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Potash Sector Report

21 July 2011

Companies Profiled:

- **Elemental Minerals Ltd (ELM.ASX)**
- **South Boulder Mines Ltd (STB.ASX)**
- **Aguia Resources Ltd (AGR.ASX)**
- **Transit Holdings Ltd (TRH.ASX)**

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BHP's bid for Potash Corp places potash on investor's watchlist. BHP Billiton's failed US$39B hostile takeover last year for Potash Corporation of Saskatchewan signalled the strategic importance of the commodity to the majors and the catalyst for heightened investor awareness of the potash sector. We are bullish on ASX-listed companies that provide exposure to potash and believe significant market re-ratings can occur if an economic resource can be established. While the major producers tend to trade on the TSX at multi-billion dollar valuations, we believe there is an emerging set of ASX listed stocks that can transition from their small cap exploration status and attract corporate attention of the cashed up producers.

Strategic resource leveraged to the global population growth. Recent contract prices in China have risen to US$470/t with prices expected to exceed US$500/t as India seeks to lock-in new supply. The long term dynamics are favourable with demand supported by growth in population, decrease in available arable land and increasing wealth in emerging nations. Supply remains concentrated with high barriers to entry. The strategic value of the commodity highlights the corporate appeal should an economic project be established.

ASX listed Potash Explorers & Developers. This report provides an overview on the Potash sector along with a summary on the stocks we believe provide the best exposure to the sector and deliver healthy share price gains through 2011/12.

- **Elemental Minerals Ltd (ELM.ASX):** Sintoukola project located in ROC characterised as a high grade low depth Sylvinite deposit, current resource 840MT @ 31% KCl. Project is well located 90km from port and close proximity to the major export market of Brazil. Completion of a TSX listing will see ELM well funded through to DFS completion. **Market cap $295m**.

- **South Boulder Mines Ltd (STB.ASX):** Colluli project located in Eritrea is the world's shallowest potash deposit with mineralisation occurring <100m from surface making it amenable to be the first open pit potash deposit. Resource stands at 548Mt @ 19% KCl, well located 70km from the coast with a scoping study due for completion. **Market cap $190m.**

- **Aguia Resources Ltd (AGR.ASX):** Atlantic potash project located in the Sergipe basin, Brazil. Permitting granted, drilling to commence 3QCY11 targeting 0.7-1.5Bt carnalite @ ~12-14% KCl. Exploration de-risked via extensive historic oil and gas drill data and Vale's commissioning of a carnalite solution plant adjacent to the project. **Market cap $52m.**

- **Transit Holdings Ltd (TRH.ASX):** Paradox Basin project located in Utah USA, permitting issues resolved and exploration program set to begin with an exploration target of 2.3Bt sylvinite at 32.8% KCl. The Paradox Basin is highly prospective area for potash exploration with operating potash mine 10km to the north. **Market cap $34m.**

OVERVIEW

Sylvinite and Carnalite are the primary potash bearing ores. Deposits are differentiated based on tonnage and grade (KCl%)

What is Potash? Potash is a generic term used to describe a variety of mined minerals and manufactured chemicals that contain potassium. Potash plays a critical role in the regulation of plant physiological functions: It strengthens cell walls, aids in water retention, improves disease resistance and boost nitrogen and phosphate absorption. Enhancing these functions results in improved plant quality and increased yields

Potash Geology. The dominant potash in the market is the compound potassium chloride (or 'KCl'), a naturally occurring pink, salty mineral. Most of the world reserves of potassium were deposited as sea water from ancient inland oceans evaporated, and the potassium salts crystallized into beds of potash ore. KCl ore deposits are located deep underground and are mined using conventional mining techniques or solution mining for the deeper mineralisations.

The primary potash-bearing ore is sylvinite, which is made up of sylvite and halite. It is the most desirable ore due to its high KCl ranging from 15-40% content and the relative ease with which it can be extracted under standard conventional or solution mining depending on the depth of the deposit.

Carnallite is another potash-bearing ore, primarily composed of carnallite and halite. The main difference between sylvinite and carnallite, with respect to potash production, is that carnallite contains magnesium which is an impurity in the product and typically has much lower grading than sylvinite. Carnallite deposits generally range between 10-20% KCl content, the mineralisation occurs between depths of 800-1,500m and is extracted through solution mining.

Potash deposits are mined through conventional underground mining techniques or solution mining for deeper deposits

Potash deposits are differentiated the same way as other ore deposits on the basis of tonnage and grade expressed as (% KCl). As a point of clarification there are two conventions to express the grade of potash deposits. United States Geological Survey (USGS) publishes data for potash on the basis of its potassium oxide content (K20), however most potash is mined as potassium chloride (KCl) and in this document we express all tonnages in terms of KCl content. As a rule of thumb to convert tonnes of K20 to tonnes of KCl multiply by 1.58.

PRODUCTION PROCESS

Potash is commercially mined through two methods, conventional underground mining and solution mining techniques. The geology of the deposit dictates what method is best suited for resource extraction. Conventional mining methods have a depth limitation, once potash reserves are deeper than 1,200 meters, solution mining must be employed. Key parameters in deciding whether to use solution mining are thickness of mineralisation, grade of the potash bed, depth of the mineralisation, presence of faults and dip of potash beds. Figure 1 below highlights some of the pros and cons for each mining method.

