



phosphateaustralia

ASX : POZ | ACN 129 158 550

TARGET'S STATEMENT

by

PHOSPHATE AUSTRALIA LIMITED

(ACN 129 158 550)

in relation to the offer by

MERCANTILE INVESTMENT COMPANY LIMITED

(ACN 121 415 576)

To Acquire your shares in Phosphate Australia Limited

**Phosphate Australia's Directors
Unanimously Recommend That You**

REJECT

Mercantile's Offer

THIS IS AN IMPORTANT DOCUMENT

If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

HARDY • BOWEN
LAWYERS

Letter from the Chairman of Phosphate Australia



Dear Fellow Shareholder,

On 30 March 2015, Mercantile announced an unsolicited, on-market cash takeover Offer for Phosphate Australia. This Target's Statement sets out your Directors' formal response to the Offer.

The Directors unanimously recommend that you REJECT Mercantile's inadequate Offer. Each Director currently intends to **REJECT** the Offer in respect of all their interests in Shares, given:

- The Offer Price insufficiently values Phosphate Australia:
 - The Offer Price is below the cash backing per Share, placing zero value on the Company's projects.
 - The Independent Expert has valued Phosphate Australia at **15.6 cents per Share**, while the Offer is valued at **2.0 cents per Share**. A breakdown by value of Phosphate Australia's projects is provided in Annexure 1.
 - The Offer Price provides an insufficient premium for control relative to Phosphate Australia's Share price.
- The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to the Shareholders of Phosphate Australia.
- Phosphate Australia is one of Australia's best positioned phosphate development companies, which deserves a takeover premium. Phosphate is an essential component for fertiliser used extensively in agriculture. The Company's primary asset, the Highland Plains Phosphate Project, has an Inferred Resource (JORC Code 2004) of 53 million tonnes @ 16% P₂O₅.
- Accepting the all-cash Offer deprives you of any opportunity to benefit from future exposure to Phosphate Australia's projects and precludes you from accepting a Superior Offer from Mercantile or any third party (should one emerge during the Offer Period).

Shareholders can **REJECT** the Offer by **TAKING NO ACTION**. Further information, including the detailed reasons for your Directors' recommendation, is set out in this Target's Statement.

In order to consider the Offer in detail and guide Phosphate Australia's Directors in their recommendation, leading financial services firm BDO was engaged to prepare an Independent Expert's Report. The purpose of this report is to consider, in the Independent Expert's opinion, whether the Offer is fair and reasonable to Shareholders. A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1. The Directors encourage Shareholders to consider its contents carefully.

In assessing whether or not to accept the Offer, you should consider the information provided to you in this Target's Statement, the risks and potential rewards of remaining a Shareholder versus the certainty of a cash offer, and your own personal circumstances. I encourage you to read this document carefully. If you have any questions in relation to your position as a Shareholder I encourage you to seek either financial or legal advice without delay.

Yours faithfully



Jim Richards
Chairman, Phosphate Australia Limited

Phosphate Australia's Directors unanimously recommend that you **REJECT** Mercantile's Offer by **TAKING NO ACTION**, given:

The Offer insufficiently values the Company:

- 1. The Offer Price is below the cash backing per Share, placing zero value on the Company's projects**
- 2. The Independent Expert has valued Phosphate Australia at 15.6 cents per Share, while the Offer is valued at 2.0 cents per Share**
- 3. The Offer Price provides an insufficient premium for control relative to Phosphate Australia's Share price**

The Independent Expert has concluded the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of Phosphate Australia

Accepting the all-cash Offer deprives you of any opportunity to benefit from future exposure to Phosphate Australia's projects

The full basis for the Directors' recommendation is provided in Section 1.2 of this Target's Statement.

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Important Information

This is an important document. If you do not understand it or are in doubt as to how to act, you should consult your lawyer, accountant, stockbroker or financial adviser immediately.

Nature of this document

This Target's Statement is dated 20 April 2015 and is given under Section 635 of the Corporations Act 2001 (Cth) (**Corporations Act**) by Phosphate Australia Limited ACN 129 158 550 (**Phosphate Australia**) in response to the Bidder's Statement lodged by Mercantile Investment Company Limited ACN 121 415 576 (**Mercantile**) with the Australian Securities and Investments Commission (**ASIC**) on 30 March 2015 and served on Phosphate Australia by Mercantile on 30 March 2015.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and the Australian Securities Exchange (**ASX**). Neither ASIC or ASX nor any of their respective officers take any responsibility for the content of this Target's Statement.

No account of personal circumstances

The recommendations of the Directors contained in this Target's Statement do not take into account the individual investment objectives, financial situation or particular needs of each Phosphate Australia Shareholder. You may wish to seek independent professional advice before making a decision as to whether to accept or reject the Offer.

Defined terms

This Target's Statement uses a number of capitalised terms that are defined in Section 10 which also contains some of the rules of interpretation that apply to this Target's Statement.

Forward-looking statements

This Target's Statement contains various forward-looking statements. Statements other than statements of historical fact may be forward-looking statements. Shareholders should note that such statements are subject to inherent risks and uncertainties in that they may be affected by a variety of known and unknown risks, variables and other factors, many of which are beyond the control of Phosphate Australia. Actual results, values, performance or achievements may differ materially from results, values, performance or achievements expressed or implied in any forward-looking statement.

None of Phosphate Australia, its officers, any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, or any results, values, performances or achievements expressed or implied in any forward-looking statement, except to the extent required by law. Shareholders should not place undue reliance on any such statement.

The forward-looking statements in this Target's Statement on behalf of Phosphate Australia only reflect views held as at the date of this Target's Statement.

Notice to foreign shareholders

The distribution of this Target's Statement may, in some countries, be restricted by law or regulation. Persons who come into possession of this Target's Statement should inform themselves of and observe those restrictions.

Information on Mercantile in this Target's Statement

Except where disclosed otherwise, the information on Mercantile in this Target's Statement has been obtained from the Bidder's Statement and other publicly available information. Phosphate Australia and its Directors are unable to verify the accuracy or completeness of the information on Mercantile.

Subject to the Corporations Act, neither Phosphate Australia, nor its officers make any representation or warranty, express or implied, regarding such information and disclaim any responsibility in respect of that information.

Privacy statement

Phosphate Australia has collected your information from the Phosphate Australia Share Register for the purpose of providing you with this Target's Statement. The type of information that Phosphate Australia has collected about you includes your name, contact details and information on your shareholding in Phosphate Australia. The Corporations Act requires the name and address of Shareholders to be held in a public register.

Phosphate Australia has also provided or will provide personal information about its Shareholders to Mercantile in accordance with the Corporations Act and the ASX Settlement Operating Rules.

Key Points

- Mercantile is offering \$0.02 in cash for each Phosphate Australia Share you hold.
- The Directors recommend that you **REJECT** the Offer for your Shares. Accordingly, you should **TAKE NO ACTION**.
- Each Director currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 27% of all Shares outstanding on an undiluted basis.
- On 30 March 2015, Mercantile had a Relevant Interest in 9% of Shares.
- Your choices are to:
 - **REJECT** the Offer;
 - accept the Offer and sell your Shares on market to Mercantile at the Offer Price; or
 - sell your Shares on market above the Offer Price (subject to availability).
- The Offer is on market. If you do accept the Offer or otherwise sell your Shares on the market, you will not be able to participate in any Superior Offer or other offer that may emerge.
- The Offer will expire on 4:15pm (AEST) 14 May 2015 (unless extended or withdrawn by Mercantile beforehand).

Important Dates

Offer announced	30 March 2015
Offer Period commences	14 April 2015
Date of this Target's Statement	20 April 2015
Close of the Offer Period (unless extended or withdrawn)	4:15pm (AEST) on 14 May 2015

Reasons Why You Should REJECT the Offer

	Reference
The Offer Price insufficiently values Phosphate Australia.	Section 1.4(a)
The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of Phosphate Australia.	Section 1.4(b)
The offer places ZERO value on the Company's exploration projects.	Section 1.4(c)
Phosphate Australia is one of Australia's best positioned phosphate development companies, which deserves a takeover premium.	Section 1.4(d)
If you accept the Offer, you are unable to accept a Superior Offer if one emerges.	Section 1.4(e)
Market trading has been above the Offer Price.	Section 1.4(f)
There may be tax implications if you accept the Offer.	Section 1.4(g)

1. Recommendations of the Directors

1.1 Summary of the Offer

The consideration being offered by Mercantile under the Offer is \$0.02 in cash for each Phosphate Australia Share you own.

The Offer is an unconditional cash offer (however, see Section 5.5 as there are specified circumstances in which Mercantile may withdraw the Offer).

The Offer Price values the equity of Phosphate Australia at approximately \$3.2 million on an undiluted basis.

1.2 Directors recommendation

The Directors unanimously recommend you **REJECT** Mercantile's Offer for your Shares.

In making this recommendation, each Director has considered the merits of the Offer and weighed up the factors for and against acceptance.

When making your decision, you should:

- (a) read the Bidder's Statement in its entirety;
- (b) read this Target's Statement in its entirety, in particular the risks of holding Shares as set out in Section 6;
- (c) consider that the Offer is unconditional and gives you the opportunity to receive certain cash for your Shares within 3 trading days (T + 3 basis) of accepting the Offer (subject to Mercantile's right to withdraw the Offer set out in detail in Section 5.5); and
- (d) be aware of the consequences of becoming a minority Shareholder, as set out in Section 2.4.

The Directors' recommendation is given as at the date of this Target's Statement. The Directors reserve the right to change their recommendation should new circumstances arise or a Superior Offer emerge.

1.3 Opinion of Independent Expert

Phosphate Australia engaged BDO to provide an independent expert's report in respect of the Offer.

The Independent Expert has concluded that the Offer is **NEITHER FAIR NOR REASONABLE** to the Shareholders of Phosphate Australia because the cash consideration offered by Mercantile for each Share is below the Independent Expert's assessed value range for a Share.

A copy of the Independent Expert's Report accompanies this Target's Statement in Annexure 1.

1.4 Key considerations for REJECTING the Offer

- (a) **The Offer Price insufficiently values Phosphate Australia.**
 - (i) The Offer Price is below the cash backing per Share, placing zero value on the Company's projects. As at the date of this Target's Statement, Phosphate Australia has approximately \$4 million in cash, representing a cash backing of 2.5 cents per Share. The Offer Price of 2

cents per Share represents a 20% discount to this cash backing per Share and ascribes no value to Phosphate Australia's projects.

- (ii) The Independent Expert has valued Phosphate Australia at 15.6 cents per Share, while the Offer is valued at 2.0 cents per Share. A breakdown by value of Phosphate Australia's projects is provided in the Independent Expert's Report (Annexure 1).
 - (iii) The Offer Price provides an insufficient premium for control relative to Phosphate Australia's Share price.
- (b) **The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of Phosphate Australia.**
- (c) **The offer places ZERO value on the Company's exploration projects.** This is in contrast to the Independent Expert's Report which places the following values on the projects:

Project	Low Value \$m	Preferred Value \$m	High Value \$m
Highland Plains Phosphate Project	6.17	14.04	20.92
Other Exploration Properties	2.60	7.51	12.49
Total	8.76	21.56	33.41

- (d) **Phosphate Australia is one of Australia's best positioned phosphate development companies, which deserves a takeover premium.** Phosphate is an essential component for fertiliser used extensively in agriculture and the Company's primary asset, the Highland Plains Phosphate Project, has an Inferred Resource of 53 million tonnes @ 16% P₂O₅.
- (e) **If you accept the Offer, you are unable to accept a Superior Offer if one emerges.**

Accepting the all-cash Offer deprives you of any opportunity to benefit from future exposure to Phosphate Australia's projects and precludes you from accepting a Superior Offer from Mercantile or any third party (should one emerge during the Offer Period). As at the date of this Target's Statement, the Directors are not aware of a proposal by anyone to make a Superior Offer.

Accepting the Offer will deny you the benefit of any subsequent Superior Offer by Mercantile. Mercantile is not required to extend a Superior Offer to a Shareholder who has already accepted the Offer. Therefore, even if you do intend to accept the Offer, you should consider the timing of your acceptance in order to maximise the potential to benefit from any potential increase in the Offer Price or from any potential Superior Offer.

As at the date of this Target's Statement, Mercantile has given no indication that it intends to increase its Offer Price. Under the Corporations Act, Mercantile may increase the Offer Price at any time up until the last 5 trading days before the end of the Offer Period.

- (f) **Market trading has been above the Offer Price.**

Since the announcement of the Offer, Mercantile has had a standing offer in the market to purchase Shares at the Offer Price. Other than on 31 March 2015, in the 8 trading days since the

announcement of the Offer (up to and including 13 April 2015), Phosphate Australia has traded between \$0.021 to \$0.025 per Share, representing a premium of 5% to 25% to the Offer Price. Consequently Mercantile has not acquired any additional Shares.

The Directors believe that the fact that Phosphate Australia's Shares have traded at a premium to the Offer Price since its announcement reflects a view amongst those shareholders that have purchased Shares since the announcement that the Offer undervalues Phosphate Australia.

(g) There may be tax implications for you if you accept the Offer.

No capital gains scrip-for-scrip rollover relief is available under Mercantile's cash Offer.

If you are an Australian resident for tax purposes, you may stand to make a capital gain by accepting the Offer and depending on your personal circumstances, you may be required to pay tax (in cash) on any gains.

See Section 8.1 for an overview of the tax consequences for accepting the Offer.

1.5 Rejection by Directors

As at 20 April 2015, each Phosphate Australia Director currently intends to reject the Offer in respect of their Shares. The Directors collectively hold approximately 27% of all Shares outstanding on an undiluted basis.

The Directors' intention to reject the Offer in respect of their Shares is given as at the date of this Target's Statement. The Directors reserve the right to change their intention should new circumstances arise or a Superior Offer emerge.

1.6 Further developments

Should there be any developments during the Offer Period (for example, the emergence of a Superior Offer from Mercantile or another bidder) which would alter the Directors' recommendations in relation to the Offer, you will be notified through an ASX announcement and/or a supplementary Target's Statement.

2. Important information for Shareholders to consider

2.1 Information about Phosphate Australia

Phosphate Australia is an ASX listed phosphate exploration company focused on exploration activities from its projects in the Northern Territory and Western Australia. Phosphate Australia's assets are set out below. For further information, refer to the Independent Technical Specialist's Report by Snowden.



(a) **Highland Plains Phosphate Project (Northern Territory) Phosphate Australia 100%**

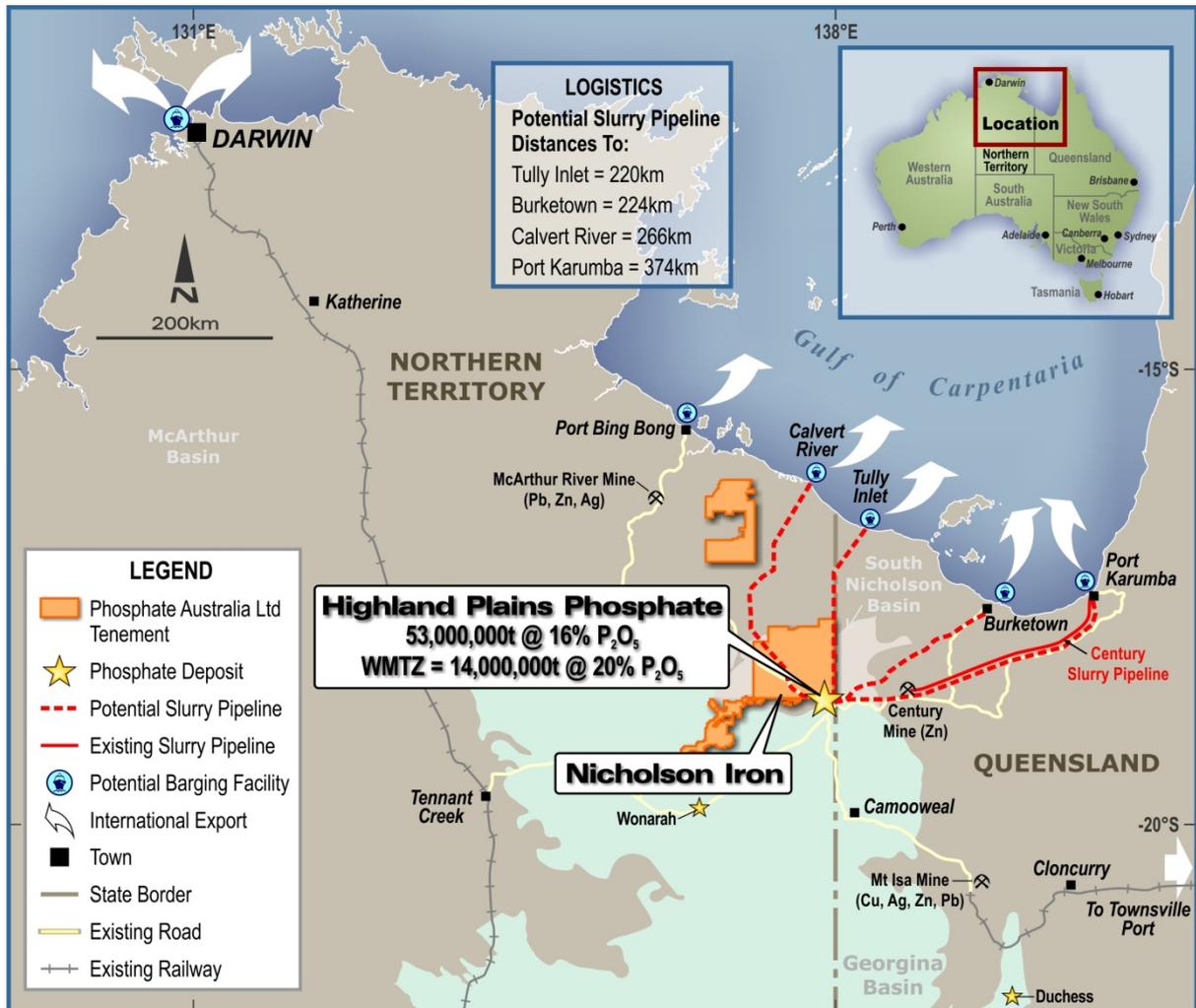
The Highland Plains Phosphate Project has a JORC Code (2004) compliant Inferred Resource of 53 million tonnes at 16% P₂O₅ (refer to Phosphate Australia's ASX release dated 31 March 2009).

Since Phosphate Australia listed in 2008, substantial amounts of drilling and scoping study work have been done at Highland Plains with proposed solutions for beneficiation to higher grades. The project is 100% owned by Phosphate Australia and has no private royalties.

The Highland Plains deposit is only 68km west of the Century zinc mine which utilises a slurry pipeline to the coast and is currently preparing for the end of open pit production in 2015.

Phosphate Australia is targeting the production and sale of 2-3 million tonnes per annum of premium grade rock phosphate using a slurry pipeline for transport to the coast.

Figure 1: Phosphate Australia's Projects with Export Options



To the west of Highland Plains are areas of significant phosphate exploration potential. These areas lie along the prospective Cambrian-Proterozoic contact which also hosts the Highland Plains deposit. Geomorphic embayments which appear similar to the Highland Plains embayment represent excellent future drilling targets and are on granted Phosphate Australia leases.

(b) **Nicholson Iron Project (Northern Territory)**

Phosphate Australia 100%

The Nicholson Iron and Manganese Project is 100% owned by Phosphate Australia and covers various tenements in the Northern Territory. The project is currently under a Joint Venture Option Agreement with Sydney based company Jimpec Resources Pty Ltd having the right to earn-in to 80% of the project.

(c) **Musgrave Ni-Cu-PGE Project, WA**

Phosphate Australia 100%

The Musgrave Project lies in the relatively unexplored Musgrave Province of Western Australia. The project area consists of two 100% held tenements, E69/2864 and E69/3191 (both granted) for a total area of 785.7km.

The project is currently operated (under option) by ASX listed PepinNini Minerals Limited (ASX:PNN), an established Musgrave explorer. Phosphate Australia are 20% free carried until

completion of a bankable feasibility study or NiCul Minerals Limited, a wholly owned subsidiary of PepinNini Minerals Limited, expending \$15 million on the tenements (at which point Phosphate Australia becomes a contributing party). At any point after the formation of the joint venture, Phosphate Australia may elect to convert its 20% interest to a 1% gross revenue royalty.

A detailed aeromagnetic survey has been completed (by PepinNini Minerals Limited) across part of exploration licence E69/2864 to examine a number of geological environments considered to be highly prospective for nickel and copper mineralisation.

The new data will assist in the identification and refinement of priority targets to be investigated on-ground by electromagnetic surveying, surface sampling, mapping, and potentially vacuum drilling.

(d) **Rheem Creek Project (Northern Territory)**

Phosphate Australia 100%

The Rheem Creek Uranium Project contains a number of strong radiometric anomalies on tenement EL26649 and the Rheem Creek project consists of a series of anomalous radiometric features 2.5 km south of the radiometrically 'hot' granites of the Nicholson Inlier.

Phosphate Australia believes the project has potential to host economic uranium mineralisation. Phosphate Australia is encouraged by the nearby Westmoreland, Cobar and Eva deposits, and believes the source of the very strong uranium and thorium anomalies at Rheem Creek is underexplored.

Competent Persons Statement

The information in this report that relates to previously reported exploration results is based on information compiled by Mr Jim Richards who is a Member of The Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists. Mr Richards is a Director of Phosphate Australia. Mr Richards has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Richards consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The Information in this report that relates to Highland Plains Mineral Resources is based on information compiled by Rick Adams and Ted Hansen who are members of the Australasian Institute of Mining and Metallurgy. Rick Adams and Ted Hansen are directors of Cube Consulting Pty Ltd. and have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a competent Person as defined in the December 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Rick Adams and Ted Hansen consent to the inclusion in this report of the Information, in the form and context in which it appears.

The Company is not aware of any new information or data that materially affects the information included in the previous announcement (JORC 2004) and that all of the previous assumptions and technical parameters underpinning the estimates in the previous announcement/year have not materially changed.

2.2 Information about Mercantile

Section 2 of the Bidder's Statement contains information about Mercantile.

2.3 Mercantile's funding of Offer

Section 5 of the Bidder's Statement contains details of the arrangement that Mercantile has made in relation to the funding of the cash consideration payable under the Offer.

2.4 Minority ownership consequences

The Offer is not subject to any conditions. If Mercantile does not acquire all of the Shares, and Mercantile is not able to compulsorily acquire the rest of the Shares under the Corporations Act, but acquires the majority of the Shares (i.e. more than 50% of Shares), there may be a number of possible implications for Shareholders, including:

- (a) Mercantile may be in a position to cast the majority of votes at a general meeting of Phosphate Australia. This will enable Mercantile to control the composition of Phosphate Australia's board of directors and senior management, determine Phosphate Australia's fund raising plans and dividend policy as well as to control the strategic direction of Phosphate Australia;
- (b) Phosphate Australia's Share price may fall immediately following the end of the Offer Period and it is unlikely that Phosphate Australia's Share price will contain any takeover premium;
- (c) the liquidity of Shares may be lower than at present;
- (d) if the number of Shareholders is less than that required by the ASX Listing Rules to maintain an ASX listing, or under certain other circumstances, Mercantile may seek to have Phosphate Australia removed from the official list of the ASX. If this occurs, Shares will not be able to be bought or sold on the ASX; and
- (e) if Mercantile acquires 75% or more of the Shares it may be able to pass special resolutions at meetings of Phosphate Australia's Shareholders. This may enable Mercantile to, among other things, change Phosphate Australia's Constitution.

If Mercantile does proceed to compulsory acquisition, then Shareholders who do not accept the Offer will still be entitled to receive the Offer Price for each Phosphate Australia Share they hold. However, as a result of the need to complete the compulsory acquisition procedures set out in the Corporations Act, there is likely to be a delay of up to six weeks in the provision of that consideration, and therefore payment to Shareholders. See Section 5.9 for further information.

2.5 Dividend issues for Shareholders

Phosphate Australia has not paid a dividend to Shareholders since listing on the ASX. The Directors consider it unlikely that Phosphate Australia will pay dividends in the 2015 or 2016 financial years.

2.6 Other alternatives to the Offer

As at the date of this Target's Statement, no other takeover offers (other than Mercantile's Offer) have been made to acquire your Shares.

2.7 Phosphate Australia's Share price absent the Offer

During the Offer period, Phosphate Australia's Shares may be trading with an element of control premium or speculation due to the existence of the Offer and perceptions of potential for further Offers or increases to the Offer.

Consequently, while there are many factors that influence the market price of Shares, the Directors anticipate that if the Offer does not result in the acquisition of all of the Shares in Phosphate Australia, the market price of Shares may fall below the Offer Price after the Offer closes.

2.8 Considerations in favour of accepting the Offer

Mercantile has set out its views on the considerations in favour of accepting the Offer in their Bidder's Statement dated 30 March 2015.

The Directors encourage you to review the Bidder's Statement in its entirety.

2.9 Taxation Consequences of a Change in Control in Phosphate Australia

The taxation consequences of accepting the Offer depends on a number of factors and will vary depending on your particular circumstances. A general outline of the Australian taxation considerations of accepting the Offer is set out in Section 8.1 of this Target's Statement and section 6 of the Bidder's Statement.

You should carefully read and consider the taxation consequences of accepting the Offer. The outline provided in the Bidder's Statement and the Target's Statement is of a general nature only and you should seek your own specific professional advice as to the taxation implications applicable to your circumstances.

