shearer is a Vancouver based exploration geologist with 35 years' experience.

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