Solution mining involves boreholes drilled into the deposit, leaching solution inserted, solution bearing ore content is then extracted to surface for processing.

Figure 1: Conventional Underground Mining vs Solution Mining

	Conventional Underground Mining	*Solution Mining*
Benefits	• Low operating costs • Well-known and well-understood method	• Low capital costs • Reduced time to production • Low demand for manpower • Can mine deep or irregularly shaped deposits • Flexible operations
Drawbacks	• Greater capital costs • Underground infrastructure is not easily moved to other locations	• High energy usage results in greater operating costs

Source: CIBC World Markets Inc.

Standard open-cut mining is not currently used in any major potash deposit globally given the typical depths of a deposit. However, the exception will be South Boulder Mines (STB.ASX), refer page 9, who are defining two shallow potash bearing horizons with mineralisation at depths of <100m, with studies underway for an open-cut mine.

SUPPLY & DEMAND

95% of world's potash supply is used in fertilizers, while the balance used for feed supplements and industrial production.

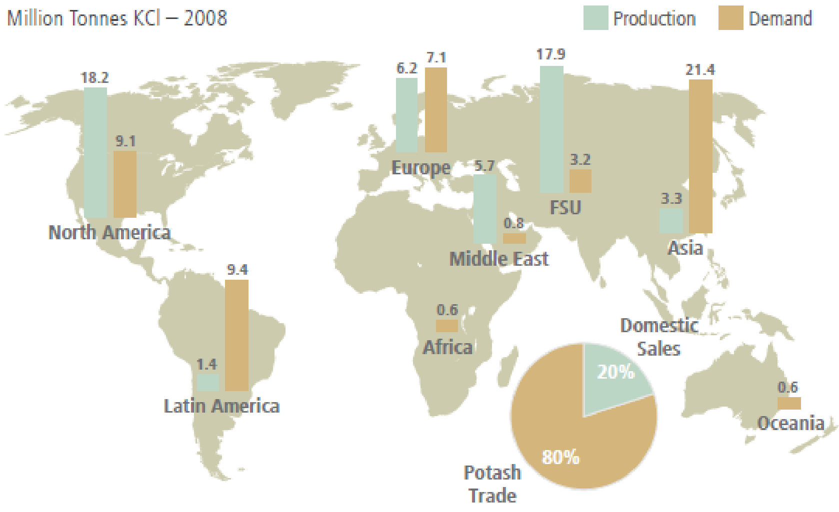
Potash demand driven by growth in global agricultural output. Potash demand is driven by developing and populous nations of India, China and Brazil. 95% of world's potash supply is used in fertilizers, while the balance used for feed supplements and industrial production. Studies show that fertilizer is responsible for more than 40 percent of global food production

We view demand for fertilizer and potash is to be relatively strong for many years to come. The UN Food and Agriculture Organisation (FAO) estimates that the total world demand for agricultural products will be 60% higher in 2030 than it is today with over 85% of this additional demand to come from developing countries. Decrease in available arable land and decreasing yields also viewed as ongoing upward pressures on demand.

There are two key drivers for demand from emerging nations, firstly a growing population resulting in more food consumption and secondly a rising level of income has led to demand for better foods especially in meats which results in increase demand on grains and feed for livestock. Figure 2 below highlights the demand for potash for emerging markets relative to other markets.

Growing food consumption and rising levels of income are fuelling the growth in agricultural products.

Figure 2: World Potash Production & Demand

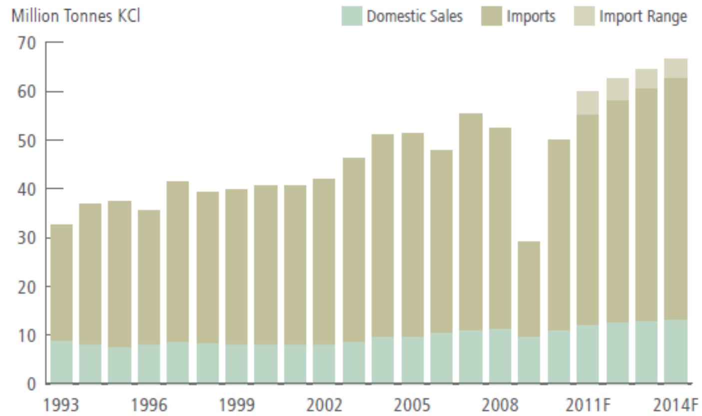


Source: Ferticon, Potashcorp

During the economic uncertainty in 2009 world shipments declined sharply as distributors greatly reduced inventories and farmers cut application rates drawing instead from potash remaining in soil. This under-application of potash will need to be corrected to maximize yields in key markets such as Brazil, India and China further adding to demand and seeing growth return to historical rates.

Figure 3: World Potash Shipments

Potash industry is highly centralised with the 6 largest producers accounting for more than 60% of production.