2.10 Company announcements

Phosphate Australia is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules of ASX. Copies of announcements lodged with ASX can be obtained from the ASX's website at www.asx.com.au under the code "POZ" or from Phosphate Australia's website at www.phosphateaustralia.com.au.

3. Frequently Asked Questions

This Section is not intended to address all issues relevant to you. This Section should be read together with all other parts of this Target's Statement.

Question	Answer
What is the Offer for my Shares?	Mercantile has made an on market offer of \$0.02 for each of your Shares.
What choices do I have as a Shareholder?	As a Shareholder you can: <ul style="list-style-type: none"> • REJECT the Offer by doing nothing. The Directors recommend that you REJECT the Offer by doing nothing; or • accept the Offer and sell your Shares on market at the Offer Price; or • sell your Shares on market above the Offer Price (subject to availability).
What are the Directors recommending?	Your Directors unanimously recommend that you REJECT the Offer in the absence of a Superior Offer. The reasons for the Directors' recommendation are set out in Section 1.4.
What is the Independent Expert's conclusion?	The Independent Expert has concluded that the Offer is NEITHER FAIR NOR REASONABLE to the Shareholders of Phosphate Australia because the cash consideration offered by Mercantile for each Share is below the Independent Expert's assessed value range for a Share. The Independent Expert's Report is set out in Annexure 1.
How do I accept the Offer?	To accept the Offer, you should carefully follow the instructions in Section 1.4 of the Bidder's Statement.
What do the Directors intend to do with their Shares?	The Directors collectively hold approximately 27% of all Shares. The current intention of the Directors as at the date of this Target's Statement is to REJECT the Offer by taking no action. The Directors reserve the right to change their intention should new circumstances arise.
What happens if the Offer Price is increased or a Superior Offer is made by a third party or the price for the Shares on the ASX increases?	If you accept the Offer: <ul style="list-style-type: none"> • you will not benefit if the Offer Price is increased after you have accepted the Offer; • you will not be able to participate in any Superior Offer made by a third party; and • you will not be able to sell your Shares at a higher price quoted on the ASX.
What are the consequences of accepting the Offer now?	If you accept the Offer now, you will not be able to accept a Superior Offer from Mercantile or any other

Question	Answer
If I accept the Offer now, can I withdraw my acceptance?	<p>bidder if such an offer is made, or benefit from any higher price on the ASX.</p> <p>No, once you have accepted the Offer, you will be legally bound to sell those Shares to Mercantile and you cannot later withdraw your acceptance.</p>
Can Mercantile vary the Offer?	<p>Yes. Mercantile can vary the Offer by extending the Offer Period or increasing the Offer Price (although any increase in the Offer Price will not apply to you if you have accepted the Offer). See Section 5.4 for further detail.</p>
Can I be forced to sell my Shares?	<p>You cannot be forced to sell your Shares unless Mercantile acquires a Relevant Interest in at least 90% of all the Shares by the end of the Offer Period, and proceeds to compulsory acquisition of your Shares. If that happens, you will be provided the last Offer Price offered by Mercantile for the Shares before the end of the Offer Period.</p>
Will there be any costs associated with accepting the Offer?	<p>As the Offer is an on market offer, Shareholders may only accept the Offer through brokers who are members of ASX. If you decide to accept the Offer, any brokerage charged by such broker will be your sole responsibility.</p>
When does the Offer close?	<p>The Offer is presently scheduled to close at 4:15pm (AEST) on ASX on 14 May 2015, but the Offer Period can be extended in certain circumstances in accordance with the Corporations Act. See Section 5.4 for details on extending the Offer Period.</p>
What are the tax implications of accepting the Offer?	<p>A general outline of the tax implications for certain Australian resident Shareholders of accepting the Offer is set out in Section 8.1 of this Target's Statement and section 6 of the Bidder's Statement.</p> <p>You should not rely on that outline as advice on your own affairs. It does not deal with the position of particular Shareholders. You should seek your own personal, independent financial and taxation advice before making a decision as to whether to accept or reject the Offer for your Shares.</p>
Can overseas Shareholders accept the Offer?	<p>Overseas Shareholders can accept the Offer by selling their Shares to Mercantile on market like any other Shareholder.</p>

4. Your Choices as a Phosphate Australia Shareholder

4.1 Phosphate Australia Directors recommend that you REJECT the Offer.

In considering whether to accept the Offer, the Directors encourage you to read this Target's Statement and seek professional advice if you are unsure as to whether or not accepting the Offer is in your best interests, taking into account your individual circumstances.

The Bidder's Statement contains important information which you are urged to read carefully. Phosphate Australia has not undertaken investigations to verify the accuracy or completeness of the information contained in the Bidder's Statement and neither Phosphate Australia nor its Directors or advisers makes any representation as to the accuracy or completeness of information contained in the Bidder's Statement. To the fullest extent permitted by law, each of those parties disclaims liability to any person who acts in reliance of that information.

If you would like further information on Phosphate Australia or its projects before making a decision about the Offer, you are encouraged to exercise your right under the Corporations Act to obtain from ASIC copies of all documents lodged by Phosphate Australia with ASIC or ASX. You can also find information about Phosphate Australia and its activities on the Phosphate Australia website at www.phosphateaustralia.com.au.

During the Offer Period you have the following choices:

(a) REJECT the Offer

If you wish to retain your Shares, you need **TAKE NO ACTION** in relation to the Offer.

You should note that if Mercantile acquires 90% of Shares and the compulsory acquisition provisions of the Corporations Act are satisfied, it will be entitled to compulsorily acquire the Shares that it does not already own.

You should also note that if Mercantile acquires more than 50% but less than 90% of Shares, you will be exposed to the risks associated with being a minority Shareholder. See section 2.4 for further details.

(b) ACCEPT the Offer

If you wish to accept the Offer, you should follow the instructions in the Bidder's Statement.

You will receive \$0.02 for each of your Shares paid in cash on a T + 3 basis.

You should consider the timing of any acceptance of the Offer in light of the fact that:

- (i) accepting the Offer will preclude you from accepting any Superior Offer, from Mercantile or a third party, which may emerge;
- (ii) accepting the Offer will preclude you from benefiting from any subsequent increase in Offer Price made by Mercantile; and
- (iii) as at the date of this Target's Statement, the Directors are not aware of a proposal by any other party to make a Superior Offer.

(c) SELL on market to other purchasers

You may wish to sell your shares on ASX for cash provided you have not accepted the Offer. The latest price for Phosphate Australia Shares may be obtained from ASX's website www.asx.com.au under the code "POZ".

Shareholders who wish to sell their Shares on market should contact their broker for information on how to effect the sale.

5. Key features of the Offer

5.1 On market takeover bid

Mercantile has made an on market takeover bid to buy all Shares that exist or will exist any time during the Offer Period, other than those in which Mercantile has a Relevant Interest in as at the date of the Bidder's Statement.

The consideration being offered by Mercantile is \$0.02 for each Phosphate Australia Share.

5.2 Unconditional Offer

While the Offer is an unconditional cash offer, Mercantile may withdraw unaccepted Offers in certain circumstances. See Section 5.5 for an explanation of the circumstances in which Mercantile may withdraw unaccepted Offers.

5.3 Offer Period

Unless the Offer is extended or withdrawn, it is open for acceptance from 14 April 2015 until 4:15pm (AEST) on 14 May 2015. The circumstances in which Mercantile may vary or withdraw its Offer are set out in Sections 5.4 and 5.5 respectively.

5.4 Variation of the Offer

Mercantile may vary its Offer in accordance with the Corporations Act (which may include extensions of the Offer Period or an increase in the Offer Price). Any variation to the Offer must be announced on ASX.

Pursuant to the Corporations Act, Mercantile may announce an extension to the Offer Period, or an increase in the Offer Price, at any time up until 5 trading days before the end of the Offer Period. This currently means the last day Mercantile may announce an extension to the Offer Period or an increase to the Offer Price is 7 May 2015.

An extension to the Offer Period may only be announced during those last five trading days of the Offer Period in the limited circumstances set out in section 649C(1) of the Corporations Act.

There will also be an automatic extension of the Offer Period if Mercantile's voting power in Phosphate Australia reaches more than 50% in the last seven days of the Offer Period.

If you have sold your Shares before any such announcement then you will not receive any benefit from any variation to the Offer Price.

5.5 Withdrawal of Offer

The Corporations Act provides for three ways in which Mercantile may withdraw unaccepted Offers:

- (a) Mercantile may seek the written consent of ASIC to withdraw all unaccepted Offers. ASIC may provide its consent subject to conditions.
- (b) Mercantile may withdraw unaccepted Offers if one of the events specified in section 652C(1) of the Corporations Act occurs and Mercantile's voting power in Phosphate Australia is 50% or less.
- (c) Mercantile may withdraw unaccepted Offers, regardless of its voting power, if any of the events set out in section 652C(2) of the Corporations Act occurs.

5.6 When you will receive payment if you accept the Offer

Payment for acceptances will be received on a T + 3 basis in line with the normal practice of an on market purchase of shares on ASX. This means you will be paid within three trading days of your acceptance.

5.7 Brokerage

As the Offers will be on market offers made only during official trading days of the ASX, you may only accept the Offers through brokers who are members of ASX. Any brokerage charged by such brokers is your responsibility.

5.8 Effect of an improvement in Offer Price on Shareholders who have already accepted the Offer

If Mercantile improves the Offer Price, you will not be entitled to the benefit of that improved Offer Price if you have already sold your Shares.

5.9 Compulsory acquisition

Mercantile has indicated in Section 4 of its Bidder's Statement that if it satisfies the required thresholds it intends to compulsorily acquire any outstanding Shares. Mercantile will be entitled to compulsorily acquire any Shares in respect of which it has not received an acceptance of its Offers on the same terms as the Offers if, during or at the end of the Offer Period, Mercantile and its associates have a Relevant Interest in at least 90% (by number) of the Shares.

If this threshold is met, Mercantile will have one month after the end of the Offer Period within which to give compulsory acquisition notices to Shareholders who have not accepted the Offer. Shareholders have statutory rights to challenge the compulsory acquisition, but a successful challenge will require the relevant Shareholder to establish to the satisfaction of a Court that the terms of the relevant Offer do not represent "fair value" for their Shares. If compulsory acquisition occurs, Shareholders who have their Shares compulsorily acquired are likely to be issued their consideration approximately five to six weeks after the compulsory acquisition notices are dispatched to them.

As at 30 March 2015, Mercantile has a Relevant Interest in 9% of the Shares.

It is also possible that Mercantile will, at some time after the end of the Offer Period, become the beneficial holder of 90% of the Shares. Mercantile would then have rights to compulsorily acquire Shares not owned by it within six months of becoming the holder of 90%. Mercantile's price for compulsory acquisition under this procedure would have to be considered in a report of an independent expert.

6. Risks

6.1 Phosphate Australia's business risks

In considering the Offer, Shareholders should be aware of the risks related to Phosphate Australia, its business and assets. Phosphate Australia is subject to a number of investment risk factors, both specific to its business activities and of a general nature which may affect the future exploration and operating and financial performance of Phosphate Australia and the value of Phosphate Australia Shares. Many of the risks are outside the control of Phosphate Australia and the Directors, and there can be no certainty that Phosphate Australia's objectives or anticipated outcomes will be achieved.

Investments in exploration and development companies are subject to certain risks. The following list is not intended to be an exhaustive exploration of the risk factors to which Phosphate Australia is exposed.

6.2 Risks Specific to Phosphate Australia

(a) Exploration and development

Exploration and development of resource projects, by its nature, contains elements of significant risk. Ultimate success depends on the delineation of economically recoverable mineral resources, establishment of an efficient exploration operation and obtaining necessary government approvals. The exploration activities may be affected by a number of factors including, but not limited to, geological conditions, seasonal weather patterns, technical difficulties and failures, availability of necessary drilling rigs, technical equipment and appropriately skilled and experienced technicians, adverse changes in government policy or legislation and access to appropriate funding when needed.

There can be no assurance that Phosphate Australia's exploration activities will result in the discovery of a significant mineral resource. Even if a significant mineral resource is identified, there can be no guarantee that it can be economically exploited.

(b) Mineralisation estimations

Mineralisation estimates are expressions of judgement based on knowledge, experience and resource modelling. As such, mineralisation estimates are inherently imprecise and rely to some extent on interpretations made.

Additionally, mineralisation estimates may change over time as new information becomes available. If Phosphate Australia encounters mineralisation or geological formations different from those predicted by pass drilling, sampling and interpretations, any mineralisation estimates may need to be altered in a way that could adversely affect Phosphate Australia's operations.

(c) Phosphate and other minerals

Phosphate rock prices are typically negotiated between the producer and the consumer (not through a trader) under supply contracts lasting from 6 months to several years. Only a small, though significant, portion of phosphate rock is sold on the spot market. Historically, phosphate rock supply contracts have had a relatively long term (up to 5 or even 10 years), either at fixed price or at times with a price escalation mechanism. Rock phosphate supply contracts have become shorter with terms of typically 1 year or 6 months.

(d) Land access, native title and aboriginal cultural heritage

Phosphate Australia's ability to explore and later develop its permits depends on securing adequate land access arrangements with land owners and occupiers. Phosphate Australia must also reach agreement with other tenement holders to carry out operations on areas where its permit overlap.

Phosphate Australia's ability to explore and later develop the permits may also be affected by the administration and determination of native title rights, aboriginal cultural heritage management, environmental regulation and the state of relations with members of local communities.

Any failure to reach agreement with one or more land owners or occupiers, or the identification of any site that has any cultural significance, may require that Phosphate Australia avoid one or more sites when carrying out field programs and project development which may have a material adverse effect on the financial position and performance of Phosphate Australia.

(e) Environmental

Phosphate Australia's projects are subject to rules and regulations regarding environmental matters and the discharge of hazardous wastes and materials. As with all mineral projects, Phosphate Australia's projects are expected to have a variety of environmental impacts should development proceed. Development of any of Phosphate Australia's projects will be dependent on Phosphate Australia satisfying environmental guidelines and, where required, being approved by governmental authorities.

Phosphate Australia intends to conduct its activities in an environmentally responsible manner and in accordance with all applicable laws, but may still be subject to accidents or other unforeseen events which may compromise its environmental performance and which may have adverse financial implications.

(f) Funding

The future capital needs of Phosphate Australia will depend on many factors including the results of exploration programs. An inability to obtain additional funding (if required) would have a material adverse effect on Phosphate Australia's business and the price of Shares.

(g) Commodity Prices

Commodities prices fluctuate and are affected by numerous factors beyond the control of Phosphate Australia, which may have a positive or negative effect on Phosphate Australia's exploration, project development and production plans and activities, together with the ability to fund those plans and activities.

(h) Reliance on Key Personnel

The responsibility for overseeing the day to day operations and the strategic management of Phosphate Australia is concentrated on the Directors and a small number of key employees. While it is not currently anticipated, one or any number of these key employees may cease employment with Phosphate Australia. The loss of any such person could potentially have a detrimental impact on Phosphate Australia until the skills that are lost are adequately replaced.

(i) Mining laws and regulation

Mining activity in Australia is regulated by Federal and State governments. Complying with the relevant laws and regulations for exploration and mining in general may increase the costs of exploring, drilling, construction, or operating and closing mines and other production facilities.

(j) Insurance

Phosphate Australia, where economically feasible, may insure its operations in accordance with industry practice. However, even if insurance is taken out, in certain circumstances, Phosphate Australia's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of Phosphate Australia.

Insurance of all risks associated with mineral exploration and production is not always available and where available costs can be prohibitive.

(k) Disputes and litigation

There is no material ongoing dispute or litigation known to Phosphate Australia as at the date of this Target's Statement, but Phosphate Australia may be involved in disputes and possible litigation in the course of its future operations. There is a risk that any material or costly dispute or litigation in the future could adversely affect the value of the assets or future financial performance of Phosphate Australia.

(l) Potential acquisitions

As part of its business strategy, Phosphate Australia may make acquisitions of or significant investments in other resource projects. Any such transactions would be accompanied by risks commonly encountered in making such acquisitions.

6.3 General Securities Risks

(a) Economic risks

Adverse changes in economic conditions such as interest rates, exchange rates, inflation, government policy, international economic conditions and employment rates amongst others are outside Phosphate Australia's control and have the potential to have an adverse impact on Phosphate Australia and its operations.

(b) Share market conditions

Share market conditions may affect the value of Phosphate Australia's quoted securities regardless of Phosphate Australia's operating performance. Share market conditions are affected by many factors such as:

- (i) general economic outlook;
- (ii) interest rates and inflation rates;
- (iii) currency fluctuations;
- (iv) changes in investor sentiment toward particular market sectors;
- (v) the demand for, and supply of, capital; and

(vi) terrorism or other hostilities.

The market price of the Shares can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and oil and gas exploration stocks in particular. Neither Phosphate Australia nor the Directors warrant the future performance of Phosphate Australia or any return on an investment in Phosphate Australia.

(c) Regulatory Risks

Changes in relevant taxes, legal and administrative regimes, accounting practice and government policies in Australia may adversely affect the financial performance of Phosphate Australia.

6.4 Investment Speculative

- (a) The above list of risk factors ought not to be taken as exhaustive of the risks faced by Phosphate Australia or by investors in Phosphate Australia. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of Phosphate Australia and the value of the Shares of Phosphate Australia.
- (b) You should be cognisant of all the above risks when making your decision whether to accept or reject the Offer. Accepting the Offer will mean that you will minimise your exposure to the above risks by receiving the Offer Price, whereas rejecting the Offer will see you remain exposed to all the above risks on an ongoing basis.

7. Information relating to the Directors and Senior Management

7.1 Directors and Senior Management

The names and details of the Directors are as follows.

(a) Mr Jim Richards – Executive Chairman

Qualifications – B. Sc. Hons (Geology), MAusIMM, MAIG

Mr Jim Richards is a geology graduate of the University of London. He is a Perth based company director and geologist with 22 years experience in exploration and a wide variety of commodities.

Prior to the ASX listing of Phosphate Australia, Mr Jim Richards was the chief executive officer and director of United Minerals Corporation NL (**UMC**). At UMC, Mr Jim Richards led the technical team that discovered the high grade iron 'Railway Deposit' in the Pilbara. BHP Billiton acquired the Railway Deposit in February 2010 by a takeover of UMC for \$204 million.

Mr Jim Richards has considerable overseas experience including running his own alluvial diamond dredging operation in Guyana, South America and worked on the Omai gold project (that became a major mine) also in Guyana. Other resources work includes operating in Indonesia and two years spent in both Laos and Pakistan.

Previous employers and clients have included Newmont Mining Corporation, BHP Billiton Limited and Woodside Energy Limited. Prior to his corporate career, Mr Richards served as a regular officer in the British Parachute Regiment.

(b) Mr Mark Thompson – Non Executive Director

Qualifications – MAusIMM

Mr Mark Thompson has more than 21 years industry experience in mineral exploration and mining management. Since starting his career with production experience in both underground and open-pit mines of Western Australia he has worked throughout Australia, Africa and South America. He is a member of the Australian Institute of Geoscientists and the Society of Economic Geologists, and holds the position of Guest Professor in Mineral Exploration Technology at both the Chengdu University of Technology and the Southwest University of Science and Technology in China. In addition to his role with Phosphate Australia, Mr Mark Thompson is Managing Director of ASX listed Talga Resources Limited.

(c) Mr Grant Mooney – Non Executive Director and Company Secretary

Qualifications – B. Bus, CA

Mr Grant Mooney is the principal of Perth based corporate advisory firm Mooney & Partners, specialising in corporate compliance administration to public companies. Mr Grant Mooney has gained extensive experience in the areas of corporate and project management since establishing Mooney & Partners in 1999. His experience extends to advice on capital raising, mergers and acquisitions and corporate governance.

Currently, Mr Grant Mooney serves as a director to several ASX listed companies across a variety of industries including technology and resources. He is a director of Carnegie Wave Energy

Limited, Barra Resources Limited, Wild Acre Metals Limited, and Talga Resources Limited. Mr Grant Mooney is a member of the Institute of Chartered Accountants in Australia.

7.2 Interests of Directors in Phosphate Australia Shares

All Directors have decided to REJECT the Offer prior to the date of this Target's Statement.

The table below shows the number of Shares held for or on behalf of each Director immediately prior to the date of this Target's Statement:

Director	Directors Interest in Shares prior to the Offer	Current Interest in Shares
Jim Richards	32,016,401	32,016,401
Mark Thompson	4,300,000	4,300,000
Grant Mooney	7,006,666	7,006,666

Except for the following acquisitions, no director has acquired or disposed of any Shares within the four month period immediately prior to the date of this Target's Statement:

Director	Date of acquisition	Number of Shares acquired
Jim Richards	10 February 2015	1,700,000
Mark Thompson	10 February 2015	1,000,000
Grant Mooney	10 February 2015	2,300,000

7.3 No benefits to Directors

No benefit (other than a benefit permitted under Sections 200E or 200F of the Corporations Act) is proposed to be given to a Director (or anyone else) in connection with the Director's retirement as a Director (or executive) of Phosphate Australia.

7.4 Other agreements or arrangements with Directors

There are no other agreements or arrangements made between a Director and any other person in connection with or conditional upon the outcome of the Offer.

7.5 Interests of Directors in Mercantile

No Director has a relevant interest in any securities of Mercantile.

No Director acquired or disposed of any securities in Mercantile within the four month period immediately prior to the date of this Target's Statement.

No Director has any interest in any contract entered into by Mercantile.

8. Other Material Information

8.1 Taxation Implications

The following is intended only as a general guide to the income tax position under current Australian income tax law and administrative practice as at the date of this Target's Statement. Income tax is a complex area of law and the income tax implications for you may differ from those detailed below, depending on your particular circumstances. As these statements are of a general nature only it is recommended that you obtain your own independent professional advice in respect of the Australian income tax implications of the Offer.

The following is an overview of the likely Australian income tax implications as a consequence of the takeover bid for an Australian tax resident or non-Australian tax resident Shareholder who holds their Shares on capital account.

The following may not apply to certain Shareholders, such as if you are a dealer in shares, you hold Shares on revenue account or as trading stock, if you are an insurance company or a collective investment scheme, or if Division 230 of the *Income Tax assessment Act 1997* (Cth) (**ITAA 1997**) applies to you and you have made an election to apply certain methods to calculating gains and losses. In addition, the following may not apply to you if you acquired your shares as a result of an employment or services arrangement. Such persons may be subject to special rules or any gain on the disposal of their Shares may be assessed as ordinary income.

The following may also not apply to non-Australian tax resident Shareholders. The Australian income tax implications for non-Australian resident Shareholders are complex and will depend upon their own specific circumstances. Non-Australian tax resident Shareholders may also have tax implications in their country of residence.

(a) Australian tax resident Shareholders

The transfer of Shares to Mercantile pursuant to the Offer will trigger a capital gains tax (**CGT**) event for you. Australian tax resident Shareholders may make a capital gain or a capital loss.

You may make a capital gain equal to the capital proceeds received (the cash consideration received from Mercantile) less the cost base of your Shares. The cost base of your Shares is generally the cost of their acquisition plus certain other amounts associated with their acquisition and disposal such as brokerage or stamp duty.

If you are an individual, trustee of a trust or a complying superannuation entity, and you acquired your Shares at least 12 months prior to accepting the Offer, you may be entitled to concessional discount CGT treatment under Division 115 of the ITAA 1997 in respect of a capital gain. This will depend upon your individual circumstances.

If the reduced cost base of your Shares is greater than the capital proceeds you received, you may realise a capital loss equal to the difference. A capital loss may be applied to reduce a capital gain in the same or a future tax year.

(b) Non-Australian tax resident Shareholders

Non-Australian tax resident Shareholders that hold Shares on capital account may only be subject to Australian CGT upon disposal of their Shares where the following conditions are met:

- (i) the non-Australian tax resident Shareholder, together with its associates, holds 10 per cent or more of Phosphate Australia's issued shares at the time of the disposal or for any 12 month period in the 24 months prior to disposal; and
- (ii) more than 50 per cent of the market value of the assets of Phosphate Australia is represented (directly or indirectly) by real property interests or mining rights in respect of certain resources in Australia.

If CGT applies, concessional CGT treatment under Division 115 of the ITAA 1997 is not available to non-Australian tax residents in relation to the disposal of Shares acquired after 8 May 2012.

8.2 Material Litigation

As at the date of this Target's Statement, Phosphate Australia is not involved in any material litigation and is not aware of any pending material legal action to which it may be exposed.

8.3 Issued Capital

Phosphate Australia's issued capital comprises:

Number of Shares	161,168,333
Number of Options	12,100,000

8.4 Substantial Shareholders

The following persons have substantial shareholdings in Phosphate Australia:

Shareholder	Number of Shares	%
Mr James Richards	32,016,401	19.9
Kesli Chemicals Pty Ltd <Ruane Super Fund A/C>	16,629,676	10.3
McNeil Nominees Pty Limited ¹	14,485,373	9.0

Note:

¹ Mercantile holds its Relevant Interest in Phosphate Australia shares through McNeil Nominees Pty Limited.

8.5 No material change in financial position

Phosphate Australia's last published financial statements are for the six months ended 31 December 2014, as set out in its Interim Financial Report lodged with ASX on 13 March 2015. Except as disclosed in this Target's Statement and in any announcement made by Phosphate Australia to ASX since 13 March 2015, the Directors are not aware of any material change to the financial position of Phosphate Australia since 31 December 2014.

On 10 April 2015, Phosphate Australia announced that it had entered into an agreement to sell 10,000,000 Monument Mining Limited shares held to a European financial group for approximately CAD\$832,500 (equating to A\$857,000, net of costs) at exchange rates as of 10 April 2015. The sale of the Monument Mining Limited shares will affect Phosphate Australia's financial position by increasing cash at hand to approximately A\$4million and reducing available-for-sale financial assets to approximately A\$20,000.

8.6 ASIC declaration

Phosphate Australia has obtained a modification of items 10 and 13 of section 635(1) of the Corporations Act to enable Phosphate Australia to lodge this Target's Statement with ASIC and ASX and send a copy to Mercantile and Shareholders within 21 days after the Bidder's Statement was announced.

8.7 Consents

The following persons have given and have not, before the date of issue of this Target's Statement withdrawn their consent to:

- (a) be named in this Target's Statement in the form and content in which they are named; and
- (b) the inclusion of other statements in this Target's Statement which are based on or referable to statements made in the reports or statements noted next to their names, or which are based on or referable to other statements made by those persons, in the form and context in which they appear:

Name of Person	Capacity	Reports or Statements
Jim Richards Mark Thompson Grant Mooney	Directors	Statements made by, or statements based on the statements made by, the Directors
Hardy Bowen	Legal advisor to Phosphate Australia	N/A
BDO Corporate Finance (WA) Pty Ltd	Independent Expert	Independent Expert's Report
Snowden Mining Industry Consultants Pty Ltd	Independent Technical Specialist	Independent Technical Specialist's Report
Link Market Services Limited	Phosphate Australia's share registry	N/A
Jim Richards Rick Adams Ted Hansen	Competent Person	Technical information contained in this Target's Statement

Each of the persons named above:

- (i) does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- (ii) to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX (in compliance with the Listing Rules), including the Bidder's Statement. Pursuant to this Class Order, the consent of persons to whom

such statements are attributed to is not required for the inclusion of those statements in the Target's Statement.

Any Phosphate Australia Shareholder who would like to receive a copy of any of the documents (or parts of the documents) that contain the statements which have been included pursuant to CO 13/521 may obtain a copy free by writing to Phosphate Australia's Company Secretary.

Copies of all announcements by Phosphate Australia may also be obtained from its website at www.phosphateaustralia.com.au or from ASX's website www.asx.com.au under the code "POZ".

Additionally, as permitted by ASIC Class Order 13/523, this Target's Statement may include or be accompanied by statements:

- (a) fairly representing a statement by an official person; or
- (b) from a public official document or a published book, journal or comparable publication.

Pursuant to that Class Order, the consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

As permitted by ASIC Class Order 07/429, this Target's Statement also contains trading data obtained from IRESS, without its consent to the inclusion of such trading data.

8.8 No Other Material Information

There is no other information that Shareholders or their professional advisers would reasonably require to make an informed assessment on whether to accept the Offer, being information which:

- (a) is reasonable for Shareholders and their professional advisers to expect to find in this Target's Statement; and
- (b) is known to any of Phosphate Australia's Directors.

In deciding what information should be included in this Target's Statement, the Directors have had regard to, amongst other things, the matters which Shareholders (or their professional advisers) may reasonably be expected to know, including information contained in documents previously sent to Shareholders and information available from public sources such as the ASX, ASIC or Phosphate Australia's website at www.phosphateaustralia.com.au.

9. Authorisation

Dated: 20 April 2015

A handwritten signature in blue ink that reads "Jim Richards". The signature is written in a cursive style and is underlined with a single horizontal line.

Jim Richards, the Chairman of Phosphate Australia, is authorised to sign this Target's Statement pursuant to a resolution passed at a meeting of Directors held on 14 April 2015.

10. Glossary and Interpretation

10.1 Glossary

In this Target's Statement, unless a contrary intention appears, the following expressions have the following meanings:

AEST means Australian Eastern Standard Time.

ASIC means Australian Securities and Investment Commission.

ASX means ASX Limited ACN 008 624 691 trading as Australian Securities Exchange.

ASX Listing Rules or Listing Rules means the listing rules of ASX.

ASX Settlement means ASX Limited ABN 98 008 504 532.

ASX Settlement Operating Rules means the settlement rules of ASX Settlement.

Bidder's Statement means the bidder's statement of Mercantile dated 30 March 2015 which was served on Phosphate Australia on 30 March 2015.

BDO means BDO Corporate Finance (WA) Pty Ltd.

Board means the board of directors of Phosphate Australia.

Business Day means a day on which banks are open for general banking business in Sydney (not being a Saturday, Sunday or public holiday in that place).

CGT means capital gains tax.

Competing Proposal means any proposal or transaction, which, if completed, would mean a person (other than Mercantile or any associate of Mercantile) would:

- (a) acquire control of Phosphate Australia, within the meaning of section 50AA of the Corporations Act, or a material part of Phosphate Australia's business; or
- (b) otherwise acquire or merge (including by a reverse takeover bid or dual listed Phosphate Australia structure) with Phosphate Australia.

Corporations Act or Act means the Corporations Act 2001 (Cth).

Director means a director of Phosphate Australia and **Directors** means all of the directors of Phosphate Australia.

Highland Plains Phosphate Project means Phosphate Australia's Highland Plains Phosphate Project located in the Northern Territory, Australia.

Independent Expert means BDO Corporate Finance (WA) Pty Ltd.

Independent Expert's Report means the report of the Independent Expert set out in Annexure 1.

Independent Technical Specialist means Snowden Mining Industry Consultants Pty Ltd.

Independent Technical Specialist's Report means the report of the Independent Technical Specialist set out in Appendix 3 to the Independent Expert's Report.

Inferred Resource means an Inferred Mineral Resource as defined under the JORC Code.

ITAA 1997 means *Income Tax assessment Act 1997* (Cth).

JORC Code means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Mercantile means Mercantile Investment Company Limited ACN 121 415 576.

Phosphate Australia or **Company** means Phosphate Australia Limited ACN 129 158 550.

Phosphate Share Register means the register of shareholders of Phosphate Australia maintained by or on behalf of Phosphate Australia in accordance with the Corporations Act.

Offer or **Mercantile's Offer** means the offer dated 30 March 2015 made by Mercantile to acquire all of the Shares on the terms set out in the Bidder's Statement.

Offer Period means the period commencing on 14 April 2015 and ending on 14 May 2015 (unless extended or withdrawn) during which the Offer will remain open for acceptance.

Offer Price means the Offer of \$0.02 in cash for each Phosphate Australia Share.

Relevant Interest has the meaning given to that term in the Corporations Act.

Section means a section of this Target's Statement.

Shareholder means a person registered as a member of Phosphate Australia.

Shares means fully paid ordinary shares in Phosphate Australia.

Snowden means Snowden Mining Industry Consultants Pty Ltd.

Superior Offer means a:

- (a) Competing Proposal; or
- (b) variation to the Offer by Mercantile,

which Phosphate Australia determines to be more favourable to Shareholders than Mercantile's Offer, taking into account all terms and conditions of the Competing Proposal or variation to the Offer by Mercantile.

T + 3 means settlement occurs on the third Business Day after the date of the transaction in accordance with the normal practice of ASX.

Target's Statement means this target's statement, being the statement of Phosphate Australia under Part 6.5 Division 3 of the Corporations Act.

10.2 Interpretation

Various defined terms are used in this Target's Statement. Unless the contrary intention appears, the context requires otherwise, or words are defined in Section 10.1, words and phrases in this Target's Statement have the same meaning and interpretation as in the Corporations Act.

In this Target's Statement:

- (a) headings are for convenience only and do not affect interpretation;

and unless the context indicates a contrary intention:

- (b) the expression "person" includes an individual, the estate of an individual, a corporation, an authority, an association or a joint venture (whether incorporated or unincorporated), a partnership and a trust;
- (c) a reference to any party includes that party's executors, administrators, successors and permitted assigns, including any person taking by way of novation and, in the case of a trustee, includes any substituted or additional trustee;
- (d) a reference to any document (including this Target's Statement) is to that document as varied, novated, ratified or replaced from time to time;
- (e) a reference to any statute or to any statutory provision includes any statutory modification or re-enactment of it or any statutory provision substituted for it, and all ordinances, by-laws, regulations, rules and statutory instruments (however described) issued under it;
- (f) words importing the singular include the plural (and vice versa), and words indicating a gender include every other gender;
- (g) references to parties, clauses, schedules, exhibits or annexures are references to parties, clauses, schedules, exhibits and annexures to or of this Target's Statement, and a reference to this Target's Statement includes any schedule, exhibit or annexure to this Target's Statement;
- (h) where a word or phrase is given a defined meaning, any other part of speech or grammatical form of that word or phrase has a corresponding meaning;
- (i) the word "includes" in any form is not a word of limitation;
- (j) a reference to "\$" or "dollar" is to Australian currency; and
- (k) if any day appointed or specified by this Target's Statement for the payment of any money or doing of any thing falls on a day which is not a Business Day, the day so appointed or specified shall be deemed to be the next Business Day.

Annexure 1 - Independent Expert's Report





Financial Services Guide

13 April 2015

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ('we' or 'us' or 'ours' as appropriate) has been engaged by Phosphate Australia Limited ('Phosphate Australia' or 'the Company') to provide an independent expert's report on the proposed on market acquisition of 100% of the ordinary issued shares of Phosphate Australia by Mercantile Investment Company Limited ('Mercantile'). You will be provided with a copy of our report as a retail client because you are a shareholder of Phosphate Australia.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ('FSG'). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- ◆ Who we are and how we can be contacted;
- ◆ The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- ◆ Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- ◆ Any relevant associations or relationships we have; and
- ◆ Our internal and external complaints handling procedures and how you may access them.

Information about us

BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice

We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

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We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately \$28,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Other Assignments

BDO Tax (WA) Pty Ltd, an entity related to BDO Corporate Finance (WA) Pty Ltd, provides taxation services to Phosphate Australia. Over the two years prior to the date of this report, BDO Tax (WA) Pty Ltd has charged Phosphate Australia a total of \$12,240 (excluding GST) for these services.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from Phosphate Australia for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than 45 days after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ('FOS'). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out on page 1 of the accompanying report.



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Appendix 1 - Glossary and copyright notice

Appendix 2 - Valuation Methodologies

Appendix 3 - Independent Valuation Report prepared by Snowden

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13 April 2015

The Directors
Phosphate Australia Limited
Suite 4, 6 Richardson Street
WEST PERTH WA 6005

Dear Directors

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 30 March 2015, Phosphate Australia Limited ('Phosphate Australia' or 'the Company') announced that Mercantile Investment Company Limited ('Mercantile') declared an all cash on market takeover offer for 100% of the fully paid ordinary shares in Phosphate Australia. A Bidder's Statement was also released on 30 March 2015 which unconditionally offered the shareholders of Phosphate Australia a price of \$0.02 per share for every share held ('the Offer').

2. Summary and Opinion

2.1 Purpose of the report

The directors of Phosphate Australia have requested that BDO Corporate Finance (WA) Pty Ltd ('BDO') prepare an independent expert's report ('our Report') to express an opinion as to whether or not the Offer is fair and reasonable to the shareholders of Phosphate Australia ('Shareholders').

Although there is no legal requirement for an independent expert's report pursuant to section 640 of the Corporations Act 2001 (Cth) ('the Act') (as Phosphate Australia and Mercantile do not share common directors or Mercantile does not hold greater than 30% of the Company's voting shares), the directors of Phosphate Australia have requested that BDO prepare this report as if it were an independent expert's report pursuant to section 640, and to provide an opinion on whether the Offer is fair and reasonable to Shareholders.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ('ASIC') Regulatory Guide 111 'Content of Expert's Reports' ('RG 111') and Regulatory Guide 112 'Independence of Experts' ('RG 112').

In arriving at our opinion, we have assessed the terms of the Offer as outlined in the body of this report. We have considered:

- How the value of a Phosphate Australia share prior to the Offer (on a control basis) compares to the value of the consideration offered by Mercantile for each Phosphate Australia share;
- The likelihood of a superior alternative offer being available to Phosphate Australia;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Offer; and
- The position of Shareholders should the Offer not be successful or be only partly successful.

2.3 Opinion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that, the Offer is neither fair nor reasonable to Shareholders.

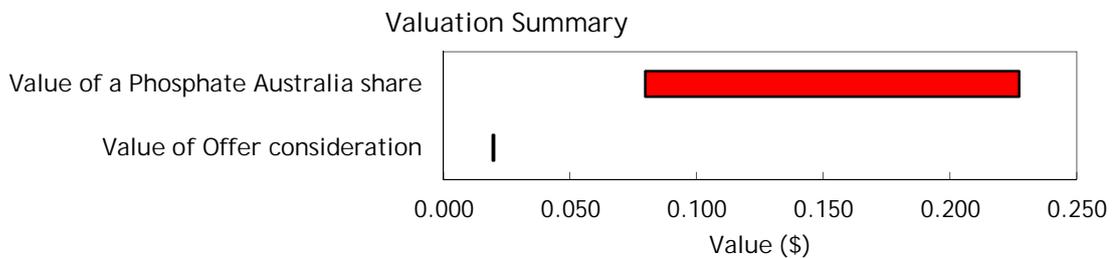
2.4 Fairness

In section 12, we determined that the Offer consideration compares to the value of a Phosphate Australia share, as detailed below.

	Ref	Low \$	Preferred \$	High \$
Value of a Phosphate Australia share on a control basis	10.3	0.080	0.156	0.227
Value of Offer consideration	11	0.020	0.020	0.020

Source: BDO analysis

The above valuation ranges are graphically presented below:



The above pricing indicates that, in the absence of any other relevant information, the Offer is not fair for Shareholders.

2.5 Reasonableness

We have considered the analysis in section 13 of this Report, in terms of both:

- advantages and disadvantages of the Offer; and
- other considerations, including the position of Shareholders if the Offer does not proceed and the consequences of not accepting the Offer.

In our opinion, the position of Shareholders if the Offer is not accepted is more advantageous than the position if the Offer is accepted. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Offer is not reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.1.1	Certainty of cash consideration	13.2.1	The Offer is not fair
13.1.2	Removes future risks associated with holding shares in Phosphate Australia	13.2.2	Inability to benefit from the potential upside in Phosphate Australia's projects
13.1.3	The Offer is unconditional	13.2.3	Potential taxation consequences
		13.2.4	Normal brokerage fees incurred
		13.2.5	No Offer for Phosphate Australia options

Other key matters we have considered include:

Section	Description
13.3.1	Likelihood of alternative offers
13.3.2	Practical level of control
13.3.3	Movement in Phosphate Australia's share price following the Offer
13.3.4	Risks of becoming a minority shareholder in Phosphate Australia

3. Scope of the Report

3.1 Purpose of the Report

Mercantile has prepared a Bidder's Statement in accordance with section 636 of the Act. Under section 633 Item 10 of the Act, Phosphate Australia is required to prepare a Target's Statement in response to the Bidder's Statement.

Section 640 of the Act requires the Target's Statement to include an independent expert's report to shareholders if:

- The bidder's voting power in the target is 30% or more; or
- The bidder and the target have a common director or directors.

As Mercantile neither has common directors with Phosphate Australia nor holds 30% of Phosphate Australia's voting shares, there is no requirement under the Act for Phosphate Australia to engage an independent expert in relation to the Offer.

Notwithstanding the fact that there is no legal requirement to engage an independent expert to report on the Offer, the Directors of Phosphate Australia have requested that BDO prepare this report as if it were an independent expert's report pursuant to Section 640, and to provide an opinion as to whether, in the absence of a superior proposal, the Offer is fair and reasonable to Shareholders.

3.2 Regulatory guidance

Neither the Listing Rules nor the Act defines the meaning of 'fair and reasonable'. In determining whether the Offer is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Offer is a control transaction as defined by RG 111 and we have therefore assessed the Offer as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of a Phosphate Australia share on a control basis and the value of the cash consideration being offered per share (fairness - see section 12 'Is the Offer Fair?')
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the Offer, after reference to the value derived above (reasonableness - see Section 13 'Is the Offer Reasonable?').

A Valuation Engagement is defined by APES 225 as follows:

'an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.'

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Offer

On 30 March 2015, Phosphate Australia announced the receipt of a Bidder's Statement from Mercantile proposing an unconditional on-market all cash offer to Shareholders. Under the Offer, Shareholders will receive \$0.02 per share for every share held. Mercantile and its associates currently hold 14,485,373 shares in Phosphate Australia, representing approximately 9.0% of the Company's issued capital. Mercantile's offer is for the remaining 146,682,960 shares not held by Mercantile.

The consideration for the Offer will be satisfied wholly in cash. Shaw Stockbroking ('Shaw') on behalf of Mercantile will accept every Phosphate Australia share offered to Shaw at the Offer price on-market. Based on the number of outstanding shares less Mercantile's current holding as at the date of our Report, the maximum amount of cash that Mercantile will be required to pay under the Offer if all acceptances are received would be approximately \$2,933,659. This consideration excludes brokerage fees.

Option holders

The Offer does not extend to Phosphate Australia options. Phosphate Australia currently have 12,100,000 options on issue, of which 5,400,000 options are exercisable below the Offer price and 400,000 are exercisable at the Offer price. If the 5,800,000 options with an exercise price less than or equal to the Offer price are exercised prior to the closing of the Offer, then Mercantile will have an additional payable amount of \$116,000, resulting in the total cash consideration being approximately \$3,049,659.

Funding

Mercantile will fund the cash payable under the Offer using a loan provided by Sir Ron Brierley (Chairman of Mercantile) on an unsecured basis. Broad terms of the loan provided by Sir Ron Brierley are:

- The loan must be repaid by Mercantile one year after the closing date of the Offer;
- Interest on this loan will accrue at the Reserve Bank of Australia's ('RBA') cash rate;
- Funds are immediately available and are not subject to any conditions or limitations to drawdown; and
- Funds are sufficient to fund the maximum available amount of consideration payable under the Offer and all associated transaction costs.

5. Profile of Phosphate Australia

5.1 History

Phosphate Australia was incorporated in January 2008 as a pre-IPO capital raising vehicle under the name of Nicholson Resources. The Company changed its name to Phosphate Australia on 27 February 2008 and listed on the ASX on 1 July 2008. Phosphate Australia is a multi-commodity exploration company with projects in the Northern Territory and Western Australia, with the head office located in Western Australia.

The Company's current board members and senior management are:

- Mr Jim Richards - Executive Chairman;
- Mr Grant Mooney - Non-Executive Director and Company Secretary; and
- Mr Mark Thompson - Non-Executive Director.

On 27 May 2013 Phosphate Australia signed a Joint Venture Option Agreement ('JVOA') with Jimpec Resources Pty Ltd ('Jimpec') to sell Jimpec an option over 80% of the iron and manganese rights within the Nicholson Project for \$200,000.

On 29 August 2014, the Company announced the conditional sale of the Tuckanarra Gold Project to Monument Mining Limited ('Monument') for \$3.9 million payable as \$2 million in cash and 10 million shares in Monument. This sale was completed on 12 November 2014.

On 15 September 2014 Phosphate Australia announced the sale of an option over the Musgrave project for \$100,000 to allow NiCul Minerals Limited ('NiCul') to purchase 80% of the project for \$500,000.

5.2 Projects

Set out below is a brief description of each of the Company's projects.

Highland Plains Phosphate Project

The Highland Plains Phosphate Project ('Highland Project') is located in the Northern Territory running directly alongside the border to Queensland. The project is the closest major rock phosphate project to the coast in Australia which minimises costs associated with slurry pipelines.

The Highland Project is 100% owned by Phosphate Australia with no private royalties payable. The Highland Project is located within close proximity to the MMG Limited Century zinc mine which has access to port facilities via their slurry pipeline.

Musgrave Project

The Musgrave Project ('Musgrave Project') is located in Western Australia near the borders of South Australia and the Northern Territory. The project has potential deposits of both Titano-magnetite rock ('TMR') and Copper-Nickel-PGE-V ('Cu-Ni-PGE').

Sampling has confirmed the presence of iron, titanium, vanadium, gold, platinum, palladium and rhodium within the TMR deposit.

Exploration of the Musgrave Project is being managed by PeppinNini Minerals Limited ('PeppinNini'), which is the owner of NiCul Minerals Limited, being the company that holds an option over 80% of the Musgrave Project.

Nicholson Iron Project

The Nicholson Iron project ('Nicholson Project') covers 1,400 km² and is located in the Northern Territory along the Queensland border.

The Nicholson Project is 100% owned by Phosphate Australia with no private royalties payable. Jimpec currently owns an option over 80% of the iron and manganese rights within the Nicholson Project.

Horsewell Gold Project

The Horsewell Gold Project ('Horsewell Project') is located in central Western Australia 85 kilometres northeast of the town of Wiluna.

Alloy Resources Limited ('Alloy') purchased an option over 80% of the EL69/2820 exploration tenement owned by Phosphate Australia. On 2 September 2014, Alloy exercised this option and now owns 80% of the exploration tenement.

5.3 Historical Statement of Financial Position

Statement of Financial Position	Reviewed as at 31-Dec-14 \$	Audited as at 30-Jun-14 \$	Audited as at 30-Jun-13 \$
CURRENT ASSETS			
Cash and cash equivalents	3,456,219	1,706,470	2,220,824
Trade and other receivables	29,917	22,048	18,208
Other assets	34,756	34,020	36,879
TOTAL CURRENT ASSETS	3,520,892	1,762,538	2,275,911
NON-CURRENT ASSETS			
Property, plant and equipment	56,986	63,908	89,585
Environmental bond	11,269	12,397	12,397
Available-for-sale financial assets	1,259,215	-	-
Exploration and evaluation expenditure	3,519,368	4,906,373	4,593,836
TOTAL NON-CURRENT ASSETS	4,846,838	4,982,678	4,695,818
TOTAL ASSETS	8,367,730	6,745,216	6,971,729
CURRENT LIABILITIES			
Trade and other payables	21,841	27,215	100,997
Provisions	15,612	14,099	23,357
TOTAL CURRENT LIABILITIES	37,453	41,314	124,354
NET ASSETS	8,330,277	6,703,902	6,847,375
EQUITY			
Issued capital	14,590,606	14,590,606	14,590,606
Reserves	308,805	198,165	195,925
Accumulated losses	(6,569,134)	(8,084,869)	(7,939,156)
TOTAL EQUITY	8,330,277	6,703,902	6,847,375

Source: Phosphate Australia's reviewed financial statements for the half year ended 31 December 2014 and audited financial statements for the financial years ended 30 June 2014 and 30 June 2013

Commentary on Statement of Financial Position

- Cash and cash equivalents decreased from \$2,220,824 at 30 June 2013 to \$1,706,470 at 30 June 2014 largely as a result of exploration and administrative expenditure, partially offset by proceeds from a rights issue. The movement in cash and cash equivalents to \$3,456,219 at 31 December 2014 was primarily a result of the sale of the Tuckanarra Gold Project for \$2,000,000 and was partially offset by payments to suppliers and employees, as well as payments for exploration, evaluation and development.

- The available-for-sale financial assets represent the value of Phosphate Australia's holding in both Alloy and Monument. The Company currently holds 10,000,000 shares in Monument and 3,125,000 shares in Alloy.
- Exploration and evaluation expenditure decreased from \$4,906,373 at 30 June 2014 to \$3,519,368 as at 31 December 2014 due to the sale of the Tuckanarra Gold Project. The balance at 31 December 2014 mainly relate to tenements in the Highlands, Nicholson and Musgrave Projects.
- Reserves of \$308,805 as at 31 December 2014 relates to options. The increase from 30 June 2014 was a result of 5,400,000 options issued to directors and employees on 5 November 2014.

5.4 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half year ended 31-Dec-14 \$	Audited for the year ended 30-Jun-14 \$	Audited for the year ended 30-Jun-13 \$
Revenue			
Gain on disposal of exploration assets	1,731,814	-	-
Other revenue from ordinary activities	-	-	272,727
Other income	44,497	83,994	125,816
Gross (loss) profit	1,776,311	83,994	398,543
Expenses			
Exploration expenses	25,880	33,453	381,505
Exploration written off	8,716	-	2,894,827
Employee benefits expense	47,273	129,118	310,773
Corporate advisory fees	15,000	17,020	17,588
Depreciation expense	7,040	18,254	73,014
Rental expenses	59,040	112,351	169,493
Administration expenses	88,567	213,072	318,645
Loss on disposal of plant & equipment	-	7,554	287,876
Share based payments	48,740	2,240	153,120
Revaluation of shares	3,125	-	-
Gross costs	303,381	533,062	4,606,841
Profit/(loss) from continuing operations before income tax	1,472,930	(449,068)	(4,208,298)
Income tax benefit	-	303,355	210,974
Profit/(loss) from continuing operations after income tax	1,472,930	(145,713)	(3,997,324)
Current year gain on available-for-sale financial assets	104,705	-	-
Total comprehensive gain/(loss) for the year	1,577,635	(145,713)	(3,997,324)

Source: Phosphate Australia's reviewed financial statements for the half year ended 31 December 2014 and audited financial statements for the years ended 30 June 2014 and 30 June 2013

Commentary on Statement of Profit or Loss and Other Comprehensive Income

- Gain on disposal of exploration assets for the half year ended 31 December 2014 of \$1,731,814 relates to the sale of the Tuckanarra Gold Project to Monument.
- The exploration written off for the year ended 30 June 2013 of \$2,894,827 is due to the impairment of the Highlands Project based on information obtained by directors on the value of phosphate projects across Australia.
- Share based payments for the half year ended 31 December 2014 increased to \$48,740 due to 5,400,000 options being issued to directors and employees on 5 November 2014.
- The current year gain on available-for-sale financial assets increased for the half year ended 31 December 2014 due to the price of a Monument share increasing from CAD\$0.12 at 12 November 2014 to CAD\$0.13 in the half year ended 31 December 2014. Phosphate Australia's holdings in Alloy also increased from \$0.006 at 2 September 2014 to \$0.007 in the half year ended 31 December 2014.