Source: Potash Corp

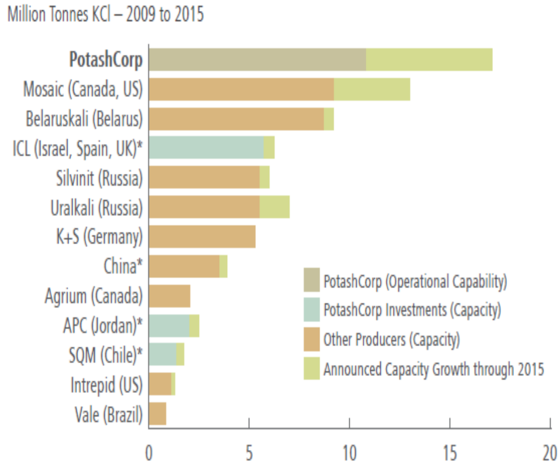
High barriers to entry. Although there are many consumers, only 12 countries produce potash. Canada, Russia and Belarus together account for more than 80 percent of global reserves. Due to the geological concentration of potash deposits and the capital required to mine at considerable depths, it represents significant barriers of entry for new market participants.

Potash contract prices continue to rise with contract sales recently achieving US$470/t with Chinese buyers.

Production and supply of potash is concentrated. Six of the largest potash producers (Potash Corp, Mosaic and Belaruskali, ICL, Silvinite, Uralkali) account for over 60% of global capacity. In 2011 world potash production are expected to total circa. 60mt, this is on par with 2007 when spot prices reached US$900/t

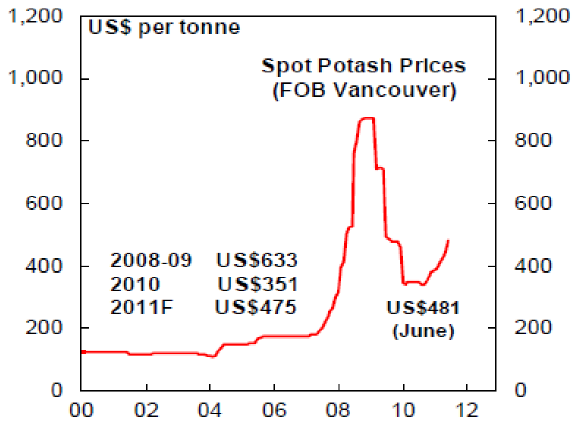
Potash pricing depends on a number of factors, including the geographical market and delivery basis (FOB or CFR), prices operate on both a spot and contract basis. 2011 has seen prices continue to rise, Belarus Potash company (BPC) reporting an agreement with Chinese buyers for the sale of 500,000t of standard MOP (Potash) for US$470/t, a 17.5% increase to on contracts in early 2011. BPC have also indicated contract sale negotiations with India may lead to further price rises this year.

Figure 4: KCl Production by Producer



Source: Potash Corp

Figure 5: Potash spot price US$/t



Source: Potash Corp

We remain bullish on potash delivering valuation upside to ASX-listed companies with exposure: We expect the long term dynamics to remain favourable with demand supported through growth in population, wealth increasing in emerging nations and supply remaining concentrated. We expect potash prices to continue their rise and we remain bullish on Australian companies that provide exposure.

RECENT SECTOR TRANSACTIONS

The large diversified miners such as Vale and BHP are both relative new comers to the potash sector; however they are embarking to become major players through acquisition and development. BHP Billiton is on record saying it wants to be a "major" player in the potash industry within the next decade. This is supported by its failed US$39B takeover of Potash Corp and commitment of over a US$1B of capital to its own Jansen project (Saskatchewan).

It is also worth noting that Brazilian global mining giant Vale SA is also making a big splash in the potash sector, namely through the Rio Colarado project in Argentina which was acquired from Rio Tinto in 2009 for US$850m and is expected to produce 2.4-4Mtpa by 2013. Vale already has a strategic foothold in Saskatchewan.

Other notable corporate deals globally over the past 12-18mths include:

- **Uralkali proposed bid for Belaruski to create world's biggest potash producer.** Talks have commenced with Uralkali proposing to purchase 50% stake of Belaruski for a proposed US$15B valuing Belaruskali at a US$3,000/t of capacity. The two companies are already among the top four producers potash. Should Uralkali swoop on Belaruskali, as widely predicted, the combination would create an industry leader with 21.1Mt of capacity, leap-frogging Canada's Potash Corp with 12 million.

We expect the major diversified miners to continue with acquisitions of potash deposits to establish long term supply.

- **K+S acquisition of Potash One.** K+S recently acquired TSX listed Potash One (POT.TSX) through a cash offer of CAD$4.50 a share valuing the transaction at CAD$434m. Potash One's flag ship asset the Legacy project, is an advanced Greenfield project located in the potash rich region of Saskatchewan Canada. The global resource of the Legacy project totals 940Mt @ 29% KCI, with proven and probable reserves of 135.8Mt @ 29% KCI. Production is expected to be 2Mtpa by 2016 through solution mining and a significant capex investment of US$2.5B.
- **BHP Billiton acquisition of Athabasca potash. In** January 2010 BHP completed its transaction to acquire TSX listed Athabasca (API.TSX), through a cash offer of C$8.35 per share valuing the transaction at C$341m. Athabasca's flagship asset the BUR project is located adjacent to BHP'S Jansen project providing synergies between the two assets. The current resource stands at 750Mt @24% KCI. The bid further illustrates BHP's commitment to the sector as it continues to expand its asset base in the potash-rich Canadian province of Saskatchewan. The transaction was completed at a opportunistic time when Potash prices had dropped significantly to a low of US$250/t.
- **Sirus (AIM listed) acquires private junior explorer.** AIM listed Sirus Mining (SXX.LON) minerals, recently acquired private UK company York Potash for GBP$25m. York potash has extensive potash mineral rights covering more than 600 square kilometres in Northern Yorkshire in the UK. Sirus has established a JORC exploration target between 300-400Mt @ 30% KCI.
- **BHP Billiton $39B failed takeover bid of Potash Corp.** BHP Billiton launched a hostile, $39B takeover last year for Potash Corporation of Saskatchewan, the world's largest potash producer, but the proposed deal was turned down by the Canadian federal government, which ruled it would not be of net benefit to Canada.