5.5 Capital Structure

The share structure of Phosphate Australia as at 2 April 2015 is outlined below:

	Number
Total ordinary shares on issue	161,168,333
Top 20 shareholders	102,671,903
Top 20 shareholders - % of shares on issue	63.70%

Source: Share registry information

The range of shares held in Phosphate Australia as at 2 April 2015 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	48	27,257	0.02%
1,001 - 5,000	132	396,312	0.25%
5,001 - 10,000	163	1,453,718	0.90%
10,001 - 100,000	452	18,273,581	11.34%
100,001 - and over	164	141,017,465	87.50%
TOTAL	959	161,168,333	100.00%

Source: Share registry information

The ordinary shares held by the most significant shareholders as at 2 April 2015 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
James Richards	32,016,401	19.87%
Kelso Chemicals Pty Ltd	16,629,676	10.32%
McNeil Nominees Pty Ltd	14,485,373	8.99%
Subtotal	63,131,450	39.17%
Others	98,036,883	60.83%
Total ordinary shares on Issue	161,168,333	100.00%

Source: Share registry information

Phosphate Australia's options on issue as at 28 January 2015 are outlined below:

Current Options on Issue	Number
Unlisted options exercisable at \$0.08 each expiring on 26 November 2015	6,000,000
Unlisted options exercisable at \$0.065 each expiring on 21 December 2015	300,000
Unlisted options exercisable at \$0.02 each expiring on 28 January 2016	400,000
Unlisted options exercisable at \$0.019 each expiring on 5 November 2016	400,000
Unlisted options exercisable at \$0.019 each expiring on 5 November 2017	5,000,000
Total outstanding options	12,100,000

Source: Appendix 3B dated 28 January 2015

The most significant option holders of Phosphate Australia as at 28 January 2015 are outlined below:

Name	Number of Options	Exercise Price (\$)	Expiry Date
James Richards	5,000,000	\$0.08	26 November 2015
	3,000,000	\$0.019	5 November 2017
Mark Thompson	500,000	\$0.08	26 November 2015
	1,000,000	\$0.019	5 November 2017
Grant Mooney	500,000	\$0.08	26 November 2015
	1,000,000	\$0.019	5 November 2017
Michael Denny	400,000	\$0.02	28 January 2016
Total Number of Options	11,400,000		
Cash Raised if Options Exercised	\$583,000		

Source: Phosphate Australia's December 2014 reviewed financial report

6. Profile of Mercantile

6.1 History

Mercantile was originally listed on the ASX as India Equities Fund Limited ('India Equities') on 5 April 2007. The purpose of India Equities was to provide shareholders with exposure to the Indian equity market. India Equities changed its name to Mercantile on 17 January 2012 in order to reflect its redirection of investment strategy away from Indian equities and towards Australian equities.

Mercantile's current board members and senior management are:

- Sir Ron Brierley - Chairman and Non-Executive Director;
- Mr Gabriel Radzynski - Executive Director;
- Mr James Chirnside - Independent Non-Executive Director; and
- Dr Gary Weiss - Non-Executive Director.

On 15 November 2011 Mercantile entered a recapitalisation proposal with Siblow Pty Limited ('Siblow') whereby Mercantile issued 103,764,634 shares at a price of \$0.08 to acquire Siblow's portfolio of shares with a value of \$8.3 million. This transaction increased Siblow's ownership of Mercantile from 14.8% to 54% and the majority shareholder of Siblow, Sir Ron Brierley became the Chairman of Mercantile.

On 8 July 2014 Mercantile acquired 100% of Murchison Metals Limited ('Murchison Metals') through a scheme of arrangement. Murchison Metals was an iron ore miner which formerly held an interest in the Jack Hills iron ore mine, which Mitsubishi Corporation was a joint venture partner in.

6.2 Historical Statement of Financial Position

Statement of Financial Position	Reviewed as at 31-Dec-14 \$	Audited as at 30-Jun-14 \$	Audited as at 30-Jun-13 \$
CURRENT ASSETS			
Cash and cash equivalents	2,604,460	1,129,258	1,357,461
Trade and other receivables	3,090	34,924	489,293
Financial assets - short term	3,852,846	4,866,296	3,477,736
Other current assets	142,030	193,120	8,735
Current tax asset	34,209	59	59
TOTAL CURRENT ASSETS	6,636,635	6,223,657	5,333,284
NON-CURRENT ASSETS			
Financial assets - long term	31,836,606	34,449,927	24,668,300
Trade and other receivables	858,124	871,534	-
Property, plant & equipment	4,328	5,830	7,648
Deferred tax asset	151,972	36,218	144,465
TOTAL NON-CURRENT ASSETS	32,851,030	35,363,509	24,820,413
TOTAL ASSETS	39,487,665	41,587,166	30,153,697
CURRENT LIABILITIES			
Trade and other payables	691,484	138,318	88,510
Borrowings	-	2,912,241	1,005,206
TOTAL CURRENT LIABILITIES	691,484	3,050,559	1,093,716
NON CURRENT LIABILITIES			
Deferred tax liabilities	2,600,070	4,830,215	2,772,498
TOTAL NON CURRENT LIABILITIES	2,600,070	4,830,215	2,772,498
NET ASSETS	36,196,111	33,706,392	26,287,483
EQUITY			
Issued capital	27,531,662	24,773,530	24,881,777
Reserves	15,412,559	16,561,023	8,925,305
Accumulated losses	(6,748,110)	(7,628,161)	(7,519,599)
TOTAL EQUITY	36,196,111	33,706,392	26,287,483

Source: Mercantile's reviewed financial statements for the half year ended 31 December 2014 and audited financial statements for the years ended 30 June 2014 and 30 June 2013

Commentary on statement of financial position

- The movement in cash and cash equivalents to \$2,604,460 at 31 December 2014 was primarily a result of proceeds from the sale of investments and dividends received. These were partially offset by payments for purchase of financial assets held for trading.

- Non-current financial assets decreased to \$31,836,606 as at 31 December 2014 due to a decrease of shares in domestic and overseas listed corporations. This was primarily due to Mercantile selling its substantial holding of Ingenia Communities Group but was partially offset by increasing their holdings in Ask Funding Limited, Hastings High Yield Fund and Murchison Metals.

6.3 Historical Statement of Profit or Loss and Other Comprehensive Income

Statement of Profit or Loss and Other Comprehensive Income	Reviewed for the half year ended 30-Dec-14 \$	Audited for the year ended 30-Jun-14 \$	Audited for the year ended 30-Jun-13 \$
Revenue	863,611	217,961	484,050
Realised gains/(loss) on trading portfolio	(5,757)	-	93,421
Realised gains/(loss) on acquisition	704,868	-	-
Unrealised gains/(loss) in market value movement	(922,799)	581,995	(92,407)
Other income	81,935	99,354	37,828
Finance costs	(46,982)	(31,918)	(5,287)
Marketing and development expenses	(2,500)	(2,118)	(13,456)
Administration expenses	(8,434)	(1,664)	(3,185)
Remuneration costs	(38,215)	(33,662)	(67,636)
Listed company expenses	(385,887)	(366,315)	(555,777)
Depreciation expense	(1,501)	(2,358)	(12,854)
Foreign exchange gains/ (losses)	(1,171)	(6,094)	2,572
Occupancy costs	(6,911)	(6,895)	(13,223)
Loss on disposal of non-current assets	-	-	(18,503)
Profit/(loss) from continuing operations before tax	230,257	448,286	(164,457)
Income tax benefit/expense	635,762	(174,598)	(51,548)
Profit/(loss) from continuing operations after tax	866,019	273,688	(216,005)
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
Gains on disposal of investments available for sale	2,948,937	2,742,688	956,666
Fair value adjustment	5,853,431	7,897,992	7,907,048
Deferred tax impact	(1,756,030)	(2,369,398)	(2,372,114)
Other comprehensive income for the period after tax	7,046,338	8,271,282	6,491,600
Total comprehensive income for the year	7,912,357	8,544,970	6,275,595

Source: Mercantile's reviewed financial statement for the half year ended 31 December 2014 and audited financial statements for the financial years ended 30 June 2014 and 30 June 2013

Commentary on statement of profit or loss and other comprehensive income

- Revenue for the half year ended 31 December 2014 increased to \$863,611 as dividends and trust distributions were received during the period.
- The realised gain on acquisition of \$704,868 for the half year ended 31 December 2014 relates to the difference between the consideration paid for ownership of Murchison Metals and the net assets acquired.

6.4 Capital Structure

The share structure of Mercantile as at 31 December 2014 is outlined below:

	Number
Total ordinary shares on issue	268,764,671
Top 20 shareholders	207,879,800
Top 20 shareholders - % of shares on issue	77.35%

Source: Mercantile's December 2014 reviewed financial report

The range of shares held in Mercantile as at 31 December 2014 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	697	254,361	0.09%
1,001 - 5,000	1,454	4,348,694	1.62%
5,001 - 10,000	538	4,278,372	1.59%
10,001 - 100,000	764	24,565,857	9.14%
100,001 - and over	117	235,317,387	87.56%
TOTAL	3,570	268,764,671	100.00%

Source: Mercantile's December 2014 reviewed financial report

The ordinary shares held by the most significant shareholders as at 31 December 2014 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Siblow Pty Ltd	122,411,120	45.55%
G W Holdings Pty Ltd	26,150,522	9.73%
Portfolio Services Pty Ltd	14,915,001	5.55%
Subtotal	163,476,643	60.83%
Others	105,288,028	39.17%
Total ordinary shares on Issue	268,764,671	100.00%

Source: Mercantile's December 2014 reviewed financial report

7. Economic analysis

In the section below we have addressed the key economic indicators and set out our assessment of the implications for Phosphate Australia.

Interest Rates

The effects of the US Federal Reserve's quantitative easing are still keeping global long-term borrowing rates down, with some major sovereigns reaching historical lows over recent months. Some risk spreads have widened slightly though overall financing costs for creditworthy borrowers remains very low. The RBA has kept the cash rate at historical lows in order to stimulate the economy through a period of poor commodity prices.

Low long term borrowing rates represent a positive opportunity for Phosphate Australia should the Company decide to pursue mine development at their Highlands Project assuming the development may be potentially financed through debt.

Credit growth

Credit is recording moderate growth overall with stronger growth in lending to investors in housing assets. Housing credit growth increased by 0.6% in January 2015 (5.9% year on year). The RBA is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have risen, partially as a result of declining long-term interest rates.

Phosphate Australia may be positively affected by an overall increase in Australian equities as investors seek investments with a higher yield than long term interest rates can provide.

The Australian dollar

The Australian dollar has declined significantly against the rising US dollar, though less so against a basket of currencies. The dollar remains above most estimates of its fundamental value given the significant decline in commodity prices, the key driver for the Australian economy.

A weak Australian dollar is likely to increase foreign investment into Australian assets, with more capital flowing through the Australian market Phosphate Australia may benefit from increased demand for equities. Additionally, larger phosphate mining companies may look to Australia for strategic acquisitions due to the discount the Australian dollar currently provides. Also, if Phosphate Australia were to reach production phase the Company would benefit from the majority of commodity trade occurring in US dollars.

Economic growth

In Australia, economic growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. As a result, the unemployment rate has gradually increased over the past year. The economy is likely to be operating with a degree of spare capacity for some time yet. With growth in labour costs subdued, it appears likely that inflation will remain consistent with the target over the next one to two years, even with a lower exchange rate.

Commodity prices

Commodity prices have declined over the past year. Oil and iron ore in particular have fallen significantly. These declines seem to reflect a combination of lower growth in demand, and more importantly, a significant increase in supply. The low energy prices will act to strengthen global output and temporarily lower inflation rates.

The decrease in the price of oil has negative implications for Phosphate Australia. Phosphate is a key input for the development of alternative energies such as ethanol and biodiesel, a decrease in the price of oil leads to lower demand for alternative energy sources and as such reduces demand for phosphate.

Source: www.rba.gov.au Statement by Glenn Stevens, Governor: Monetary Policy Decision 3 March 2015, www.nab.com.au Global & Australian Forecasts - March 2015.

8. Industry analysis

8.1 Overview

Phosphate rock is a general term that refers to rock with a high concentration of phosphate minerals, most commonly of the apatite group. It is the major resource mined to produce phosphate fertilisers for the agriculture sector. As such, approximately 90% of the phosphate rock mined is processed into fertilisers. Some other uses of phosphate include animal feed supplements, soft drinks, food preservatives, anti-corrosion agents, cosmetics, fungicides, ceramics, water treatment and metallurgy. Phosphate minerals are often used for control of rust and prevention of corrosion on ferrous materials applied with electrochemical conversion coatings. Phosphate deposits can be classified into three main types, being marine sedimentary deposits of phosphorites, apatite rich igneous rocks, and modern and ancient guano accumulations.

8.2 Production and Reserves

Production and exploration levels of phosphate are highly sensitive to the demand and supply of the final product, as well as other factors including oil prices, climate, exchange rates, and political and regulatory factors. The following table sets out the 2014 estimate of phosphate production by country and the actual production levels recorded by these countries in 2013 as presented by the 2015 US Geological Survey.

Country	Mine production (000's Mt)		Reserves (000's Mt)
	2014*	2013	
United States	27,100	31,200	1,100,000
Algeria	1,500	1,500	2,200,000
Australia	2,600	2,600	1,030,000
Brazil	6,750	6,000	270,000
Canada	-	400	76,000
China	100,000	108,000	3,700,000
Egypt	6,000	6,500	715,000
India	2,100	1,270	35,000
Iraq	250	250	430,000
Israel	3,600	3,500	130,000
Jordan	6,000	5,400	1,300,000
Kazakhstan	1,600	1,600	260,000

Country	Mine production (000's Mt)		Reserves (000's Mt)
	2014*	2013	
Mexico	1,700	1,760	30,000
Morocco and Western Sahara	30,000	26,400	50,000,000
Peru	2,600	2,580	820,000
Russia	10,000	10,000	1,300,000
Saudi Arabia	3,000	3,000	211,000
Senegal	700	800	50,000
South Africa	2,200	2,300	1,500,000
Syria	1,000	500	1,800,000
Togo	1,200	1,110	30,000
Tunisia	5,000	3,500	100,000
Vietnam	2,400	2,370	30,000
Other	2,600	2,580	300,000
World Total	219,900	225,120	67,417,000

Source: US Geological Survey, Mineral Commodity Summaries 2015.

8.3 Key Drivers

Demand in the phosphate industry is primarily affected by the state of the fertiliser manufacturing industry, which in turn is highly correlated with the global demand for agriculture products.

Oil prices have a positive correlation with the demand, and therefore pricing observed in the phosphate industry. As the price of crude oil increases, alternative energy sources such as biodiesel and ethanol become more prevalent. These alternative energy sources require extensive agriculture therefore increasing the demand for fertiliser products, which in turn stimulates growth in the phosphate industry.

Climate conditions can also have an impact on the demand for fertiliser products and consequently phosphate, with the dry, harsh conditions experienced in places such as Africa requiring increasing use of fertiliser products.

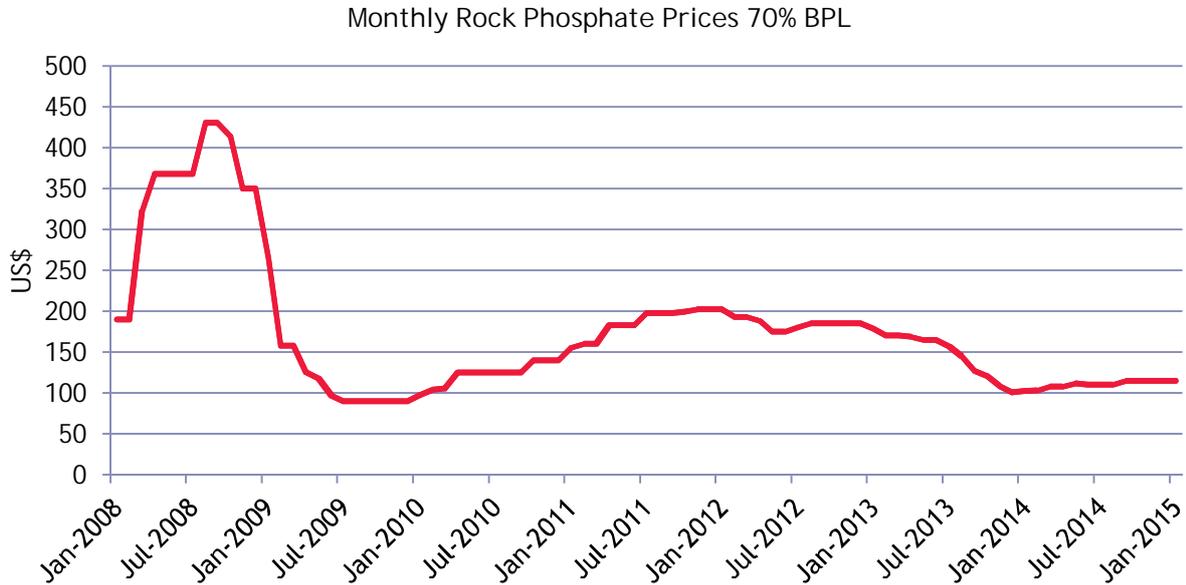
Exchange rates can impact the demand for phosphate with a majority of trading being denominated in US dollars, however with the availability of hedging instruments; exchange rates do not have a massive impact on the demand for phosphate products.

Due to the risky nature of exploration activities and the uncertainty surrounding infant exploration projects, phosphate explorers and producers are hesitant in bearing additional sovereign risk by exploring in foreign countries. As a result the investment capital required for phosphate exploration is often restricted to those politically stable economies, therefore hindering phosphate supply in smaller developing countries.

8.4 Prices

The price that a producer can obtain for phosphate rock concentrate is contingent upon the percentage of P₂O₅ it contains. Phosphate prices are not quoted on a public exchange however the Moroccan Phosphate Rock, containing 70% Bone Phosphate of Lime ('BPL') is commonly used as a global pricing benchmark. These historical prices are often used as a base for forecasting phosphate prices, with adjustments made

for the grade, impurities and other competitive factors. The following chart outlines the historical price movements of this global benchmark over the past five years.



Source: Bloomberg

The Moroccan phosphate rock price, along with other commodities, went through a period of high volatility during the Global Financial Crisis ('GFC') in 2008 and 2009. This is evident by the dramatic price movement in the graph above from a peak of US\$430 per tonne in August 2008 to US\$90 per tonne in July 2009. The Moroccan phosphate rock price recovered to US\$140 per tonne in 2010 and hit a post GFC high of US\$202.50 per tonne in 2011. The price found strong support at US\$100 per tonne in 2013 and has recently stabilised and traded at US\$115 per tonne since September 2014.

8.5 Outlook

According to the 2015 US Geological Survey world phosphate rock capacity is projected to increase by approximately 15% from 225 Mt in 2014 to an anticipated 258 Mt in 2018. The majority of the projected growth is expected to come from expansion of existing mines in Morocco and the development of a new mine in Saudi Arabia. Global fertiliser demand is forecast to improve during 2015 primarily from increased usage in the South Asia and East Asia regions. However, it is also anticipated that the phosphate price will become more volatile due to uncertainty over consumption in Brazil and India.

Source: International Fertiliser Industry Association, Fertiliser outlook 2013-2017

9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ('FME')
- Discounted cash flow ('DCF')
- Quoted market price basis ('QMP')
- Net asset value ('NAV')

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of a Phosphate Australia share we have chosen to employ the following methodologies:

- NAV as our primary approach; and
- QMP as our secondary approach.

We have chosen these methodologies for the following reasons:

Being an exploration and pre-development company, the core value of Phosphate Australia is in the exploration and development assets it holds. We have instructed Snowden Mining Industry Consultants Pty Ltd ('Snowden') to act as independent specialist and to provide an independent market valuation of the Company's mineral assets in accordance with the Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ('the Valmin Code') and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources ('JORC Code'). Snowden's full report may be found in Appendix 3. We have considered this in the context of Phosphate Australia's other assets and liabilities on a NAV basis;

- The QMP basis is a relevant methodology to consider because Phosphate Australia's shares are listed on the ASX. This means there is a regulated and observable market where Phosphate Australia's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the Company's shares should be liquid and the market should be fully informed as to its activities. We have considered these factors in section 10.2 of our Report;
- Phosphate Australia does not generate regular trading income. Therefore there are no historic profits that could be used to represent future earnings. This means that the FME valuation approach is not appropriate; and
- Phosphate Australia has no foreseeable future net cash inflows and therefore the application of the DCF valuation approach is not appropriate. Under RG111, it is considered that it is only appropriate to use a DCF to value a mining asset where reserves are present.

10. Valuation of Phosphate Australia

10.1 Net Asset Valuation of Phosphate Australia

The value of Phosphate Australia's assets on a going concern basis is reflected in our valuation below:

NAV of Phosphate Australia	Note	Reviewed as at			
		31-Dec-14	Low	Preferred	High
		\$	\$	\$	\$
CURRENT ASSETS					
Cash and cash equivalents	a	3,456,219	4,423,819	4,423,819	4,423,819
Trade and other receivables		29,917	29,917	29,917	29,917
Other assets		34,756	34,756	34,756	34,756
TOTAL CURRENT ASSETS		3,520,892	4,488,492	4,488,492	4,488,492
NON-CURRENT ASSETS					
Property, plant and equipment		56,986	56,986	56,986	56,986
Environmental bond		11,269	11,269	11,269	11,269
Available-for-sale financial assets	b	1,259,215	18,211	19,512	20,813
Exploration and evaluation expenditure	c	3,519,368	8,760,000	21,560,000	33,410,000
TOTAL NON-CURRENT ASSETS		4,846,838	8,846,466	21,647,767	33,499,068
TOTAL ASSETS		8,367,730	13,334,958	26,136,259	37,987,560
CURRENT LIABILITIES					
Trade and other payables		21,841	21,841	21,841	21,841
Provisions		15,612	15,612	15,612	15,612
TOTAL CURRENT LIABILITIES		37,453	37,453	37,453	37,453
NET ASSETS		8,330,277	13,297,505	26,098,806	37,950,107
Shares on issue (number)	d		166,968,333	166,968,333	166,968,333
Value per share (\$)			\$0.080	\$0.156	\$0.227

Source: BDO analysis

We have been advised that there has not been a significant change in the net assets of Phosphate Australia since 31 December 2014 other than the adjustments set out below. The table above indicates the net asset value of a Phosphate Australia share is between \$0.080 and \$0.227 with a preferred value of \$0.156.

The following adjustments were made to the net assets of Phosphate Australia as at 31 December 2014 in arriving at our valuation.

Note a) Cash and cash equivalents

We have adjusted cash and cash equivalents to reflect the notional exercise of the below listed options.

Options on issue	Number	Cash raised if exercised \$
Unlisted options exercisable at \$0.02 each expiring on 28 January 2016	400,000	8,000
Unlisted options exercisable at \$0.019 each expiring on 5 November 2016	400,000	7,600
Unlisted options exercisable at \$0.019 each expiring on 5 November 2017	5,000,000	95,000
Total	5,800,000	110,600

We note that we have assumed that any options with an exercise price greater than the Offer price will not be exercised.

Per the Company's announcement on 10 April 2015, we have also increased cash and cash equivalents by \$857,000 to reflect the sale of the Company's shares in Monument.

The net adjustment to cash and cash equivalents is therefore \$967,600.

Note b) Available for sale financial assets

As at 31 December 2014, the Company held the following available for sale financial assets.

Available for sale financial assets	Number	% ownership in listed company
Alloy Resources Limited	3,125,000	0.64%
Monument Mining Limited (TSX-V)	10,000,000	3.08%

On 10 April 2015, the Company announced it would be selling its shares in Monument for \$857,000 (C\$832,500) to a European financial group. We have therefore adjusted the balance accordingly.

We have revalued the shares held in Alloy as at 27 March 2015, being the last trading day prior to the announcement of the Offer.

In order to assess the fair market value of the above available for sale financial assets we have considered the weighted average market price for 10, 30, 60 and 90 day periods to 27 March 2015.

The volume weighted average prices for Alloy are set out below:

Alloy Resources Limited	27-Mar-15	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.007				
Volume weighted average price (VWAP)		\$0.007	\$0.007	\$0.008	\$0.008

The Company holds 0.64% of the issued capital of Alloy, which we do not consider a significant interest. However, based on historical trading volume to 27 March 2015, it would take approximately 41 days to dispose of its interest. Based on the International Private Equity and Venture Capital Valuation Guidelines ('the Guidelines') we consider a liquidity discount of 10% to be reasonable. We consider the value of a

share in Alloy to be in the range from \$0.007 to \$0.008 with our preferred value being the midpoint value of \$0.0075.

Our assessed total value of the available for sale financial assets including brokerage costs and a discount for liquidity and lack of marketability is set out in the table below:

Available for sale financial assets	Low \$	Preferred \$	High \$
Alloy Resources Limited	21,875	23,438	25,000
Less: Liquidity discount	10%	10%	10%
Value of shares in Alloy Resources Limited	19,688	21,094	22,500
Less: brokerage	7.5%	7.5%	7.5%
Total value of shares in Alloy Resources Limited	18,211	19,512	20,813

*Management advise the Company would incur brokerage costs of 7.5% to sell these shares

Note c) Exploration and evaluation expenditure

We instructed Snowden to provide an independent market valuation of the mineral assets held by Phosphate Australia. Snowden considered a number of different valuation methods when valuing the mineral assets of Phosphate Australia. Snowden applied the Kilburn Method and the comparable transaction method.