PEER GROUP ANALYSIS

The list of stocks contained in this report is not exhaustive as the universe for potash developers/explorers listed in Australia is relatively small. There is currently no producing potash company listed on the ASX. To expand the universe of stocks we have included North American listed explorers and developers to provide relative comparisons for a peer group.

We have focused on advanced explorers progressing their respective projects to DFS Elemental Mining (ELM.ASX) and South Boulder Mining (STB.ASX) and two of our preferred explorers with exciting projects Transit Holding (TRH.ASX) and Aguia Resources (AGR.ASX).

Figure 6: Universe of Emerging Potash Stocks

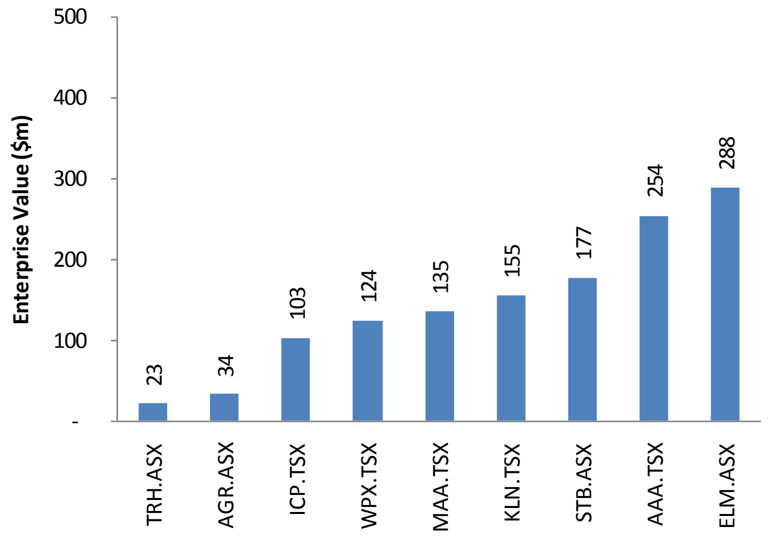
Company	Code	Country	EV ($M)	Resource (Mt)	Grade (KCl %)	Total KCl (Mt)	EV/t KCl	EV/t resource	Ore Type	Mine Type
Transit Holdings	**TRH.ASX**	**USA - Utah**	**23**		**32.80%**				**Sylvinite**	**Solution**
Aguia Resources	**AGR.ASX**	**Brazil**	**34**		**12.00%**				**carnalite**	**Solution**
IC Potash	ICP.TSX	New mexico	103	907	20.30%	184.12	0.56	0.11	Polyhalite	Solution
Western Potash	WPX.TSX	Canada	124	734	27.00%	198.18	0.63	0.17	Sylvinite	Solution
Mag industries	MAA.TSX	ROC	135	1046	17.20%	179.91	0.75	0.13	Carnalite	Solution
Karnylite Resources	KLN.TSX	Canada	155	1642	14.70%	241.37	0.64	0.09	Carnalite	Solution
South Boulder Mines	**STB.ASX**	**Eritrea**	**177**	**548**	**18.58%**	**101.82**	**1.74**	**0.32**	**Sylvinite/Carnallite/Kainite**	**Open Cut**
Allana Potash	AAA.TSX	Ethipoia	254	1258	20.80%	261.66	0.97	0.20	Sylvinite/Carnallite/Kainite	Solution
Elemental Minerals	**ELM.ASX**	**ROC**	**288**	**804**	**31.00%**	**249.24**	**1.16**	**0.36**	**Sylvinite**	**Underground**

Source: FSB Research, IRESS, Company reports

In our view, the valuation upside for our preferred ASX-listed stocks is significant given the major producers trading on the TSX receive multi-billion dollar valuations.

Figure 7 below highlights TRH and AGR have the potential for a sizeable valuation re-rating in the near term should their maiden drill campaigns establish the potential for an economic deposit.

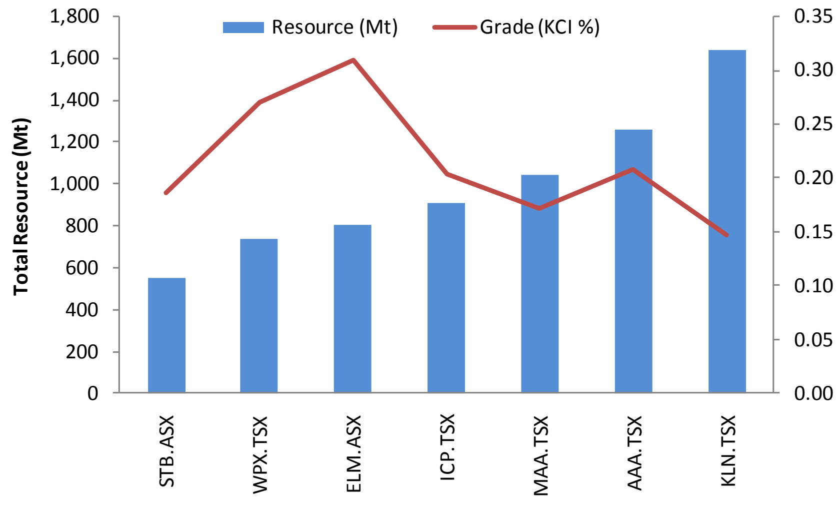
Figure 7: Peer Group Enterprise Value (A$M)