The Kilburn method is a geoscience rating method by which the valuer specifies and ranks aspects of the property which enhance or downgrade the intrinsic value of the property. The intrinsic value of the property is the base acquisition cost, being the average cost incurred to acquire a base unit area of mineral tenement and to meet all statutory expenditure commitments for a period of twelve months. It assesses four key technical attributes of a tenement to arrive at a series of multiplier factors. It also encompasses a market factor, which converts the technical value to a market value.

The comparable transaction method involves calculating a value per common attribute in a comparable transaction and applying that value to the subject asset. A common attribute could be the amount of resource or the size of a tenement. We consider these methods to be appropriate given the pre-feasibility stage of development for Phosphate Australia's mineral assets.

Further information on Snowden's valuation methodologies can be found in Appendix Three.

The range of values for each of Phosphate Australia's mineral assets as calculated by Snowden is set out below:

Mineral Asset	Low Value \$m	Preferred Value \$m	High Value \$m
Highland Plains	6.17	14.04	20.92
Other exploration properties	2.60	7.51	12.49
	8.76	21.56	33.41

Source: Snowden valuation report

We note that the above values are exactly as presented by Snowden and that rounding errors may occur.

The table above indicates a range of values between \$8.76 million and \$33.41 million, with a preferred value of \$21.56 million.

Note d) Number of shares on issue

We have adjusted the number of shares on issue to reflect the notional exercise of the options with an exercise price equal to or less than the Offer price. The number of shares on issue is set out in the following table.

Number of shares on issue	Number
Number of shares on issue prior to the announcement of the Offer	161,168,333
Number of shares issued on notional exercise of options	5,800,000
Total number of shares on issue	166,968,333

10.2 Quoted Market Prices for Phosphate Australia Securities

To provide a comparison to the valuation of Phosphate Australia in Section 10.1, we have also assessed the quoted market price for a Phosphate Australia share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

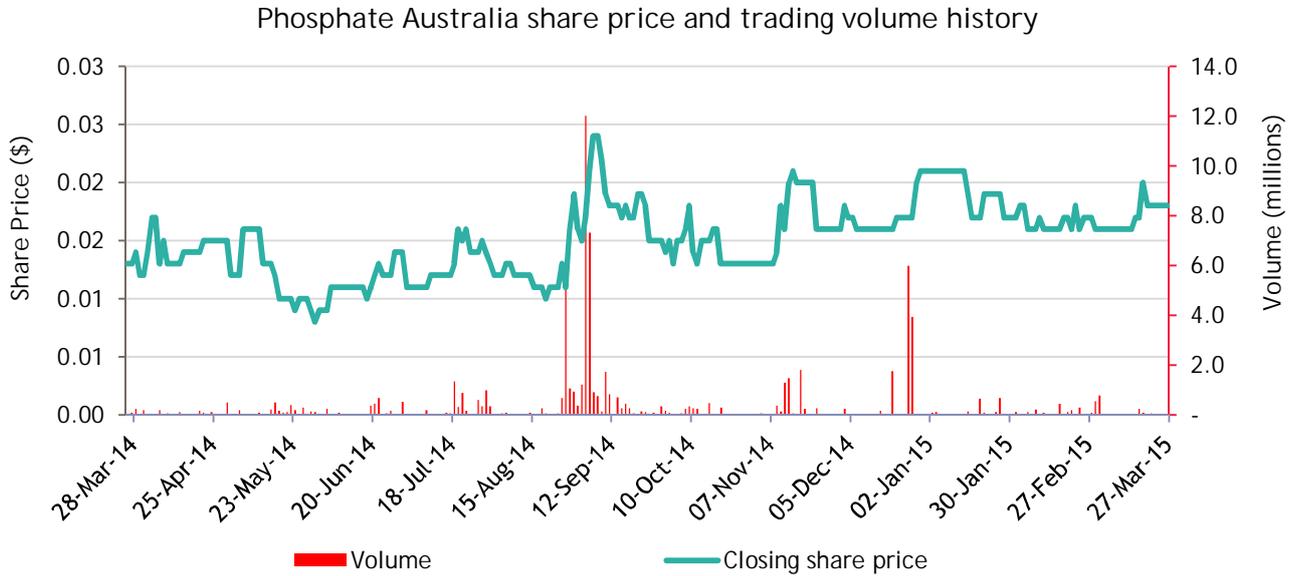
Whilst Mercantile may not be obtaining 100% of Phosphate Australia, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

Therefore, our calculation of the quoted market price of a Phosphate Australia share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

Minority interest value

Our analysis of the quoted market price of a Phosphate Australia share is based on the pricing prior to the announcement of the Offer. This is because the value of a Phosphate Australia share after the announcement may include the effects of any change in value as a result of the Offer. However, we have considered the value of a Phosphate Australia share following the announcement when we have considered reasonableness in Section 13.

Information on the Offer was announced to the market on 30 March 2015. Therefore, the following chart provides a summary of the share price movement over the 12 months to 27 March 2015 which was the last trading day prior to the announcement.



Source: Bloomberg and BDO analysis

The daily price of Phosphate Australia shares from 27 March 2014 to 27 March 2015 has ranged from a low of \$0.008 on 6 June 2014 to a high of \$0.024 on 8 September 2014.

Phosphate Australia’s share price has fluctuated between \$0.008 and \$0.017 from 27 March 2014 to 29 August 2014. On the 5 September 2014 the Company’s share price spiked from \$0.018 to \$0.021 on a volume of approximately 12 million shares. The highest share price for the year was achieved the following trading day on a volume of 7.3 million shares.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement			Closing Share Price Three Days After Announcement		
		\$	(movement)	%	\$	(movement)	%
20/01/2015	PNN: PepinNini Commences Spinifex Range Magnetics	0.017	▶	0.0%	0.019	▲	11.8%
12/11/2014	Completion of Tuckanarra Sale	0.018	▲	28.6%	0.021	▲	16.7%
22/10/2014	Sale of Tuckanarra Gold Project Extension of Completion Date	0.013	▼	18.8%	0.013	▶	0.0%
23/09/2014	PNN: Spinifex Range Ni-Cu-PGE Project Exploration Strategy	0.019	▲	11.8%	0.015	▼	21.1%
15/09/2014	Sale of Option over the Ni-Cu-PGE-V Musgrave Project	0.018	▶	0.0%	0.018	▶	0.0%
15/09/2014	PNN: Purchase option over Ni-Cu-PGE project in West Musgrave	0.018	▶	0.0%	0.018	▶	0.0%
02/09/2014	AYR: Key Horse Well Tenement Acquired	0.016	▼	15.8%	0.021	▲	31.3%
29/08/2014	Sale of Tuckanarra Gold Project for \$3.9 million	0.016	▲	45.5%	0.015	▼	6.3%

Source: Bloomberg and BDO analysis

On 29 August 2014, the Company announced the sale of the Tuckanarra Gold Project to Monument, an established Canadian gold producer. The consideration was \$2.0 million in cash and \$1.9 million in shares. On the day of the announcement, Phosphate Australia's share price closed 45.5% higher to \$0.016 and decreased 6.3% in the three subsequent days.

On 2 September 2014, the Company was identified in an announcement released by Alloy. Alloy had entered an option agreement to acquire 80% of Phosphate Australia's Horse Well Gold Project. On the day of the announcement, the Company's share price fell 15.8% but recovered 31.3% in the three days following the announcement. Approximately 26 million shares were traded in the 2 weeks following this announcement.

The Company's share price rallied 11.8% on 23 September 2014 as a result of PepinNini releasing an announcement that detailed an option deed with Phosphate Australia's West Musgrave Project. The Company's share price fell 21.1% in the following three days.

The Company's share price declined a further 18.8% on 22 October 2014 due to a delay in the sale of the Tuckanarra Gold Project. This loss was quickly recovered on 12 November 2014 when Phosphate Australia announced that the sale was completed. The Company's share price rallied 28.6% on this day and continued to climb by a further 16.7% in the three days following the announcement.

To provide further analysis of the market prices for an Phosphate Australia share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 27 March 2015.

Share Price per unit	27-Mar-15	10 Days	30 Days	60 Days	90 Days
Closing price	\$0.018				
Volume weighted average price (VWAP)		\$0.019	\$0.017	\$0.017	\$0.016

Source: Bloomberg, BDO analysis

The above weighted average prices are prior to the date of the announcement of the Offer, to avoid the influence of any increase in price of Phosphate Australia shares that has occurred since the Offer was announced.

An analysis of the volume of trading in Phosphate Australia shares for the twelve months to 27 March 2015 is set out below:

Trading days	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Day	\$0.018	\$0.018	-	0.00%
10 Days	\$0.016	\$0.020	449,833	0.28%
30 Days	\$0.015	\$0.020	3,002,183	1.86%
60 Days	\$0.015	\$0.021	5,547,454	3.44%
90 Days	\$0.015	\$0.021	18,082,544	11.22%
180 Days	\$0.010	\$0.026	67,560,179	41.92%
1 Year	\$0.008	\$0.026	75,266,835	46.70%

Source: Bloomberg, BDO analysis

This table indicates that Phosphate Australia's shares display a low level of liquidity, with 3.44% of the Company's current issued capital being traded in the 60 trading days prior to the announcement of the Offer. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. We consider the 46.70% of the issued capital being traded over the past year as not reflective of the liquidity of trading in the Company's shares as this figure has been skewed by the high volumes traded between 29 August 2014 and 8 September 2014. Over these seven trading days, approximately 28.29 million shares were traded, being approximately 18% of the Company's current issued capital. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of Phosphate Australia, we do not consider there to be a deep market for the Company's shares as a result of 3.44% of the Company's current issued capital being traded in the 60 trading days prior to the announcement.

The Company's share price has varied from a low of \$0.008 to a high of \$0.026 over the year to 27 March 2015. The volatility of the share price also indicates low liquidity and the lack of a deep market.

Our assessment is that a range of values for Phosphate Australia shares based on market pricing, after disregarding post announcement pricing, is between \$0.017 and \$0.019.

Control Premium

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

Year	Number of Transactions	Average Deal Value (AU\$m)	Average Control Premium (%)
2014	34	493.91	31.40
2013	39	194.10	47.97
2012	55	329.89	36.46
2011	70	733.44	49.91
2010	70	730.89	37.93
2009	65	317.39	44.63
2008	43	753.31	39.47
2007	84	1008.24	21.79
2006	96	647.74	22.95
	Mean	578.77	36.95
	Median	647.74	37.93

Source: Bloomberg, BDO analysis

In arriving at an appropriate control premium to apply, we note that observed control premiums can vary due to the:

- nature and magnitude of non-operating assets;
- nature and magnitude of discretionary expenses;
- perceived quality of existing management;
- nature and magnitude of business opportunities not currently being exploited;
- ability to integrate the acquiree into the acquirer's business;
- level of pre-announcement speculation of the transaction;
- level of liquidity in the trade of the acquiree's securities.

The table above indicates that there has been an increasing trend of control premiums paid by acquirers of all ASX listed companies since 2006, with the average control premium peaking in 2011. The long term average of announced control premiums paid by acquirers of ASX listed companies is approximately 37%. We consider an appropriate control premium to be in the range of 30% to 40%.

Quoted market price including control premium

Applying a control premium to Phosphate Australia's quoted market share price results in the following quoted market price value including a premium for control:

	Low	Midpoint	High
	\$	\$	\$
Quoted market price value	0.017	0.018	0.019
Control premium	30%	35%	40%
Quoted market price valuation including a premium for control	0.022	0.024	0.027

Therefore, our valuation of a Phosphate Australia share based on the quoted market price method and including a premium for control is between \$0.022 and \$0.027 with our preferred value being a rounded midpoint value of \$0.024.

10.3 Assessment of the value of Phosphate Australia

The results of the valuations performed are summarised in the table below:

	Low	Preferred	High
	\$	\$	\$
Net assets value (Section 10.1)	0.080	0.156	0.227
Quoted market price value (Section 10.2)	0.022	0.024	0.027

Source: BDO analysis

We note the values obtained under the NAV methodology are significantly higher than the values obtained under the QMP methodology. The difference between the valuation obtained under the NAV and QMP approaches can be explained by the following:

- The phosphate price over the last 12 months has remained fairly stable and has not seen the same decline in price which many other mineral resources have experienced. The QMP valuation may well be influenced by the recent downturn in the mineral commodity sector and therefore does not fully reflect the potential value of Phosphate Australia's mineral assets;
- Our NAV methodology includes an independent market valuation of Phosphate Australia's mineral assets performed by Snowden. Snowden has relied on a combination of valuation methods including the comparable transaction and Kilburn valuation approaches which reflect the potential value of the Company's mineral assets which may not have been appreciated by the market and therefore not fully reflected under the QMP method;
- We note the cash backing of Phosphate Australia alone is greater than the Offer price based on our NAV valuation in Section 10.1. This is similar to the QMP value and doesn't incorporate the value of the mineral assets or the available-for-sale financial assets held by the Company. The

NAV could be realised by Shareholders by liquidating the Company's assets and returning them to shareholders. The Company's market capitalisation is below Phosphate Australia's cash balance as at 31 December 2014 which indicates that the current market price does not accurately reflect the value of a Phosphate Australia share even on a cash backing basis.

- Under RG111.69 (d), the QMP methodology is considered appropriate when a liquid and active market exists for the securities. From our analysis of the QMP of a Phosphate Australia share we note that 3.44% of the Company's current issued capital had been traded in the 60 trading days up until the date of announcement of the Offer, which represents a low level of liquidity. We also note that over the twelve months prior to the announcement of the Offer, Phosphate Australia shares have traded between a low of \$0.008 and a high of \$0.026.

Based on the above points and the lack of a 'deep' market for the trading of Phosphate Australia shares, we consider the net asset value to be the most appropriate methodology and consider the value of a Phosphate Australia share prior to the Offer to be between \$0.080 and \$0.227, with a preferred value of \$0.156.

11. Valuation of Offer consideration

Under the Offer, Shareholders will receive cash consideration of \$0.02 for every Phosphate Australia share held.

12. Is the Offer fair?

The value of a Phosphate Australia share on a control basis compares to the below:

	Ref	Low \$	Preferred \$	High \$
Value of a Phosphate Australia share on a control basis	10.3	0.080	0.156	0.227
Value of Offer consideration	11	0.02	0.02	0.02

We note from the table above that the value of a share in Phosphate Australia on a control basis is greater than the value of the Offer consideration. Therefore, we consider that the Offer is not fair for Shareholders.

We note that the cash backing of a Phosphate Australia share is greater than the Offer price.

13. Is the Offer reasonable?

13.1 Advantages of accepting the Offer

We have considered the following advantages when assessing whether the Offer is reasonable to Shareholders.

13.1.1 Certainty of cash consideration

The cash consideration that has been offered by Mercantile would allow Phosphate Australia Shareholders to realise cash for their investment. No dividends have been paid on Phosphate Australia shares to date.

The consideration of cash of \$0.02 is a fixed and definite amount, and is not subject to the inherent risks that will affect the quoted market price of a Phosphate Australia share, including the risk associated with a company holding resource exploration and development projects.

There may be capital gains tax implications for Shareholders, and Shareholders should consult with their own tax advisors to determine any individual tax implications from acceptance of the Offer.

13.1.2 Removes future risks associated with holding shares in Phosphate Australia

The Offer removes the risks that Shareholders bear from continuing to hold Phosphate Australia shares. These risks include, but are not limited to, the following:

- Development of projects into cash generating assets;
- Deterioration in market conditions; and
- Future funding.

13.1.3 The Offer is unconditional

The Offer is an on-market bid and therefore unconditional with payment of consideration in cash. This may benefit Shareholders as they are able to accept the Offer immediately and receive their consideration of \$0.02 per share within three trading days. There are also no conditions attached to the Offer.

13.2 Disadvantages of accepting the Offer

If the Offer is accepted, in our opinion, the potential disadvantages to Shareholders include those below.

13.2.1 The Offer is not fair

As set out in section 12, the Offer is not fair. RG 111 states that an Offer is reasonable if it is fair - in this case it is not fair.

13.2.2 Inability to benefit from the potential upside in Phosphate Australia's projects

If the Offer is accepted, Shareholders will forgo their participation in potential future profits and capital growth that Phosphate Australia may be able to realise.

As at the date of this Report, the Company holds a 100% interest in the Highland Plains Phosphate Project. The Company has been exploring commercial options for Highland Plains which includes sourcing a strategic partner or the possibility of a trade sale. The Company also holds a 100% interest (80% under option with PepinNini) in the Musgrave Project. This project is currently operated by PepinNini with Phosphate Australia having a 20% free carried interest until completion of a bankable feasibility study. At any point after the formation of the joint venture, Phosphate Australia may convert its 20% interest to a 1% gross revenue royalty. The Company also recently signed a Joint Venture Option Agreement with Jimpec over its 100% owned Nicholson Iron Project.

During the period ended 31 December 2014, the Company also completed the sale of its Tuckanarra Gold Project. The sale price was \$2 million in cash and 10 million shares in Monument, a Canadian gold

producer listed on the TSX-V exchange. As at 31 December 2014, the shares in Monument had a market value of approximately \$1.13 million. The completion of this transaction increased the Company's cash balance to \$3.46 million as at 31 December 2014. The Company's also holds 3,125,000 shares held in Alloy.

The Company has indicated that following the sale of the Tuckanarra Gold Project it is in a strong position to assess and acquire new projects for future development. If Shareholders accept the Offer they will no longer hold an interest the Company and will forgo any potential future upside from the development of Highland Plains Project, the Musgrave Project, Nicholson Iron Project or any new projects the Company may acquire. They will also forgo any potential uplift in the value of Monument through the Company's interest held.

13.2.3 Potential taxation consequences

The taxation consequences for Shareholders will differ depending on their individual circumstances. Shareholders who accept the Offer will be treated as if they have disposed of their Phosphate Australia shares. Shareholders who are considered Australia residents may be liable to pay capital gains tax on the disposal of their Phosphate Australia shares under the Offer.

13.2.4 Normal brokerage fees incurred

The Offer is an on-market bid with payment of consideration in cash. Any brokerage charged by brokers acting for Phosphate Australia shareholders selling their shares to Mercantile under the Offer will be the sole responsibility of those Phosphate Australia shareholders.

13.2.5 No Offer for Phosphate Australia options

The Offer does not extend to Phosphate Australia options currently on issue other than to the extent that those options are exercised and Phosphate Australia shares issued on exercise are quoted by the ASX prior to the expiry of the Offer. As at the date of this Report the Company has the following options on issue:

- 6,000,000 options exercisable at \$0.08 each on or before 26 November 2015;
- 300,000 options exercisable at \$0.065 each on or before 21 December 2015;
- 400,000 options exercisable at \$0.02 each on or before 28 January 2016;
- 5,000,000 options exercisable at \$0.019 each on or before 5 November 2017; and
- 400,000 options exercisable at \$0.019 each on or before 5 November 2016.

From the above tranches there are only 5,800,000 options with an exercise price that is at the Offer price of \$0.02 or below. In the instance where the current option holders do not exercise their options and Mercantile obtain enough acceptances and proceed to de-listed Phosphate Australia from the ASX, there is unlikely to be an active market for any Phosphate Australia shares issued to Phosphate Australia option holders on the exercise of their Phosphate Australia options.

13.3 Other considerations

13.3.1 Likelihood of alternative offers

We are unaware of any alternative proposal that might offer the Shareholders of Phosphate Australia a premium over the Offer consideration. We note that the offer period may be extended and the offer price of \$0.02 may be increased in accordance with the Act.

13.3.2 Practical level of control

There are no conditions attached to the Offer and therefore there is no minimum level of acceptances by Shareholders. Therefore Mercantile may acquire an interest of between its current holding of approximately 9.0% and 100% of the Company.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter.

If Mercantile acquires more than 25% and up to 50% of Phosphate Australia shares it will be able to block special resolutions, but would not be able to block general resolutions, or pass general or special resolutions.

Should Mercantile acquire 90% or more of shares in Phosphate Australia then Mercantile would be able to pass general and special resolutions. In this scenario Mercantile's current intentions include:

- Proceed to compulsorily acquire the outstanding Phosphate Australia shares in accordance with the Act;
- Arrange for Phosphate Australia to be removed from the Official List of the ASX;
- Replace all non-executive members of the board of directors of Phosphate Australia with its own nominees;
- Undertake a review of the strategy, operations, activities, assets and employees of Phosphate Australia;
- Continue to operate Phosphate Australia's business in substantially the same manner as it is presently operated until the outcome of the review (referred to in the point above) is completed; and
- May, at some later time, acquire further Phosphate Australia shares in a manner consistent with the Act.

If Mercantile acquires more than 50.1% but less than 90% of Phosphate Australia shares then Mercantile would be able to pass general resolutions and block special resolutions, and may be able to pass special resolutions (if over 75%). In this scenario Mercantile's current intentions include:

- Phosphate Australia will become a controlled entity of Mercantile;
- Subject to the Act, and the strategic review to be undertaken by Mercantile, it will seek the appointment of a majority of Mercantile nominees to the board although it has not made any decision as to who would be nominated for appointment. Mercantile may also seek to add to, replace or reorganise the roles of a proportion of the members of the Phosphate Australia board to reflect the proportionate ownership interest of Mercantile and other Phosphate Australia shareholders;
- Seek to remove Phosphate Australia from the Official List of the ASX;
- Undertake a review of the strategy, operations, activities, assets and employees of Phosphate Australia;

- May, at some later time, acquire further Phosphate Australia shares in a manner consistent with the Act; and
- If Mercantile becomes entitled at some later time to exercise general compulsory acquisition rights under Part 6A.2 of the Act, it may exercise those rights.

If Mercantile acquires less than 50.1% of Phosphate Australia shares then Mercantile may be able to block special resolutions (if over 25%). If Mercantile does not achieve a relevant interest in Phosphate Australia of 50.1%, Mercantile will endeavour, to the extent possible through its non-controlling holding of Phosphate Australia shares, to give effect to the current intentions if Mercantile acquires more than 50.1% but less than 90%. However, its ability to effect the intentions will be significantly limited if Mercantile is unable to achieve a relevant interest of more than 50.1%.

Mercantile may consider acquiring additional phosphate Australia shares under the 'creep' provisions of item 9 in section 611 of the Act until it achieves a majority voting power. Mercantile has not yet decided whether it will acquire further shares as this will depend upon the extent to which Mercantile has the capacity to acquire further Phosphate Australia shares and market conditions at that time.

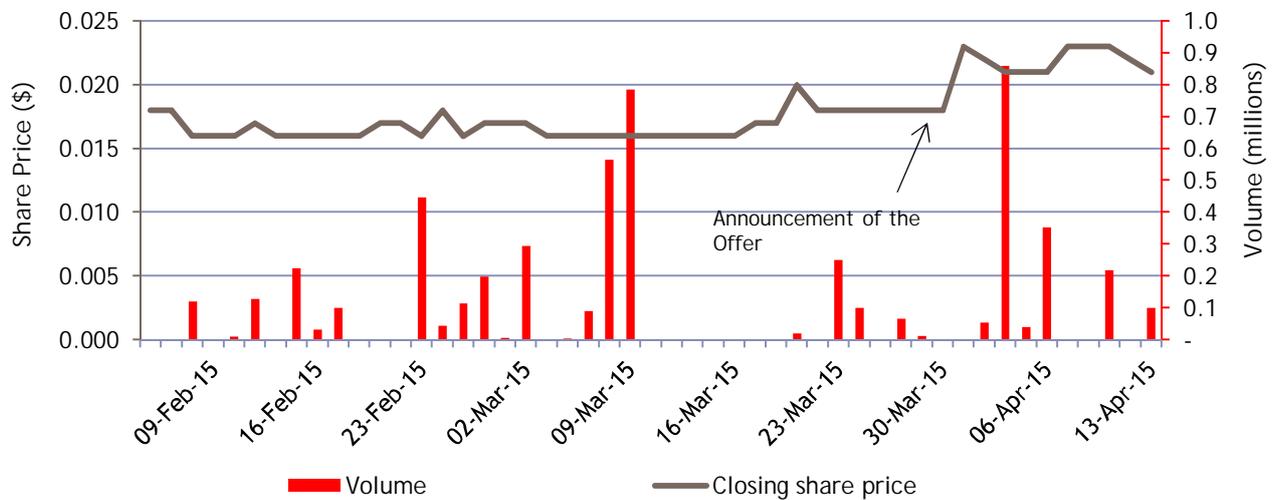
We note that the Executive Chairman of the Company, Mr Jim Richards holds approximately 19.87% of the issued capital of Phosphate Australia. We have been advised that Mr Richards does not intend on accepting the Offer. Therefore, if Mercantile receive a significant interest in the Company, there will be two major shareholders of the Company. The presence of two major shareholders is likely to deter any future takeover bids being made, therefore removing the opportunity for Shareholders to receive a takeover premium in the future.

Mercantile's control of Phosphate Australia following the Offer may be significant when compared to all other shareholders depending on the level of acceptance of the Offer by Shareholders. As such, Mercantile should be expected to pay a premium for control of Phosphate Australia.

13.3.3 Movement in Phosphate Australia's share price following the Offer

We have analysed movements in Phosphate Australia's share price since the Offer was announced on 30 March 2015. A graph of Phosphate Australia's share price since the announcement on the ASX is set out below.

Phosphate Australia share price and trading volume history



Source: Bloomberg and BDO analysis

The announcement of the Offer was made to the market on 30 March 2015. On the following day, approximately 0.86 million shares were traded and Phosphate Australia's share price closed 27.78% higher to \$0.023. Since the announcement, Phosphate Australia's share price has traded between \$0.020 and \$0.025. On 13 April 2015, the Company's share price closed at \$0.021.

Given the above analysis, it is likely that if the Offer is not accepted then Phosphate Australia's share price may decline back to pre-announcement levels.

13.3.4 Risks of becoming a minority shareholder in Phosphate Australia

If the Offer is accepted by a significant proportion of Shareholders then there is a risk that Shareholders that reject the Offer will become a collective minority shareholder in a company that is controlled by Mercantile.

It is likely that Phosphate Australia shares traded on the ASX would have a reduced level of liquidity in this scenario. As noted in section 10.2, the liquidity of Phosphate Australia shares is considered to be low based on the current level of trading on the ASX.

Depending on the level of any acceptance of the Offer by Shareholders, if the number of remaining shareholders falls below a certain level then the Company may no longer be eligible to remain listed on the ASX. Under the ASX listing requirements a listed company must have a minimum of:

- 400 investors @ \$2,000; or
- 350 investors @ \$2,000 and 25% held by unrelated parties; or
- 300 investors @ \$2,000 and 50% held by unrelated parties.

Shareholders should be aware that there may be a reduced likelihood of a subsequent takeover bid for Phosphate Australia if the Company is delisted or if the Company remains listed but Mercantile holds a significant portion of Phosphate Australia shares.

14. Conclusion

We have considered the terms of the Offer as outlined in the body of this report and have concluded that the Offer is neither fair nor reasonable to the Shareholders of Phosphate Australia.

15. Sources of information

This report has been based on the following information:

- Bidder's Statement dated 30 March 2015;
- Draft Target's Statement on or about the date of this report;
- Audited financial statements of Phosphate Australia for the years ended 30 June 2014 and 30 June 2013;
- Reviewed financial statements of Phosphate Australia for the half year ended 31 December 2014;
- Unaudited management accounts of Phosphate Australia for the period ended 28 February 2015;
- Independent Valuation Report of Phosphate Australia's mineral assets dated 9 April 2015 performed by Snowden;
- Share registry information;
- Information in the public domain; and
- Discussions with Directors and Management of Phosphate Australia.

16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$28,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by Phosphate Australia in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by Phosphate Australia, including the non-provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to Phosphate Australia and Mercantile and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of Phosphate Australia and Mercantile and their respective associates.

Neither the two signatories to this report nor BDO Corporate Finance (WA) Pty Ltd, have had within the past two years any professional relationship with Phosphate Australia, or their associates, other than in connection with the preparation of this report.

A draft of this report was provided to Phosphate Australia and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

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17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 250 public company independent expert's reports under the Corporations Act or ASX Listing Rules and is a CA BV Specialist. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 18 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

18. Disclaimers and consents

This report has been prepared at the request of Phosphate Australia for inclusion in the Target's Statement which will be sent to all Phosphate Australia Shareholders. Phosphate Australia engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider the Offer.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Target's Statement. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Target's Statement other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to the Offer. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

We note that the forecasts provided do not include estimates as to the effect of any future emissions trading scheme should it be introduced as it is unable to estimate the effects of such a scheme at this time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Offer, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of Phosphate Australia, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for mineral assets held by Phosphate Australia.

The valuer engaged for the mineral asset valuation, Snowden, possess the appropriate qualifications and experience in the industry to make such assessments. The approaches adopted and assumptions made in arriving at their valuation is appropriate for this report. We have received consent from the valuer for the use of their valuation report in the preparation of this report and to append a copy of their report to this report.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD



Sherif Andrawes
Director



Adam Myers
Director

Appendix 1 – Glossary of Terms

Reference	Definition
The Act	The Corporations Act 2001 (Cth)
Alloy	Alloy Resources Limited
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
BPL	Bone Phosphate of Lime
The Company	Phosphate Australia Limited
Cu-Ni-PGE	Copper-Nickel-PGE-V
DCF	Discounted Future Cash Flows
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
The Guidelines	International Private Equity and Venture Capital Valuation Guidelines
Highland Project	The Company's Highland Plains Phosphate Project
Horsewell Project	The Company's Horsewell Gold Project
India Equities	India Equities Fund Limited
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
JVOA	Joint Venture Option Agreement with Jimpec over 80% of the iron and manganese rights within the Nicholson Project
Mercantile	Mercantile Investment Company Limited

Monument	Monument Mining Limited
Murchison Metals	Murchison Metals Limited
Musgrave Project	The Company's Musgrave project
NAV	Net Asset Value
Nicholson Project	The Company's Nicholson iron project
NiCul	NiCul Minerals Limited
The Offer	An unconditional offer made by Mercantile to acquire the remaining issued capital at a price of \$0.02 per share.
PepinNini	PeppinNini Minerals Limited
Phosphate Australia	Phosphate Australia Limited
RBA	Reserve Bank of Australia
Our Report	This Independent Expert's Report prepared by BDO
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Shaw	Shaw Stockbroking
Shareholders	Shareholders of Phosphate Australia not associated with Mercantile
Siblow	Siblow Pty Limited
Snowden	Snowden Mining Industry Consultants Pty Ltd
TMR	Titano-magnetite rock
TSX-V	Toronto Stock Exchange Venture Exchange
Valmin Code	The Code of Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.
VWAP	Volume Weighted Average Price



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The Directors

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Australia

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ('NAV')*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ('QMP')*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a 'deep' market in that security.

3 *Capitalisation of future maintainable earnings ('FME')*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ('EBIT') or earnings before interest, tax, depreciation and amortisation ('EBITDA'). The capitalisation rate or 'earnings multiple' is adjusted to reflect which base is being used for FME.

4 Discounted future cash flows ('DCF')

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 Market Based Assessment

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

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Appendix 3 - Independent Valuation Report prepared by Snowden



SNOWDEN

Confidence to invest | **Control** to meet production guidance | **Knowledge** to continuously improve

Phosphate Australia Limited

Mineral Asset Valuation

Project No. AU4601

April 2015

Final

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This report has been prepared by Snowden Mining Industry Consultants ("Snowden") on behalf of Phosphate Australia Limited.

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13 April 2015

The Directors
Phosphate Australia Limited
37 Colin Street
West Perth WA 6005

Dear Sirs

Valuation of the mineral assets of Phosphate Australia Limited

Mr Sherif Andrawes, Director of BDO Corporate Finance (WA) Pty Ltd (“BDO”), on behalf of Phosphate Australia Limited (ASX:POZ) (“POZ”), requested Snowden Mining Industry Consultants (“Snowden”) in a letter dated 2 April 2015 to provide an Independent Valuation of POZ interests in various exploration assets. BDO will prepare an Independent Expert Report (“IER”) as a result of an On-market Takeover Offer for POZ by Mercantile Investment Company Limited (ASX:MVT) at AU\$0.02 per share that was announced on 30 March 2015.

POZ owns or has interests in the following exploration projects:

- Highland Plains Phosphate Project, Northern Territory
- Musgrave Nickel-Copper Project, Western Australia – POZ 100% (80% under option)
- Nicholson Project, Northern Territory – Option Agreement for iron and manganese rights
- Horse Well Gold Project, Wiluna, Western Australia – POZ 20%.

Snowden’s opinion of the Fair Market Value (as defined by the VALMIN Code, 2005) of all of POZ’s Mineral Assets lies in a range between AU\$8.8M and AU\$33.4M, with a Preferred Value of **AU\$21.6M**. Snowden’s Preferred Value is a simple median and Snowden is neutral as to any realised value of the assets within the stated range, given its observation of recent market transactions and other factors.

Snowden has sighted an IER¹ that confirms POZ’s interests in the tenements valued. Snowden has not attempted to re-establish the legal status of the tenements with respect to joint venture agreements, heritage or potential environmental and land access restrictions. Snowden is not qualified to make legal representations in this regard and therefore specifically disclaims responsibility for these aspects for the purpose of this review.

This report was prepared by Mr Jeremy Peters (Principal Consultant) as principal author who was assisted by Mr Terry Parker (Principal Consultant) and was reviewed by Mr John Elkington (Group General Manager – Mineral Investment Governance) following the guidelines of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Experts Reports (“the VALMIN Code”) and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (“the JORC Code”).

¹ Prepared by Austwide Mining Title Management Pty Ltd, dated 9 April 2015

Neither Snowden nor those involved in the preparation of this report have any material interest in the companies or mineral assets considered in this report. Snowden is remunerated for this report by way of a professional fee determined according to a standard schedule of rates which is not contingent on the outcome of this report.

Snowden advises that this report is for the benefit of POZ and may not be used for any other purpose without Snowden's express written consent.

Yours sincerely



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1 Introduction

Mr Sherif Andrawes, Director of BDO Corporate Finance (WA) Pty Ltd (“BDO”), on behalf of Phosphate Australia Limited (ASX:POZ) (“POZ”), requested Snowden Mining Industry Consultants (“Snowden”) in a letter dated 2 April 2015 to provide an Independent Valuation of POZ interests in various exploration assets. BDO will prepare an Independent Expert Report (“IER”) as a result of an On-market Takeover Offer for POZ by Mercantile Investment Company Limited (ASX:MVT) at AU\$0.02 per share that was announced on 30 March 2015.

1.1 Summary opinions

The value of POZ’s assets mainly lies in the value ascribed to the Highland Plains Phosphate Project in the Northern Territory.

There is a significant holding of tenements considered prospective for other commodities.

1.1.1 Summary opinion of value

Snowden’s opinion of the Fair Market Value (as defined by the VALMIN Code, 2005) of all of POZ’s Mineral Assets lies in a range between AU\$8.8M and AU\$33.4M, with a Preferred Value of **AU\$21.6M** (Table 1.1). Snowden’s Preferred Value is a simple median and Snowden is neutral as to any realised value of the assets within the stated range, given its observation of recent market transactions and other factors.

The market for phosphate projects has been subdued, but Snowden observes that political unease in major phosphate producing regions has led to an increase in activity in stable jurisdictions. The decline of the Australian dollar against the American dollar has led Snowden to observe increased interest in advanced Australian exploration projects for all commodities other than coal or iron ore.

The current market for iron ore projects is extremely depressed and Snowden has attached a discount of 50% to the Technical Value of those tenements that contain solely iron ore targets in consideration of this. This discount is subjective, but is based on observation of the relative decline in commodity prices in the year to the Valuation Date.

Table 1.1 Summary of Fair Market Value (POZ share)

Property	Low (AU\$M)	High (AU\$M)	Preferred (AU\$M)
Highland Plains	6.17	20.92	14.04
Other exploration properties	2.60	12.49	7.51
Total	8.76	33.41	21.56

1.1.2 Summary opinion on the projects

Most of the value attached to the projects is vested in the Highland Plains rock phosphate project. Part of the global Inferred Resource has been subdivided into the shallow, higher grade Western Mine Target Zone (“WMTZ”). Although a formal scoping study has not been presented for the WMTZ, Snowden observes a considerable volume of technical work that indicates potential economic viability for the WMTZ. Snowden has valued this accordingly and strongly recommends that POZ proceed to a scoping study for this portion of the resource.

The eastern portion of the Highland Plains resource is deeper and apparently of a lower grade and has been valued separately.

1.1.3 Snowden opinion on exploration potential

Highland Plains, HP West, Murphy and Nicholson projects

The exploration tenements adjacent to the Highland Plains Project and those that comprise the Nicholson Project have numerous identified phosphate targets that Snowden considers have potential for economic discoveries, given the geology and experience at Highland Plains. These tenements also hold demonstrable potential for uranium mineralisation and targets have similarly been identified (notably Rheem Creek).

The Nicholson Project has identified iron mineralisation, the rights to which are the subject of a joint venture (“JV”) with a third party. Given the current market for iron ore projects and recent experience of Northern Territory operators in similar geology, Snowden has not ascribed significant value to this iron ore potential.

Manganese Joint Venture

POZ has entered into a JV agreement with a third party to explore for manganese on a large exploration tenement holding in the McArthur River area of the Gulf Country. This project is at a preliminary stage and Snowden does not specifically comment on the manganese potential of the tenements, but considers that there is also potential for identification of McArthur River-style base metal mineralisation.

Musgrave Project

The Musgrave Project lies in an area that has attracted considerable recent interest from major mining companies. Snowden observes concrete indications of nickel/copper/platinum group element (“PGE”) mineralisation and identified targets. POZ has entered into a JV with a third party that is focused on the region to explore this area.

Horse Well Gold Project

The Horse Well Gold Project is adjacent to resources identified by POZ’s JV partner, which has established exploration targets on the JV tenements. Snowden considers that this project has demonstrable potential to host economic gold mineralisation.

Other tenements

POZ holds numerous other tenements or tenement applications that Snowden has not valued and makes no comment on their exploration potential.

1.2 Scope of work

Snowden has provided a valuation of the POZ mineral assets to complement BDO’s IER. POZ owns or has interests in the following projects:

- Highland Plains Phosphate Project, Northern Territory:
 - The Highland Plains Phosphate Project has an Inferred Resource of 53 million tonnes (“Mt”) at 16% P₂O₅ which includes the WMTZ resource of around 10 Mt at 23% P₂O₅ as well as phosphate exploration targets
- Musgrave Nickel-Copper Project, Western Australia – POZ 100% (80% under option)
- Nicholson Iron Project, Northern Territory – Option Agreement
- Horse Well Gold Project, Wiluna, Western Australia – POZ 20%
- The “Manganese JV”, Northern Territory – Option Agreement

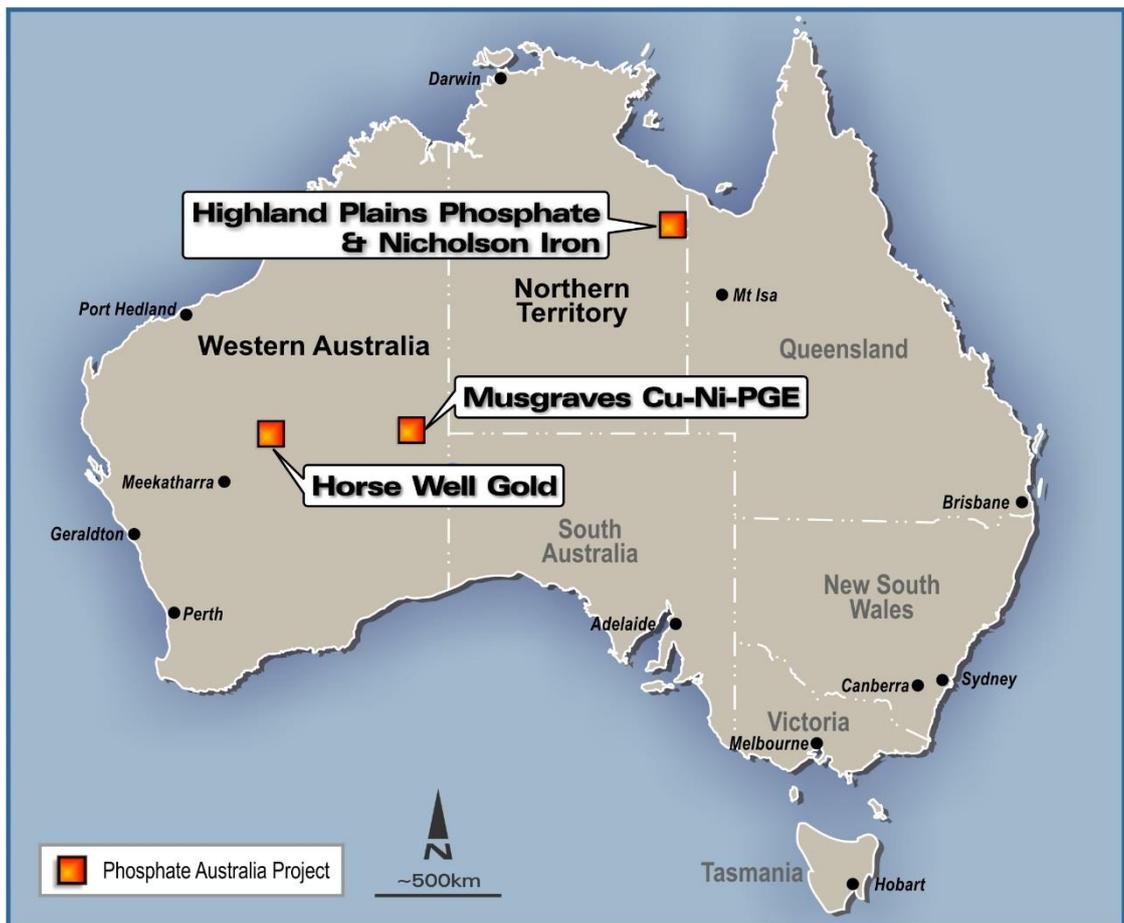
- The “HP West” tenements, contiguous with the Nicholson tenements, but not part of the Agreement.

1.3 Information supplied

POZ supplied electronic information to Snowden via email and zip files that comprise a tenement summary, JV terms, descriptions of the geology, and statutory annual reports for the projects and maps and diagrams.

Snowden has extensively reproduced or extracted this information in the compilation of this valuation.

Figure 1.1 POZ project locations



1.4 Tenements

Snowden is not a legal firm and is not qualified to make a legal opinion on the status of the leases held by POZ. Snowden has sighted title reports prepared by Austwide Mining Title Management Pty Ltd (“Austwide”), dated 9 April 2015 and discussed these with that firm and is satisfied as to there being good and valid title for each of the leases and that POZ has an interest in each of those leases as described in this report. Austwide has consented to the citing of its report in this context.

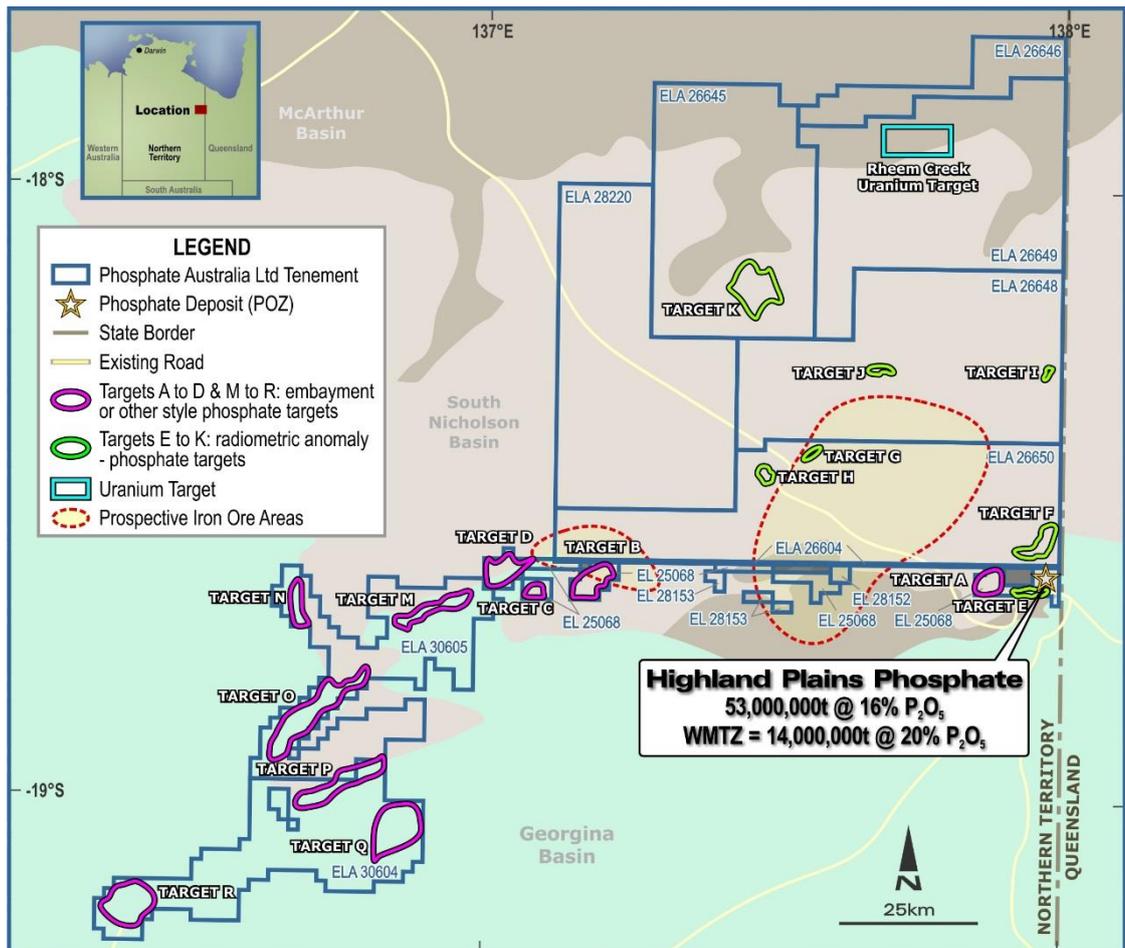
Snowden has not attempted to confirm the legal status of the tenements with respect to JV agreements, native title or potential environmental and land access restrictions.

Snowden has independently inspected the Northern Territory and Western Australian Department of Minerals and Energy websites “STRIKE” and “Mineral Titles Online” respectively and has confirmed that the tenement details shown in Table 1.2 and Table 1.3 are correct.

Snowden is satisfied that the granted tenements are in good standing (Table 1.2 and Table 1.3) as at the Valuation Date of 30 March 2015.

Figure 1.2 is a geological map showing POZ exploration licences and applications in the vicinity of Highland Plains in the Northern Territory.

Figure 1.2 Highland Plains, Nicholson and HP West tenements



Source: POZ

Table 1.2 POZ Northern Territory tenement portfolio

Lease	Project	Status	Application date	Grant date	Expiry date	Blocks	Area km ²	Expenditure commitment	Rent	Lease manager
EL25068	Highland Plains	Granted	24/11/2005	08/08/2006	07/08/2016	75	227.7	\$80,000	\$14,827	POZ
EL28152	Nicholson Project	Granted	08/06/2010	01/03/2011	28/02/2017	4	11.34	\$12,000	\$80	POZ
EL28153	Nicholson Project	Granted	08/06/2010	01/03/2011	28/02/2017	8	26.03	\$14,000	\$160	POZ
EL26604	Nicholson Project	Application	30/01/2008			53	40.59	\$15,000	\$1,749	POZ
EL26645	Nicholson Project	Application	05/02/2008			409	1335	\$185,000	\$13,497	POZ
EL26646	Murphy Uranium	Application	05/02/2008			91	293.4	\$185,000	\$3,003	POZ
EL26648	Nicholson Project	Application	06/02/2008			497	1606	\$80,000	\$16,401	POZ
EL26649	Nicholson Project	Application	06/02/2008			461	1489	\$80,000	\$15,213	POZ
EL26650	Nicholson Project	Application	06/02/2008			500	1616	\$80,000	\$16,500	POZ
EL27854	Manganese JV	Application	02/12/2009			491	1550	\$78,000	\$16,203	POZ
EL27855	Manganese JV	Application	02/12/2009			480	1485	\$77,000	\$15,840	POZ
EL27856	Manganese JV	Application	02/12/2009			241	774.7	\$41,000	\$7,953	POZ
EL28220	Nicholson Project	Application	16/08/2010			473	1509	\$80,000	\$15,609	POZ
EL30604	HP West	Application	10/03/2014			250	811.3	\$47,500	\$8,777	POZ
EL30605	HP West	Application	10/03/2014			250	812.8	\$47,500	\$8,777	POZ

Source: POZ

Table 1.3 POZ Western Australia tenement portfolio

Lease	Project	Status	Application date	Grant date	Expiry date	Blocks	Area km ²	Expenditure commitment	Rent	Lease manager
E04/2388	Ellendale	Application	15/12/2014			59	193.3		\$7,203.90	POZ
E12/11	Collie	Application	02/03/2015			11	31.55		\$1,343.10	POZ
E38/3036	Leinster	Application	08/01/2015			7	21.05		\$854.70	POZ
E38/3038	Leinster	Application	09/01/2015			18	54.19		\$2,197.80	POZ
E52/3276	Marymia	Application	30/3/2015			1	3.09		\$293.70	POZ
E59/2114	Dalgaranga	Application	17/02/2015			26	78.99		\$3,174.60	POZ
E69/2820	Horse Well	Granted	19/07/2010	07/05/2011	05/05/2016	18	55.67			Alloy
E69/2864	Musgrave	Granted	24/09/2010	07/03/2012	06/03/2017	200	618.90	\$200,000	\$23,340.00	PML
E69/3191	Musgrave	Granted	26/6/2013	13/10/2014	12/10/2019	54	176.10	\$54,000	\$6,651.90	PML
E80/4935	Kimberley	Application	29/01/2015			50	166.5		\$6,105.00	POZ
E80/4936	Kimberley	Application	29/01/2015			41	136.4		\$5,006.10	POZ
E80/4937	Kimberley	Application	29/01/2015			159	529		\$19,413.90	POZ

Source: POZ

1.5 Joint venture agreements

On 27 May 2013, POZ signed a JV agreement with Jimpec Resources Pty Ltd (“Jimpec”) for the exploration of iron and manganese deposits on twelve tenements in the Northern Territory held by POZ. In addition, the companies signed a Minerals Royalty Deed on 27 May 2013.

On 11 September 2014, POZ signed a JV agreement with Nicul Minerals Limited (“Nicul”) regarding 80% ownership of E63/3191 at the Musgrave Project. The tenement was later granted on 13 October 2014. The project lies in the relatively unexplored Musgrave Province of Western Australia. The project area consists of two 100% POZ held tenements, E69/2864 and E69/3191 (both granted) for a total area of 785.7 km². The project is currently operated (under option) by ASX listed PepinNini Minerals Limited (“PNN”), an established Musgrave explorer. POZ are 20% free carried until completion of a bankable feasibility study or Nicul expending \$15M on the Tenements (at which point POZ becomes a contributing party). At any point after the formation of the JV, POZ may elect to convert its 20% interest to a 1% gross revenue royalty.