Source: FSB Research, IRESS, Company reports

Figure 8 illustrates variance in grade across the peer group; we note that ELM is one of the highest grade sylvinite resource at 33% KCl. While the average grade for STB is only 17% KCl, the deposit contains a high grade sylvinite component at shallow depths amenable to open-cut mining and favourable project economics.

Figure 8: Peer Group Potash Resource (Mt) & Grade (KCl %)



Source: FSB Research, IRESS, Company reports

Given the outline of corporate activity above, we highlight companies that can grow their resource and demonstrate commercial and technical feasibility are likely to receive corporate interest from the limited group of producers along with major buyers of China, India and South America wanting to lock up long term supply.

Elemental Minerals Ltd (ELM.AU) - $1.68

OVERVIEW

- Elemental Minerals Ltd (ELM) is a West African focused potash explorer which has delivered a maiden 804Mt (31.0% KCl) resource at the Sintoukola potash project in the Republic of Congo. ELM is currently undertaking a fast tracked DFS which is expected to be completed Q1CY13.

SINTOUKOLA POTASH PROJECT (93%)

- **Located in the Republic of Congo.** ELM's Sintoukola project consists of a 1,437km^2 tenement holding located on the coastal plain of the Republic of Congo in the Congolese basin which stretches from Angola to Gabon. ELM holds a 93% indirect beneficial interest in the Sintoukola project which was acquired in 2008. We note that upon a mining lease being granted the ROC government will have a 10% free carry on the project. No issues with water access with the region also in abundance of cheap natural gas.
- **High grade shallow sylvinite resource with upside.** Recently announced maiden JORC indicated and inferred resource of 804Mt (Sylvinite) at 31.0% KCl at its Kola deposit exceeded the 300Mt exploration target. The deposit is pure sylvinite with very low insoluble's occurring at a depth of 264m making it amenable to conventional underground mining and simple processing. Given the mineralization remains open at all directions and the Kola resource extends over less than 28km^2 of the entire license area of more than 1400km^2, we anticipate the resource base expanding with further drilling.
- **DFS and resource extension drilling underway.** A fast tracked 20 month DFS study is expected to be completed in early CY13. Phase 2 drilling program will comprise 47 drill holes (13,295m) targeting a resource extension of 0.3-1.1Bt as well as geotechnical and hydrogeological investigations. A 2D seismic survey will commence shortly in Kola and surrounding areas to produce an upgraded JORC resource in Q1CY12
- **Preliminary project economics favourable.** Following the commencement of the DFS the company and its lead engineer, SRK (US) Inc, have completed an initial economic report highlighting the favorable economics of a 1.8Mtpa production over 20 years, CAPEX of US$1.6B resulting in US$990m NPV$_{12\%}$. Due to the deposit being amenable to conventional underground mining Sintoukola projects cash costs are forecasted to be in the lowest quartile at US$99/t FOB from Point Noire.
- **Strategic location with established Infrastructure.** The Sintoukola prospect is well situated 90km from the port at Pointe Noire with road access from the site to the port via an existing bitumen road 9km from the southern boundary. Various transport solutions are being assessed as part of the DFS including utilising current port facilities or developing an entirely new ship loading facility to the north of the port within 40km of the site. The company is well positioned to export its product to Latin American & Asia providing higher margins compared to its Nth American competitors due to the ocean freight cost savings
- **Well funded and TSX listing planned.** ELM recently issued a preliminary prospectus in connection with an initial public offering (IPO) onto the TSX. The listing is expected be completed in August 2011 with $60M being raised which will see the company well funded through to decision to mine.

FSB VIEW

- Over the coming 6 months, we expect a successful capital raising and listing on the TSX, ongoing drilling results, and upgraded resource statement to drive the price. TSX market valuations seem to be higher given the experience of investors in this sector.
- With an EV of ~$294m we anticipate the share price appreciating as the resource base is expanded and the company progresses from an explorer into development.

Capital Structure	
Shares on Issue (m)	173.2
Share Price ($)	1.70
Market Cap ($m)	**294.4**
Net Debt/(Cash) ($m)	-6.4
EV ($m)	**288.0**
Options on issue (m)	20.9
12mth Av Daily Volume (m)	0.3

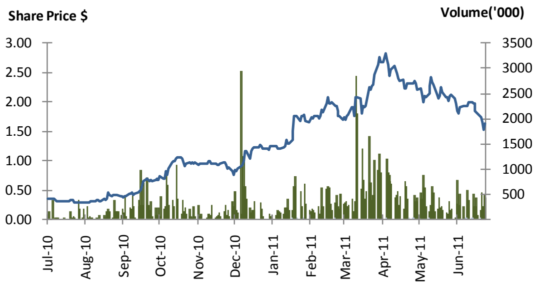
Board and Management	
Mark Jones	Chairman
Iain Macpherson	Managing Director
John Sanders	Executive Director
Ian Stalker	Director
Sam Middlemas	Director

Major Shareholders	
ANZ Nominees Limited	11.9%
HSBC Custody Nominees	11.1%

Catalyst	
TSX Listing	Q3 2011
Phase 2 Drill results	Q4 2011
Resource upgrade	Q1 2012

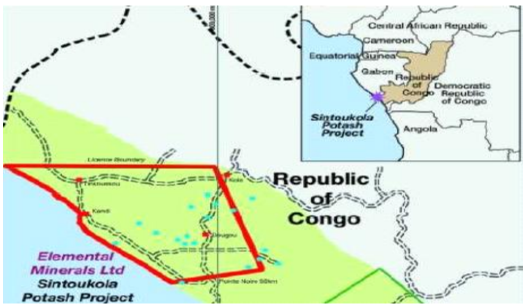
Resource	
JORC Resource	804 Mt @ 31% KCl

Share Price Graph



Project location

Sintoukola Project Republic of Congo



South Boulder Mines Ltd (STB.ASX) - $2.23

OVERVIEW

- South Boulder Mines (STB) is a mineral exploration company with world class high grade Colluli Potash project located in the Danakil Depression region of Eritrea (Africa), 70km from the Eritrean coast and a short shipping distance to the largest potash markets, being India and China.
- STB is also in a JV with Independence Group (IGO.ASX) on the Duketon nickel exploration project located 120kms north of Laverton in Western Australia, with IGO earning 70% through drilling and studies.

COLLULI POTASH PROJECT, ERITREA (100%)

- **World's shallowest Potash deposit.** Tenement area of 906sqkm consists of buried evaporite deposits with two shallow potash bearing horizons and mineralisation at depths of 22.2-64.8m. South Boulder own 100% of the project with a scoping study well advanced for publication Q3 2011. We note post completion of a DFS, the Eritrean government will assume 10% free carry with an option to purchase another 30% at market value.
- **Well located 70km from the coast** The Colluli project is well situated within 70km south of the shallow water port of Mersa Fatma and less than 200km south east of the deep water port of Massawa, providing many options for export pathways to foreign markets. Infrastructure considerations include refurbishment of an abandoned rail line that runs through the Colluli tenement and development of road and port facilities. Utilisation of a slurry pipeline to port may also be a consideration, dependent upon processing method.
- **Maiden Resource 548Mt @ 19% KCl**. STB have announced a maiden JORC compliant resource estimate for the Colluli Potash project, reporting a Measured, Indicated and Inferred resource of 548Mt @ 19%, including 119Mt @ 23% KCl. Mineralisation remains open and consists of sylvinite, carnallite and kainite ore. The exploration target for Colluli is 1.5Bt @ 18-20% KCl with management anticipating the target will contain 20-30% sylvinite.
- **Unique deposit suitable for open pit mining.** The mineralisation at Colluli project occurs at depths <100m, making it the shallowest known potash deposit in the world. Scoping study is underway to determine the feasibility of an open pit mining operation at a production rate between 2-10Mtpa resulting in substantially lower capex and opex costs in comparison to other greenfield potash projects proposing underground or solution mining. It will also be the first open pit potash mine. Expected Capex of $0.5-0.75bn
- **Revised resource and scoping study to be completed 3QCY11.** Drilling is currently underway and we anticipate a resource upgrade and maiden reserve to be defined. Due to the shallow depth of the mineralization, we expect a much lower cut off grade compared to other potash resources at significant depths resulting in a large portion of the resource to be converted to reserves. Scoping study will provide the vital information of met test results and the economics of a developing an open pit mining operation.

FSB VIEW

- After a phenomenal share price run late 2010 through early 2011, the market valuation of STB has come back to attractive levels given the size of resource. We expect the share price will respond favourable to the release of a major resource upgrade and highly attractive economics from the scoping study.
- Given the low capital cost relative to other potash mines and the potential to utilise an open pit operation we anticipate that STB will be on the radar for potential corporate activity. The company remains well funded with $12m cash.

Capital Structure	
Shares on Issue (m)	87.1
Share Price ($)	2.18
Market Cap ($m)	**189.9**
Net Debt/(Cash) ($m)	-12.6
EV ($m)	**177.3**
Options on issue (m)	19.6
12mth Av Daily Volume (m)	0.3

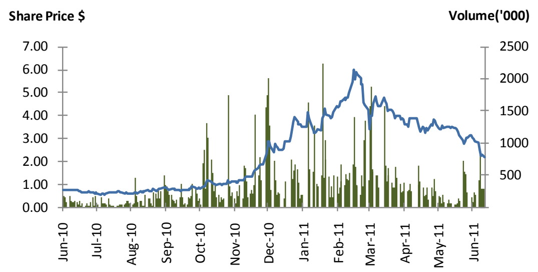
Board and Management	
Terry Grammer	Chairman
Lorry Hughes	Managing Director
Liam Corenelius	Executive Director

Major Shareholders	
HSBC Custody Nominees	9.9%
JP Morgan Nominees	7.2%
Cornelius Liam Raymond	3.9%