On 12 September 2012, POZ signed an agreement with Alloy Resources Limited (“Alloy”) to grant an option to acquire an interest of 80% in tenement E69/2820. POZ retains a 20% interest in E69/2820 at the Horse Well Project which is free carried up to the completion of a bankable feasibility study. This tenement is a part of Alloy’s Horse Well Gold Project which lies approximately 50 km northeast of the major Jundee gold mine. The project is currently being actively explored by Alloy.

1.6 Disclaimer

Snowden has sighted title reports prepared by Austwide dated 9 April 2015, and discussed these with that firm and is satisfied as to there being good and valid title for each of the leases and that POZ has an interest in each of those leases as described in this report. Austwide has consented to the citing of its report in this context.

Snowden has not attempted to establish the legal status of JV agreements, heritage or potential environmental and land access restrictions. Snowden is not qualified to make legal representations in this regard and therefore specifically disclaims responsibility for these aspects for the purpose of this review.

Snowden has relied on the accuracy and completeness of the technical documentation supplied to it by POZ. Snowden has made all reasonable enquiries into the material aspects of the projects and makes no warranty or representation as to the accuracy or completeness of the information provided. Furthermore, Snowden accepts no responsibility for the information or statements, opinions, or matters expressed or implied arising out of, contained in, or derived from information contained in this report, unless specifically disclosed by Snowden.

This report is provided subject to the following assumptions and qualifications:

- POZ has made available to Snowden all material information in its possession or known to it in relation to the technical, development, mining and financial aspects of the project areas, that it has not withheld any material information and that the information provided is accurate and up to date in all material respects
- All reports and other technical documents provided by POZ correctly and accurately record the results of all geological and other technical activities and testwork conducted to date in relation to the project areas, and accurately record advice from any relevant technical experts

- All of the information provided by POZ pertaining to project areas or its history or future intentions, financial forecasting or the effect of relevant agreements is correct and accurate in all material respects.

In relation to the above qualifications, Snowden did not undertake any independent enquiries or audits to verify that the assumptions are correct and gives no representation that they are correct.

Snowden has not carried out any type of audit of POZ's records to verify that all material documentation has been provided. Snowden has however endeavoured, by making reasonable enquiry of POZ, to ensure that all material information in the possession of POZ has been fully disclosed to Snowden.

Snowden has made the assumption that all data supplied by POZ to Snowden is accurate and not misleading. Snowden has reviewed the data on the assumption that it is accurate, in particular drilling results and production details that form the basis of Mineral Resources, Ore Reserves and production forecasts.

Snowden has reviewed the important and relevant information in detail and is satisfied that the information is reliable, and the results are satisfactory and in accordance with standard industry practice. Snowden is satisfied that the information provided and relied upon in this report is complete and not misleading.

By accepting this report, POZ has agreed to indemnify Snowden from any liability arising from Snowden's reliance upon information provided or not provided to it.

1.7 VALMIN Code 2005

This valuation opinion has been prepared in consideration of the VALMIN Code (2005). Compliance with the VALMIN Code is obligatory to all members of the Australasian Institute of Mining and Metallurgy ("AusIMM"), the Mineral Industry Consultants Association ("MICA") and the Australian Institute of Geoscientists ("AIG") who are involved in independent technical and valuation reports.

1.8 Responsibility

This report was prepared by Mr Jeremy Peters (Principal Consultant – Mining Investment Governance) as principal author, who was assisted by Mr Terry Parker (Principal Consultant – Mining Investment Governance), and was reviewed by Mr John Elkington (Group General Manager – Mining Investment Governance).

Mr Peters is a mining engineer and geologist with over 24 years' relevant experience in mining and geology, and is a Fellow of the AusIMM and Chartered Professional Geologist and Mining Engineer of that organisation. He has the appropriate qualifications, expertise and more than five years' experience in similar work to undertake this valuation, as required by the VALMIN Code (2005).

Mr Parker is a geologist with over 44 years' relevant experience in geology, and is a Fellow of the AusIMM and Chartered Professional Geologist of that organisation. He has the appropriate qualifications, expertise and more than five years' experience in similar work to undertake this valuation, as required by the VALMIN Code (2005).

1.9 Site visits

Snowden advises that, under the VALMIN Code, a site visit is normally required for formal valuation purposes if it is considered practicable to do so. In this instance, time restrictions have precluded a site visit to the major contributor of value, the Highland Plains Project. The disparate and remote location of the other projects and their preliminary level of development preclude visiting these projects.

A site visit has been undertaken to the Highlands Phosphate Project by Mr Ted Hansen of Cube Consulting Pty Ltd (“Cube”), who together with Mr Rick Adams estimated the Mineral Resources at the project. Snowden is familiar with Mr. Hansen and accepts his opinions in preparing the Resource estimate. Mr Hansen agrees to his being named in this valuation in this context.

Mr Rick Adams and Mr Hansen are directors of Cube and independent of POZ. They have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a competent Person as defined in the December 2012 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves” (the “JORC Code”).

1.10 Valuation Date

The opinions expressed and conclusions drawn with respect to this valuation are appropriate at the Valuation Date of 30 March 2015, which reflects the timing of the On-market Takeover Offer for POZ that was announced by MVT. The valuation is only valid for this date and may change with time in response to variations in economic, market, legal or political conditions in addition to ongoing exploration results.

1.11 Independence

At the date of this valuation study, Mr Peters, Mr Parker, Mr Elkington and Snowden had no association with POZ or its individual employees, or any interest in the securities of POZ, which could be regarded as affecting the ability to give an independent unbiased valuation. Snowden will be paid a fee for its study based on a standard schedule of rates for professional services, plus any expenses incurred. The fee is not contingent on the results of the study or valuation.

1.12 Heritage and environmental liabilities

Snowden has not attempted nor is qualified to establish the legal status of the tenements with respect to heritage issues or potential environmental and land access restrictions. Snowden has assumed that POZ has legal access to all current and proposed mining operations that are subject to this valuation.

2 Phosphate Australia Limited projects

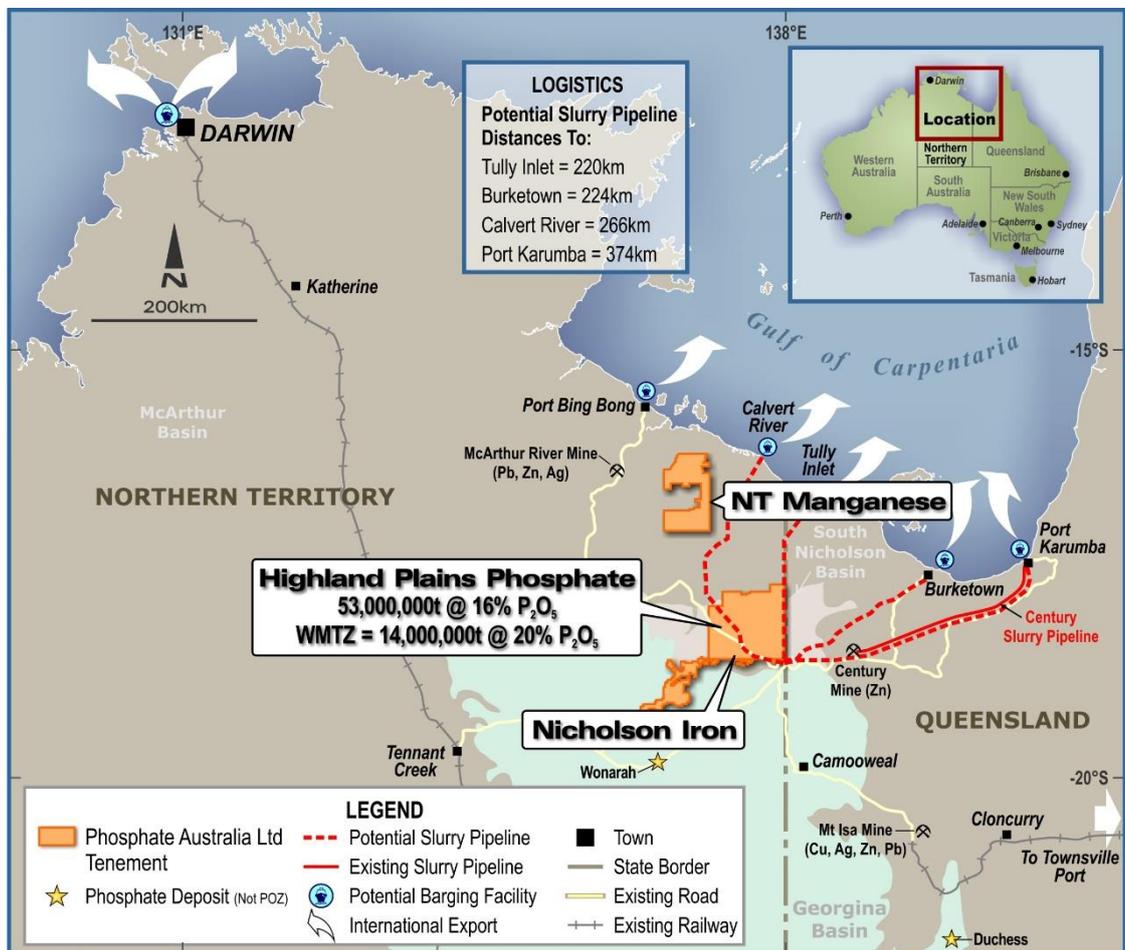
2.1 Highland Plains Phosphate Project, Northern Territory

2.1.1 Location, topography and access

The Highland Plains Project (EL25068) is located in the Northern Territory (Figure 2.1). It is situated around 410 km from Mt Isa in Queensland. Access to the tenement is along the Barkly Highway to Camooweal, and thence via the unsealed gazetted Rocklands Road and station tracks heading north along the Northern Territory Border.

Access to Highland Plains crosses black soil plains and areas of fine red bull-dust and hence access to the project can be difficult, particularly after rain. The Lancewood Creek in the southern part of the Highland Plains project area is prone to flash flooding after a rainy outburst, making the creek impassable for a couple of days.

Figure 2.1 Highland Plains project location



Source: POZ

The topography of the Highland Plains area consists of hummocky hills in the west, which defines the WMTZ where phosphatic siltstone is just below the soil horizon. Heading east from the WMTZ, the central area becomes more subdued, typical of an alluvial washout zone or alluvial fan which has eroded the tops of the hills. As the phosphatic zones dip to the east, weathering has not eroded the mineralisation and it is intersected at depths from 15 m. The topography over the mineralisation to the east is also fairly flat, however the topography over the mineralisation to the north and south in these areas consists of prominent hills which separate the Cambrian sequences from the lower lying Proterozoic sequence shales.

In the distance and partly off the tenement, a Proterozoic cliff formation bounds the mineralisation to the north and west. In the south, a quartzitic promontory has defined the southern part of the mineralised zone. These cliffs constitute a C-shaped embayment where the sea level once transgressed, providing a trapping environment and quiet conditions with upwelling cold waters suitable for phosphorite deposition.

2.1.2 Climate

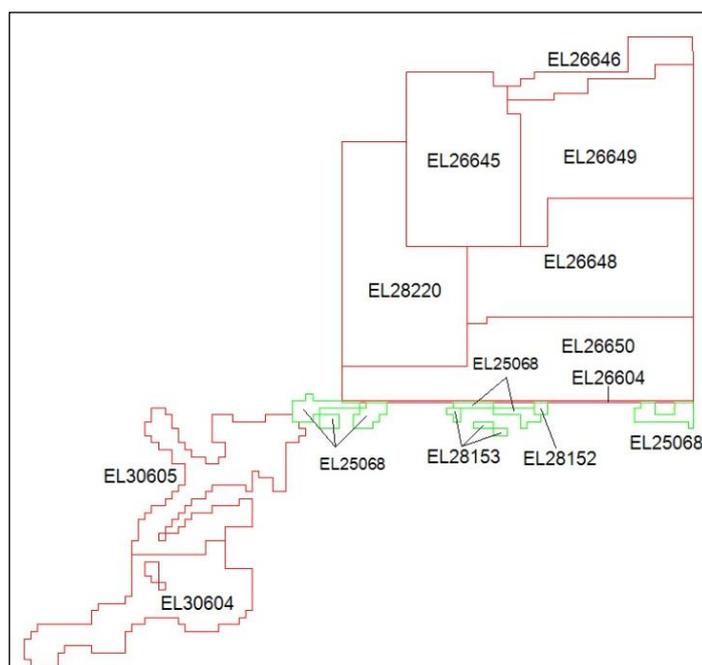
The Northern Territory experiences a tropical weather pattern. The dry season occurs from roughly April until November each year. November to March is the wet season when rain and thunderstorms can be significant.

Temperature generally reaches mid 30°C by early September and by late October approaches 40°C. Cycles of heat causing cloud build-up followed by rain become more frequent, and by December there can be daily cloudbursts with associated lightning.

2.1.3 Tenements

Figure 2.2 shows granted tenements EL28152 and EL28153 which are contiguous with and were once part of EL25068. Snowden refers to tenements EL30605 and EL30604 as “HP West” for the purposes of this valuation.

Figure 2.2 Granted Highland Plains tenements



Source: POZ

POZ's phosphate assets are held in three granted exploration licences and nine exploration lease applications which confer first in line mineral rights. The total area under title is 9,778 km². POZ owns the phosphate mineral rights to these titles 100%. The three granted titles are on Government Crown Land.

Seven of the nine lease applications are on Aboriginal Freehold Land and require negotiating access agreements with the traditional owners of the Waanyi/Garawa Aboriginal Land Trust.

2.1.4 Geology

Regional geology

Highland Plains falls within the Palaeozoic Georgina Basin, an intracratonic sedimentary basin comprised of shallow marine successions up to 450 m thick. Typically the successions consist of carbonate and marine clastic rocks, evaporites, fluvial and lacustrine continental sandstones, glaciogenic sediments, shale and siltstone overlain by marine carbonates and clastic rocks of Cambrian to Ordovician age (McCrow, 2008). In parts this is overlain by Silurian to Early Carboniferous terrestrial sediments.

Within the central region, the platform has been subdivided into an eastern Undilla Sub-basin and a western Barkly Sub-basin, separated by the Alexandria-Wonarah Basement High.

During the early middle Cambrian, a sea level transgression inundated the central Basin depositing sediments within a tectonically quiescent platform. By the middle Cambrian phosphogenesis became widespread as a result of cold water upwelling from deeper marine conditions. Numerous phosphate deposits occur within the Georgina Basin, deposited in restricted marine embayments. These embayments form the basement topography which controlled the phosphorite deposition. Black soil horizons – a weathering product of the dolostones and limestones – have subsequently covered the topography, leaving flat and featureless terrain in parts.

The embayment was bound by land to the north, south and west and had restricted flow out of the Burke River Outlier to the east (McCrow, 2008). Today the basin is surrounded by the Nicholson and MacArthur sub-basins in the north, the Tennant Inlier to the west and the Arunta Province to the south. Facies changes within the successions make stratigraphic associations between different parts of the Basin difficult.

Project geology

The Highland Plains Phosphate Project consists of siltstones, cherty siltstones, sandy siltstones and ferruginous sandy siltstones overlying banded, alternating dark and creamy claystones that show distinctive leisegang textures and form the basal unit of the economic phosphate horizon. These units are of Cambrian age and belong to the Lower Border Waterhole Formation.

In the western area, phosphatic siltstones may be found near surface just below the soil horizon, typically associated with manganese, which either appears as a pressure intergrowth or in dendritic growth patterns.

The phosphate occurs in two horizons now defined as the upper and lower zones of the WMTZ.

In the central area the topography is mainly flat, compared to the hummocky hills in the west. This central area consists of outcropping barren white siltstones, reddish white sandy siltstones and remnants of black soils eroded from the dolostones/limestones. These overlie phosphatic siltstones and cherty phosphatic siltstones which occur at depth.

To the east the area continues to be flat, but the ore zone is bound by hummocky hills to the north and south, similar to those in the WMTZ.

A conglomerate marker horizon may be intersected in the western edges of the Central Zone, consisting of well-rounded pebbly clasts ranging from millimetres to several centimetres in size.

A large slump block occurring in the Central Zone suggests an alluvial fan grew after the sea level regressed, and was supplied from the Proterozoic cliffs to the North. These cliffs are part of the Bluff Range Formation.

The phosphatic siltstone horizons dip generally to the east at roughly 30°. Variable dips suggest structural activity such as faulting and possibly gentle folding at oblique angles. A graben structure may also have caused the Central Zone structure.

The Lancewood Creek follows a fault line bounding the deposit to the south. This normal fault has dropped the southern block and has subsequently become infilled by dolostones and dolomites of the Camooweal Formation. The younger Bush Limestone conformably overlies the sequence closer to the fault.

Siltstone sequences may in parts underlie this Formation at depth, however drilling to date to the south of the fault has not confirmed this theory and the dolomites may occur to around 100 m depths.

Barren siltstone sequences and limestone occur to the south of the ore zone. This possibly ties in with the barren siltstones in the central part of the ore zone which could represent another, later, sea level transgression. The conglomerate may represent this sea level stand in the middle of the sequence.

The above allows the phosphate depositional environment to be reconstructed. Proterozoic metasedimentary cliffs to the north and west formed a quiet marine embayment and thus a trapping environment as the sea transgressed to the northwest. This warm embayment had upwelling cold water from the deep ocean creating the right temperature, pH and Eh conditions for phosphorite precipitation.

In the southwest, a quartzitic horizon, probably once a sandbar, controlled sedimentation to an eddying environment within the C-shaped embayment, effectively depositing the phosphorite in northwest-southeast bands.

The phosphorite occurrences at Alexandria, Buchanan Dam and Alroy probably formed under similar conditions as Highland Plains, but are now geomorphologically very different.

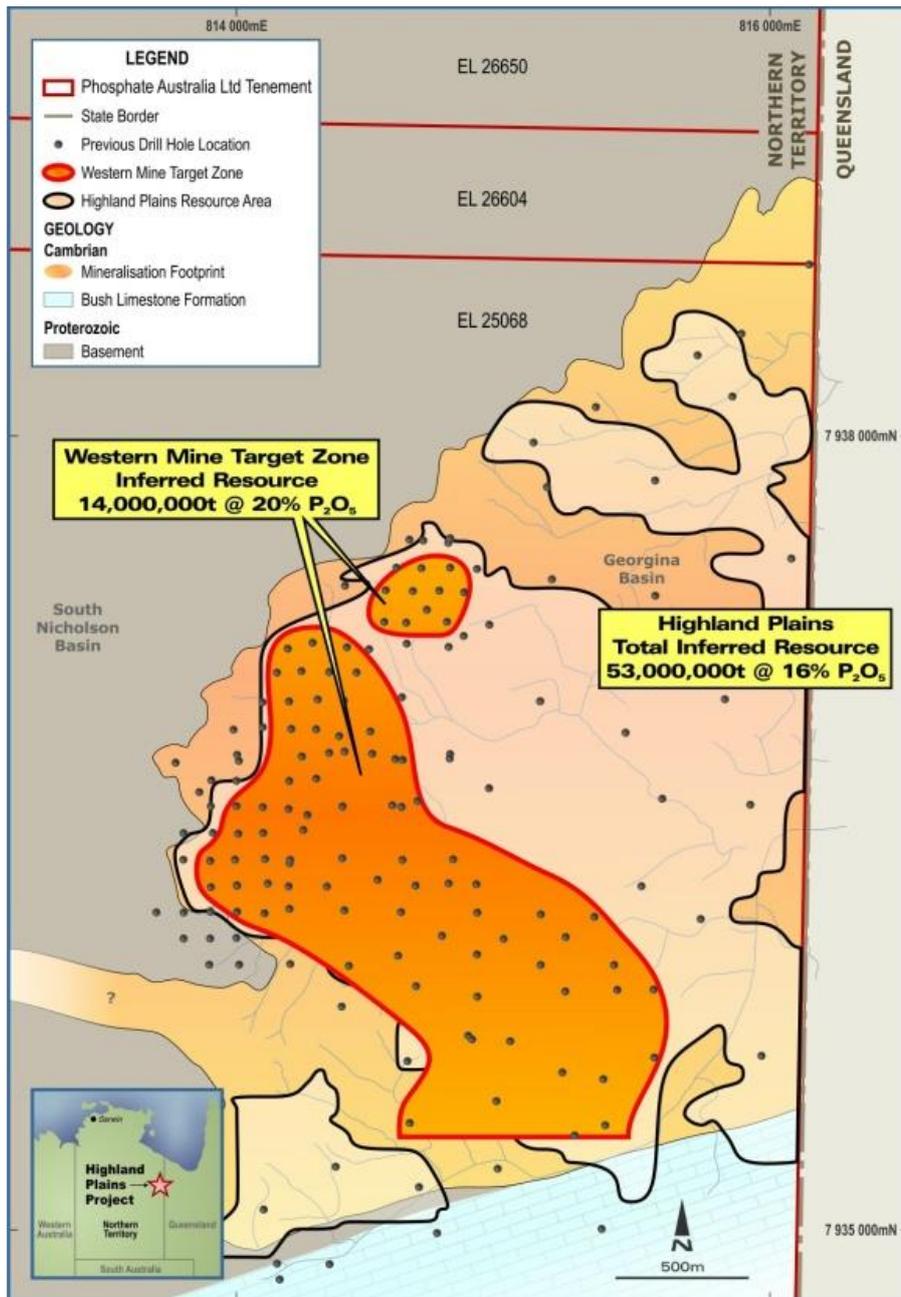
The Proterozoic embayment is now a basement feature and the siltstone sequences are covered over by the Camooweal Dolostones which have weathered to flat, barren, black soils plains.

2.1.5 Mineral Resources and Reserves

There are no Reserves estimated for the Highland Plains Project.

The Highland Plains Project has been extensively drilled over a large area (Figure 2.3) and the Inferred Resource subdivided into the readily accessible WMTZ.

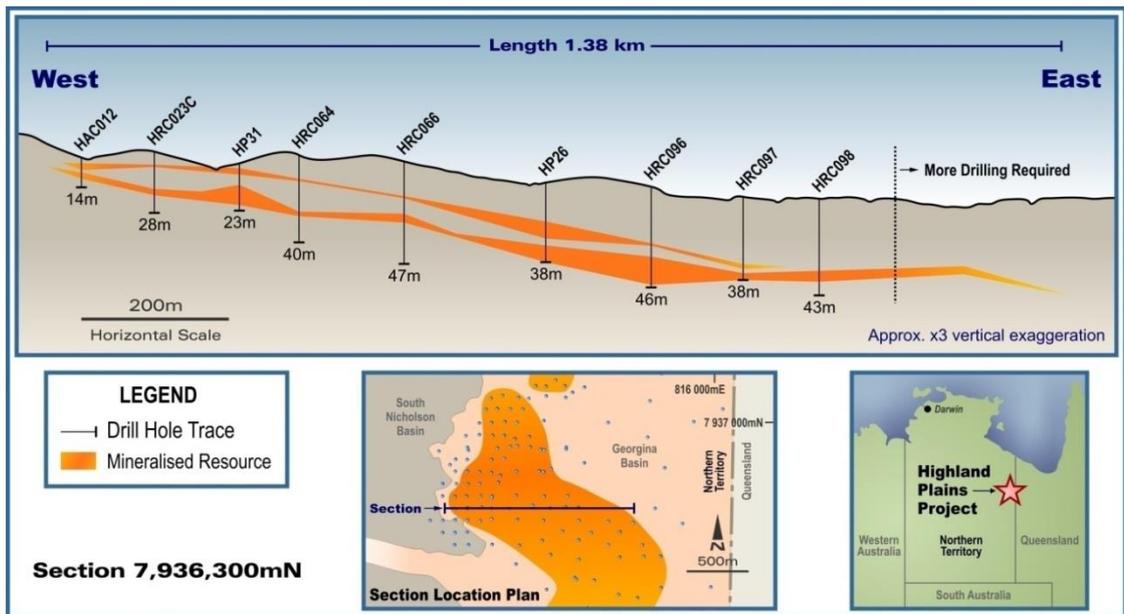
Figure 2.3 Highland Plains Project



Source: POZ

The deposit occurs as two horizons, dipping gently eastward (Figure 2.4, approximate 3X vertical exaggeration).