Catalyst	
Updated resource statement	Q3 2011
Scoping study results	Q3 2011

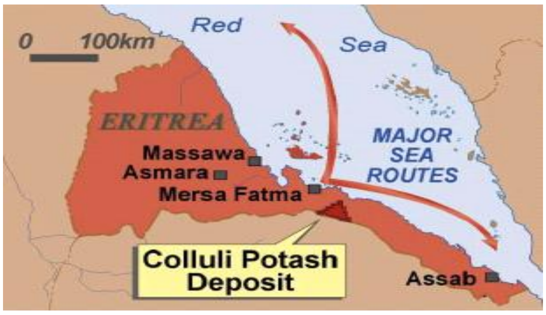
Resource	
JORC Resource	548 Mt @ 18.9% KCl

Share Price Graph



Project location

Colluli Project - Eritrea, Africa



Aguia Resources Ltd (AGR.ASX) - $0.62

OVERVIEW

- Aguia Resources (AGR) is an emerging mineral exploration and development company focusing on potash and phosphate projects in Brazil. AGR's primary project is the Atlantic Potash project located in the Sergipe basin, Brazil.
- AGR recently acquired the Atlantic Potash project and completed a $15m capital raising to fund a 4 well exploration program aimed at delineating a maiden JORC resource.

ATLANTIC PROJECT, BRAZIL (100%)

- **Completes transaction to acquire the Atlantic Potash project.** AGR recently completed the acquisition of Potassio do Atlantico Ltd ("PALDA"), a private Brazilian company to acquire 100% of the Atlantic Potash project covering an area of 1,780km sq located in the Sergipe basin, Brazil. PALDA is a 100% owned subsidiary of Potash Atlantic Corp ("PAC") a private Canadian company associated with the Forbes and Manhattan group. The consideration comprised of 20m shares issued at 0.50c; 1.5m options 50c exercise plus performance shares based on JORC resource milestones.
- **Extensive historic data and nearby Vale mine de-risk exploration.** The project is supported by extensive data from 300 historical oil and gas bore holes and 32,00km of 2D seismic studies from within the Sergipe Basin. 30km to the North is Brazil's only producing potash mine Vales 'Taquari-Vassouras' underground mine. Vale has also built a functioning carnallite solution mining pilot plant with the aim of producing 1.2Mtpa KCl by 2015. These developments are encouraging for AGR as it highlights that solution mining in the Sergine basin is commercially feasible and granting of environmental permits for solution mining are obtainable.
- **Drilling program targeting 0.7-1.5Bt carnalite resource**. ERSCOPLAN has compiled and independent report based on the historic data and has recommended further exploration on project area 1 which will be the basis of the current drill program. AGR will shortly commence drilling with an exploration target of 0.7-1.0Bt carnallite deposit @ ~12-15% KCl. The carnalite mineralization occurs at a depth of 1,500-1,700m below surface and if drilling confirms continuity of the resource from these four holes at ~25m thickness then we anticipate a maiden JORC resource of >0.5Bt.
- **Domestic demand to drive favourable economics.** The project is extremely well located in respect to infrastructure with well serviced roads, Jardim power station located on the northern border, producing gas wells in the region, ample water from the coast 10km to the east and 20km NE of port Aracaju. Fertilizer blenders are also located within trucking distance providing a ready local market for the product. This provides a significant advantage relative to international peers who will need to commit large amounts of capex required for infrastructure solutions and also expected to provide an opex saving of ~$100/t.
- **Funded drill program targeting maiden JORC 4QCY11.** With a recent raising for $15m AGR is well funded for the 4 hole drill program which is to commence in 3QCY11. We anticipate a maiden JORC inferred resource Q4CY11.

FSB VIEW

- News flow will be continuous over the upcoming months, we expect confirmation of drill program, ongoing updates of drill results followed by a maiden JORC in Q4
- With domestic demand driving favourable economics and Vale highlighting that solution mining in the Sergpine basin is economical we anticipate the share price will appreciate significantly on the back of confirming a maiden JORC resource.

Capital Structure	
Shares on Issue (m)	79.1
Share Price ($)	0.66
Market Cap ($m)	**51.8**
Net Debt/(Cash) ($m)	-18.0
EV ($m)	**33.8**
Perfromance Shares (m)	140.0
Options on issue (m)	12.0
12mth Av Daily Volume (m)	0.1

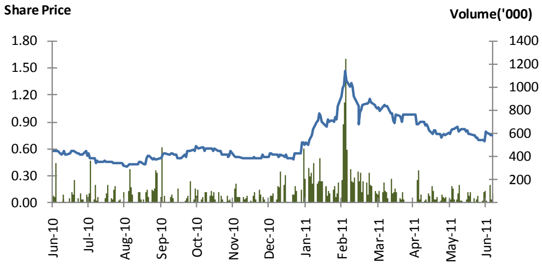
Board and Management	
Tony Wonnacott	Non-Executive Chairman
Simon Taylor	Managing Director
Dr Fernando Tallarico	Technical Director
Graham Ascough	Non-Executive Director

Major Shareholders	
Arredo Pty Ltd	9.2%
Taycol Nominees Pty Ltd	6.1%
Bouchi Pty Ltd	5.0%

Catalyst	
Drilling approval	Q3 2011
Commencement of drilling	Q3 2011
Maiden JORC	Q1 2012

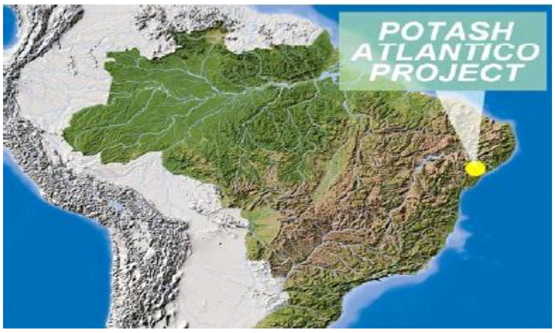
Resource	
Target Resource	1.5Bt @ 12% KCl

Share Price Graph



Project location

Sergipe basin - Brazil



Transit Holdings Ltd (TRH.ASX) - $0.63

OVERVIEW

- Transit Holdings (TRH) is a mineral exploration company located in the Paradox Basin Utah, USA. TRH's key project is the Paradox Basin potash project and it also holds a 37% shareholding in Radar Iron Ltd (RAD.ASX) an Iron Ore exploration company located in the Central Yilgarn region of WA.
- TRH has recently appointed a US based management team along with completing a $9.5m capital raising to fund a 4-well exploration program aimed at generating a maiden JORC M&I resource.

PARADOX BASIN POTASH PROJECT, UTAH (90%)

- **Permitting issues resolved for exploration**: The Paradox basin project covers an area of 386sqkm in the Paradox Basin of SE Utah. Tenement holding resides across land administered by the State of Utah along with federal land controlled by the Bureau of Land Management (BLM). Since acquiring the project in 2008, the company has been held up with gaining necessary 'right of way' permits to facilitate drilling on State blocks. Permitting has now been granted enabling the drilling of four wells on state lease holding.
- **Well located in respect of infrastructure.** Access to road, rail and power on the eastern boundary of the permits along with the identification of adequate subterranean aquifers that run through the land holding for water.
- **Historic drill results de-risk maiden exploration campaign.** Historic data provided by 8 bore holes and logs completed by previous gas explorers along with 2D seismic indicate high grade sylvinite mineralisation is present. Project is also located 10km south of the operating Moab potash mine (Intrepid Potash; IPI:NYSE) which is producing ~100K KCl (sylvinite) via solution mining extraction process from beds which extend across the TRH tenement holding.
- **2.3Bt high grade sylvinite exploration target defined**. Recent scoping study undertaken by ProMet engineers, which applied to 12% of the tenement holding identified an exploration target of 2.3Bt @ 32.8% KCL along with robust financials based on a 2Mtpa solution mining operation, 25 year mine life and capex ~U$2.4B. Global exploration resource target is 3.4 to 5.2Bt of sylvinite ore at an average grade of 23-34% KCl.
- **Drilling to Commence in Q3CY11.** Upcoming drill program consists of 4 holes targeting two sylvinite potash beds (18 upper and lower bed) at 1900m depth. Sabine has been selected as the contractor and site preparation is underway for drilling to commence in September. Maiden drill program will be limited to State blocks with the company targeting an initial 100Mt inferred resource.
- **Maiden JORC expected Q3CY12.** With a drill program planned for completion Q2CY12, TRH expects a maiden JORC resource to follow**.** Due to drilling confined to State leases we do not expect a material resource estimate until federal land is accessed to demonstrate a better understanding of the continuity of the deposit. Management are currently working with the BLM to gain approval for drilling on federal land and anticipate approval to be granted within next 12 months which will see a ramp up in exploration activity.

FSB VIEW

- Permit approvals to drill on federal blocks will be a key catalyst as this enables an expanded drilling program to confirm a contiguous deposit and material resource estimation. Management expects to progress this approval over the coming 12 months.
- With news flow from drilling over the next 6 months we expect TRH to re-rate on the back of confirming sylvinite bed grade, thickness and continuity. We view TRH as an emerging potash company to watch given confirmation of a resource will quickly lead to a mining scoping study and significant re-rating

Capital Structure	
Shares on Issue (m)	52.3
Share Price ($)	0.64
Market Cap ($m)	**33.5**
Net Debt/(Cash) ($m)	-11.0
EV ($m)	**22.5**
Options on issue (m)	5.5
12mth Av Daily Volume (m)	0.3

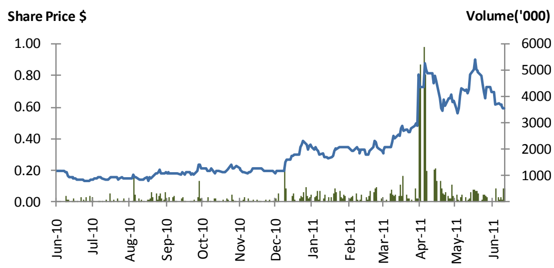
Board and Management	
Ben Binninger	CEO
Ananda Kathiravelu	Non-Executive Chairman
Richard Monti	Executive Director
Sean Murray	Non-Executive Director
Brian Thomas	Non-Executive Director

Major Shareholders	
Dreampt PTY LTD	10.2%
Riverview Corporation	4.7%
Great city corporation	5.0%

Catalyst	
Drilling approval	Q3 2011
Commencement of drilling	Q3 2011
Maiden JORC	Q1 2012

Resource	
Target Resource	2.3Bt @ 32.8% KCl

Share Price Graph



Project location

Paradox Basin - Utah, USA

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