Figure 2.4 Long-section of the Highland Plains (WMTZ) phosphate deposit



Source: POZ

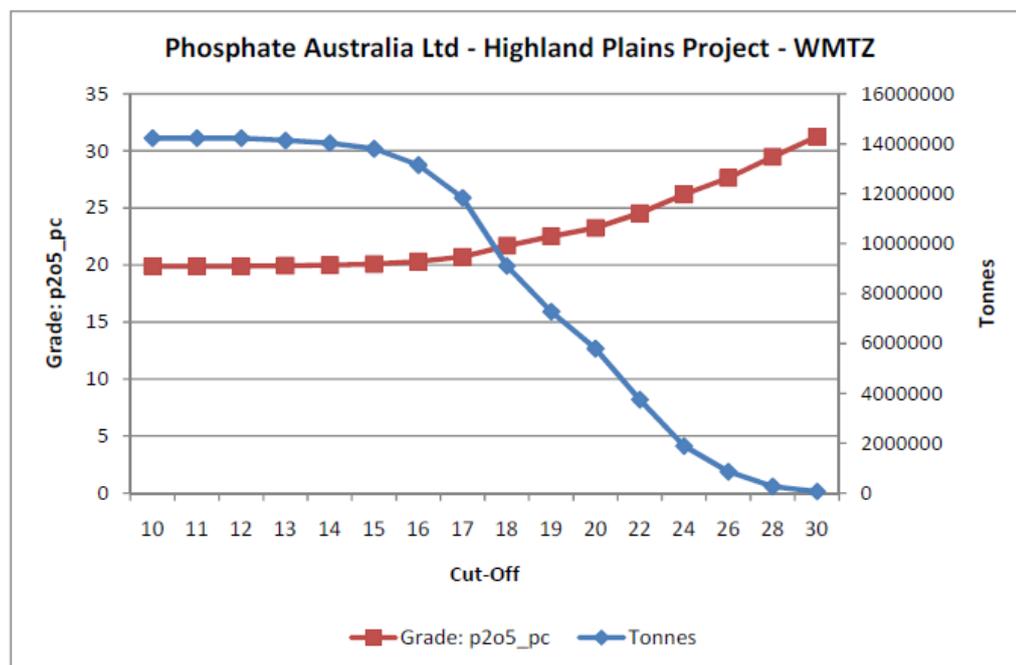
The resources were estimated by Perth independent mining industry consultants, Cube, and Snowden considers the Resources to have been estimated competently. The global Inferred Resource is 53 Mt at 16% P₂O₅ at a 10% P₂O₅ cut-off, estimated in accordance with the JORC Code (2004 edition) guidelines².

The WMTZ is shallower and has a higher grade Inferred Resource of 14 Mt at 20% P₂O₅ at a 15% P₂O₅ cut and is a subset of the Total Mineral Resource (Figure 2.5).

The WMTZ is shallower in department and potentially attracts a lower stripping ratio, were it to be mined. Snowden has sighted a considerable volume of data generated by POZ in relation to the WMTZ and this supports potential economic viability, in Snowden’s opinion. This represents the most economically attractive portion of the global Resource identified to date and has been valued separately by Snowden.

² Cube Consulting Pty Ltd, Technical Report, POZ, WMTZ, September 2010

Figure 2.5 Highland Plains tonne-grade curve



2.1.6 Project status

POZ’s concept is to transport 3 million tonnes per annum (“Mtpa”) as slurry by pipeline to the coast. Technical work in December 2009 indicated transport costs were estimated from AU\$2.06 to AU\$3.69 per tonne (pipeline operating costs only). Notably, the Century base metals mine, to the east of the project, will imminently cease operations and that pipeline may be available for transport.

Initial Environmental Field Studies including fauna and flora survey fieldwork have been completed to support the application for a mining licence.

Drilling to date includes 36 historic holes for 1,049 m, 130 POZ reverse circulation (“RC”) and air core (“AC”) holes for 3,721, m and 17 POZ diamond core holes for 343 m.

Flotation testwork has resulted in grades of 32.3% P₂O₅ (upgraded from 23.4% P₂O₅) at 76% recovery from the coarse and fine fractions. The metallurgical testwork has established a method of beneficiation with economic recoveries (Table 2.1).

Table 2.1 Best metallurgical results to date

	Material	P ₂ O ₅ %	SiO ₂ %	Al ₂ O ₃ %	Fe ₂ O ₃ %	Recovery P ₂ O ₅ %
Test 1	Input material	23.4	30.8	4.3	4.2	-
	Coarse fraction >5 um	37.4	6.3	0.5	0.7	53.1
	Coarse and fine fractions	32.3	12.3	4.3	1.8	75.8
Test 2	Input material	25.6	26.2	3.9	4.1	
	Coarse fraction >5 um	36.5	7.6	0.7	1.0	51.0
	Coarse and fine fractions	31.8	12.9	4.4	2.0	73.7

Source: POZ

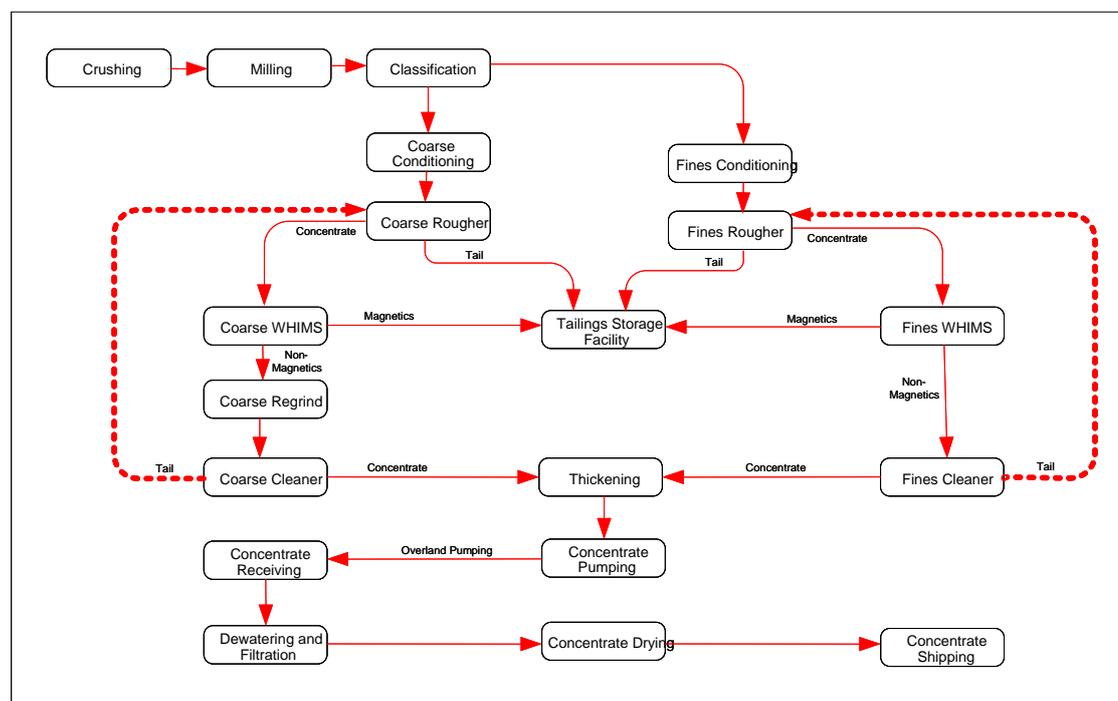
Highland Plains phosphate has low levels of the contaminants C, S, F, Cl, Cd and U averages using 22.9% P₂O₅ cut-off (Table 2.2).

Table 2.2 Minor element assays (average using 22.9% P₂O₅ cut-off)

C %	S %	F %	Cl ppm	Cd ppm	U ppm
0.20	0.06	1.82	112	4	38

Figure 2.6 shows the conceptual metallurgical flowsheet, which requires pilot plant testing.

Figure 2.6 Concept metallurgical flowsheet



Source: POZ

The results of the technical work indicate:

- CAPEX estimates vary from AU\$184 M to AU\$226M (slurry pipeline)
- OPEX estimates vary from AU\$2.06/t to AU\$3.69/t for a 2 Mtpa to 3 Mtpa operation (slurry pipeline)
- CAPEX payback: 2.5 to 3 years.

Slurry would be de-watered and loaded onto a coastal barging operation with transshipment to bulk carrier similar to existing operations at Karumba or Bing Bong.

Minor element lead values averaged 190 ppm on selected samples (P₂O₅ grade of 14.9%). This anomalism generally occurs in parts of the base of the phosphate beds and could be mitigated through selective mining practices and/or metallurgical separation.

2.1.7 Regional exploration targets

The marginal marine deposits of the Cambrian Georgina Basin in Queensland and the Northern Territory are prospective for phosphate. The phosphatic rocks in the Highland Plains Project are part of the Cambrian Border Waterhole Formation. These units are thought to be part of a shallow marine sequence that was deposited in an embayment in the Cambrian Sea.

The Cambrian palaeo-coastline extends to the west of Highland Plains for at least 110 km within EL26650. Embayments or shallow shelf areas along this trend are thought to be prospective for phosphate. A total of eight “zones of exploration interest” have been identified from Landsat imagery along this palaeo coastline to the west of Highland Plains in embayments in EL25068.

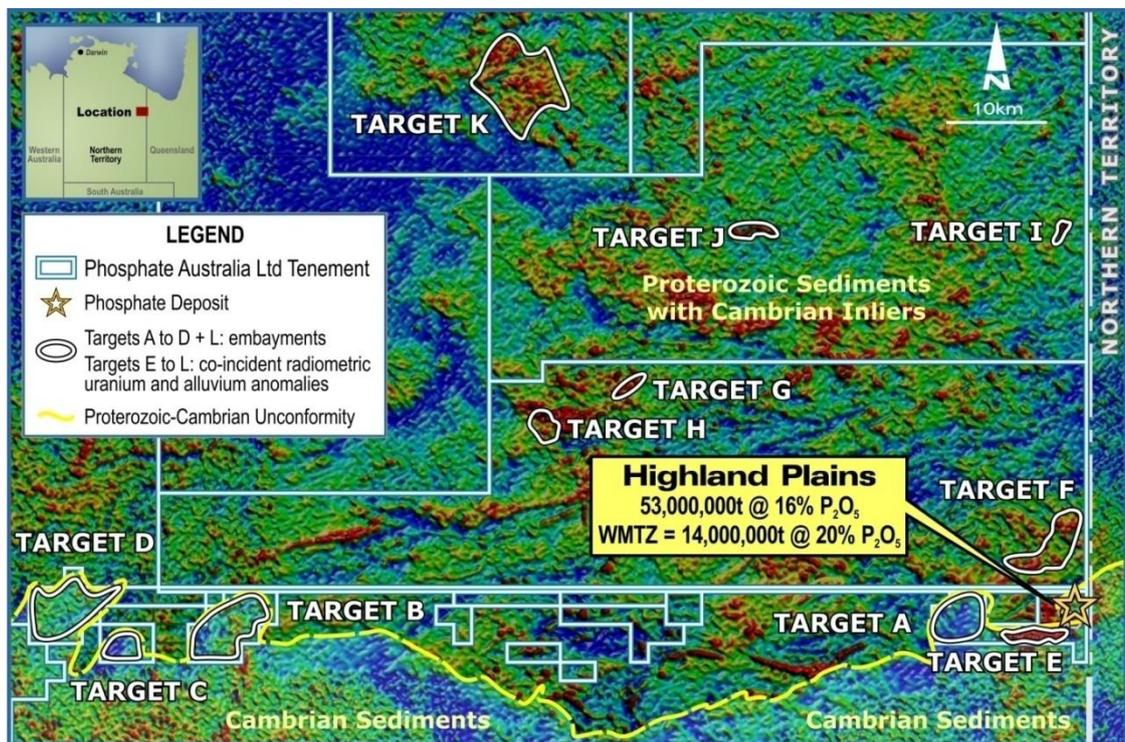
Three phosphate prospects have been discovered by previous explorers near Alexandria Station and at Alroy and Buchanan Dam. The prospects are located within EL30604 and EL30605, which Snowden terms “HP West” for the purposes of this valuation, to the southwest of Highland Plains.

The Highland Plains Project represents a considerable resource of phosphate. The phosphatic units are thought to be contained in the mudstone with the highest grades probably occurring in the breccia slump sheets. The rest of the mudstone unit may contain lower grades of phosphate. The resource could be larger than previously reported, but much of this will be of lower grade.

POZ and Jimpec have identified numerous targets in a remote sensing and geophysical program³ (Figure 2.7 and Figure 1.2). Along-strike targets (A to D) lie due west from Highland Plains in embayments following a Proterozoic unconformity and are geologically in the same setting as the Highland Plains deposit.

Radiometric targets (F to K) are prospective for phosphate mineralisation from surface. These are potential Cambrian phosphate inliers within the Proterozoic basement.

Figure 2.7 Regional exploration targets over radiometrics



Source: POZ

³ C&R Consulting, July 2013

2.1.8 Highland Plains Phosphate Project ongoing objectives

POZ has the following ongoing objectives:

- Mining lease application to be lodged and progress to grant
- Metallurgical pilot plant testing to produce a final product specification and bulk off-take product
- Market product to potential off-take clients
- Further drilling at Highland Plains with the aim of increasing the resource base
- Drill other phosphate projects and exploration targets to further increase resource base
- Ongoing prefeasibility studies for mine, transport and barging options
- Studies into development of slurry pipeline direct to export vessel
- Progress permitting for Highland Plains as required.

2.2 Musgrave Nickel-Copper Project, Western Australia – POZ 100%

POZ holds 100% of this project but has vended a JV option agreement to another operator, retaining a 20% free carried interest. Snowden has valued POZ's 20% interest in the project, reasoning that given its other commitments, the project can only be developed by the JV partner.

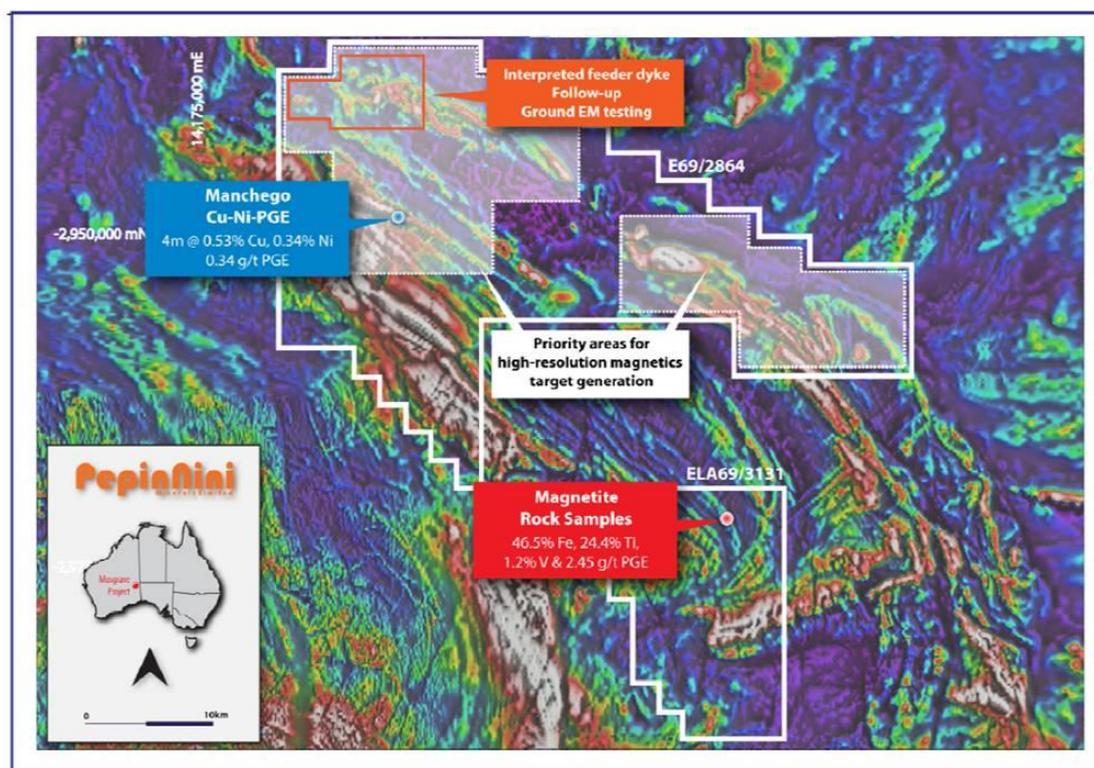
2.2.1 Location and access

The Musgrave Project occurs in the central east region of Western Australia close to the Northern Territory and South Australian borders.

2.2.2 Tenements

The Musgrave Project consists of two exploration licences, EL69/2864 and EL69/3191 (Figure 2.8).

Figure 2.8 Musgrave location, mineralisation and magnetic imagery



Source: POZ

2.2.3 Joint venture agreement

On 11 September 2014, POZ signed a JV option agreement with Nicul regarding 80% ownership of EL69/2864 and E69/3191. The tenement E69/3191 was later granted on 13 October 2014. The parties agreed to Nicul having an 80% interest in E69/2864 and E63/3191 with POZ being free carried upon the successful completion of a bankable feasibility study or Nicul expending AU\$15M on the tenements (whichever occurs first).

2.2.4 Geology

The Musgrave Province comprises an elongate east-west trending belt of Neo Proterozoic rocks approximately 800 km long by 350 km wide. It represents crust sandwiched in the triple point junction between the Achaean and Palaeo-Proterozoic Western and South Australian Cratons, and the Palaeoproterozoic Northern Australian Craton. The western half of the Musgrave Province is flanked by the Phanerozoic Canning Basin to the northwest, the Neoproterozoic to Middle Palaeozoic Amadeus Basin to the north and the Neoproterozoic Officer Basin to the south.

The bedrock geology of the Musgrave Province (taken from Evins *et al.*, 2010) is summarised as comprising Granulite gneisses of the (1340 Ma to 1300 Ma) Wirku Metamorphics intruded and deformed by granites of the (1220 Ma to 1150 Ma) Pitjantjatjarra Supersuite, during the long-lived Musgravian Orogeny.

The overlying Kunmarnara Group of volcano-sedimentary rocks is comprised of the MacDougall Formation (basal sandstones, pebbly sandstones and conglomerates) and the Mummawarrawarra Basalts (amygdaloidal basalts). This, in turn, is overlain by the Tollu Group (felsic lavas of the Smoke Hill and mafic to intermediate lavas of the Hogarth Formation).

The Giles intrusive complex is mostly bracketed by the rocks of the Kunmarnara and Tollar Groups. The Giles complex comprises at least 20 sheet-like bodies that extend for 550 km along an east-west trend. The mafic-ultramafic rocks of the Giles complex are the main range forming rocks of the eastern half of the West Musgrave.

Recent work suggests that the previously accepted age of 1078 Ma of the Giles complex represents a minimum age. The maximum age of the Giles complex is now considered to be constrained by the age of the Kunmarnara Group (1170 Ma).

Layered intrusions of the Giles complex were folded shortly after emplacement by an as yet unnamed deformation event. The Townsend Quartzite represents the base of the Officer Basin at the southwest edge of the Musgrave Province.

The basement rocks in the Musgrave Province extend from South Australia to Western Australia and are primarily exposed due to the Petermann Orogeny (580 Ma to 530 Ma), which exhumed the orogenic belt along the Woodroffe Thrust. The Petermann Orogeny comprised north directed thrust faulting that uplifted the Musgrave Block and imparted the east west structural grain. At the same time the southern margin of the Musgrave Block was thrust south over lower density younger sedimentary rocks of the Officer Basin as delineated in an abrupt gravity and magnetic geophysical break that marks the boundary.

2.2.5 Mineralisation

Economically significant mineral deposits discovered to date within the Warakurna Supersuite of the West Musgrave by other explorers include:

- Wingellina Hills lateritic nickel deposit with 183 Mt at 1% Ni and 0.07% Co
- Jameson range stratiform vanadiferous magnetite deposits estimated at 100 Mt at 1% V₂O₅ (Daniels, 1974)
- Nebo-Babel (40 km south of the Spinifex Project) disseminated to semi massive nickel-copper-PGE deposit hosted within gabbro intrusions south of Jameson Range, discovered by BHP in 2002, with an estimated resource of 392 Mt at 0.30% Ni, 0.33% Cu.

2.2.6 Exploration potential

The Musgrave Province is considered one of the most prospective but under-explored Proterozoic terrains in Australia. Two very large copper and nickel resources (Babel-Nebo and Wingellina) have been identified in the region, but the projects' isolation and a long history of difficult access conditions has deterred ongoing exploration activity.

A recently revised access regime has made exploration more attractive and viable and this has helped lead to the current elevated level of exploration activity currently.

The Musgrave Province is considered prospective for nickel-copper and PGEs within the Giles Intrusions and copper within the gabbro and mafic dykes of the Alcurra Dolerite.

Work on POZ's tenements has identified the Manchego nickel-copper-PGM exploration target on EL69/2864 and a mineralised magnetite occurrence on EL69/3191.

2.3 Nicholson Project, Northern Territory

The Nicholson Project is contiguous with the Highland Plains Phosphate Project and is equally prospective for phosphate, irrespective of other commodity targets.

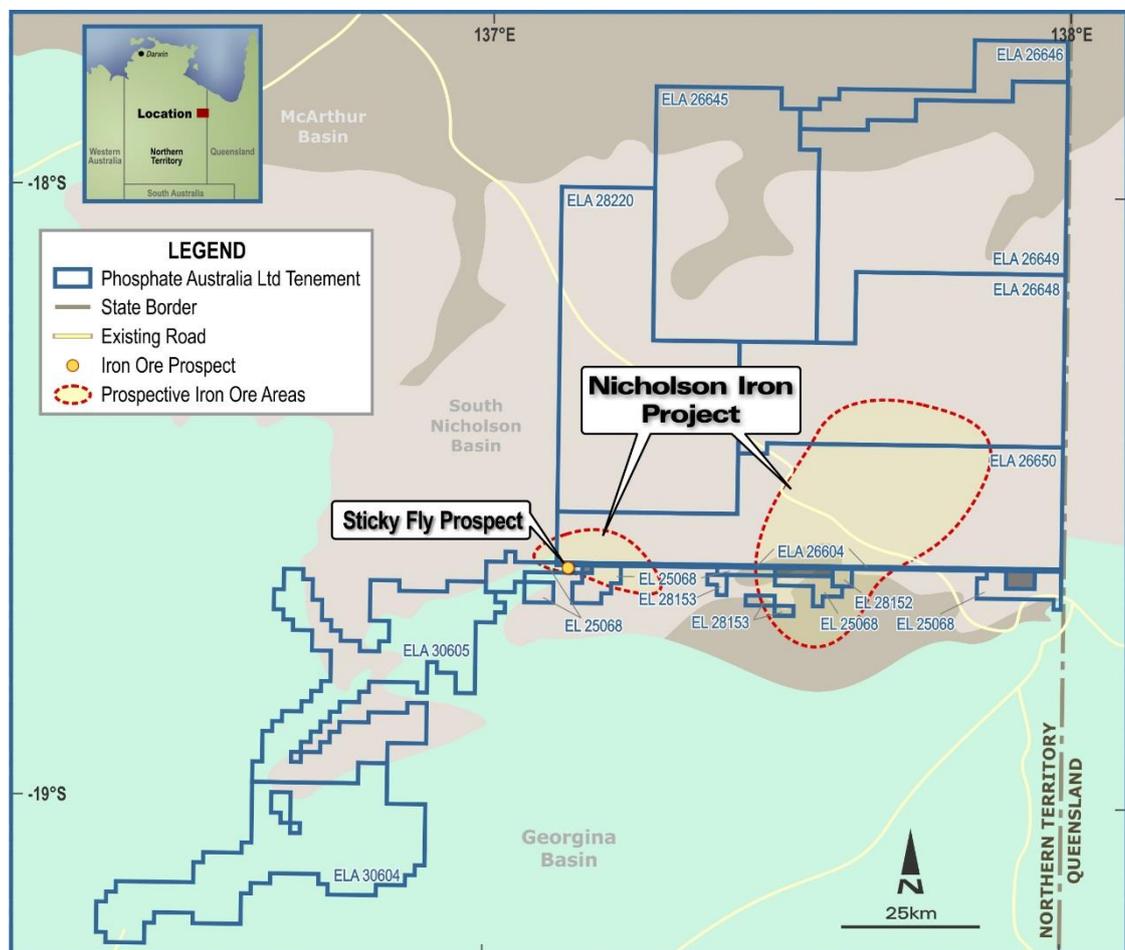
2.3.1 Location and access

The Nicholson Project occurs west of the Highland Plains phosphate project area and includes identified phosphate, uranium and iron and manganese exploration targets. Iron and manganese exploration has been joint ventured with a third party.

2.3.2 Tenements

Tenements west and north of Highland Plains proper form the Joint Venture (Figure 2.9, EL25068, EL28152, EL28153, EL26604, EL26645, EL26648, EL26649, EL26650 and EL28220).

Figure 2.9 Nicholson iron tenements



2.3.3 Exploration joint venture (Jimpec)

On 17 May 2013, POZ signed a JV agreement with Jimpec for the exploration of iron and manganese deposits on the JV tenements in the Northern Territory held by POZ. In addition, the companies signed a Minerals Royalty Deed on 17 May 2013.

During the annual exploration period until August 2014, Jimpec continued its evaluation of the iron and manganese mineralisation potential of the granted tenements EL25068, EL28152 and EL28153 and conducted an investor field trip to the Sticky Fly and Fearless Fly iron deposits.

Iron and manganese mineralisation are expected to be the focus of Jimpec exploration in the coming reporting period.

2.3.4 Iron exploration potential

Outcropping Proterozoic rocks of the South Nicholson Basin in the tenements are considered to be prospective for Clinton-style oolitic iron ore deposits. Granular iron formations (“GIFs”) are known to occur in the Proterozoic quartzites in EL25068 and EL26650. The iron is thought to be of the ‘Clinton-type’ in which the iron originated as syn-sedimentary iron-rich oolitic sands in the Proterozoic basin. Two main areas of iron ore were designated the Central and Western targets.

Field observations, indicate that the iron ore targets in EL25068 together may contain in the order of 3 million cubic metres of iron-bearing quartzites. This can be considered a conservative figure as the thickness of the units cannot be accurately estimated and the north-eastern extension of the Western Target is under cover. The grades are also not known although it is thought that most of the outcropping GIFs grade about 45% Fe.

2.4 Rheem Creek Uranium Project

Rheem Creek is identified by an extremely high radiometric anomaly and is considered by POZ to hold great potential for this reason.

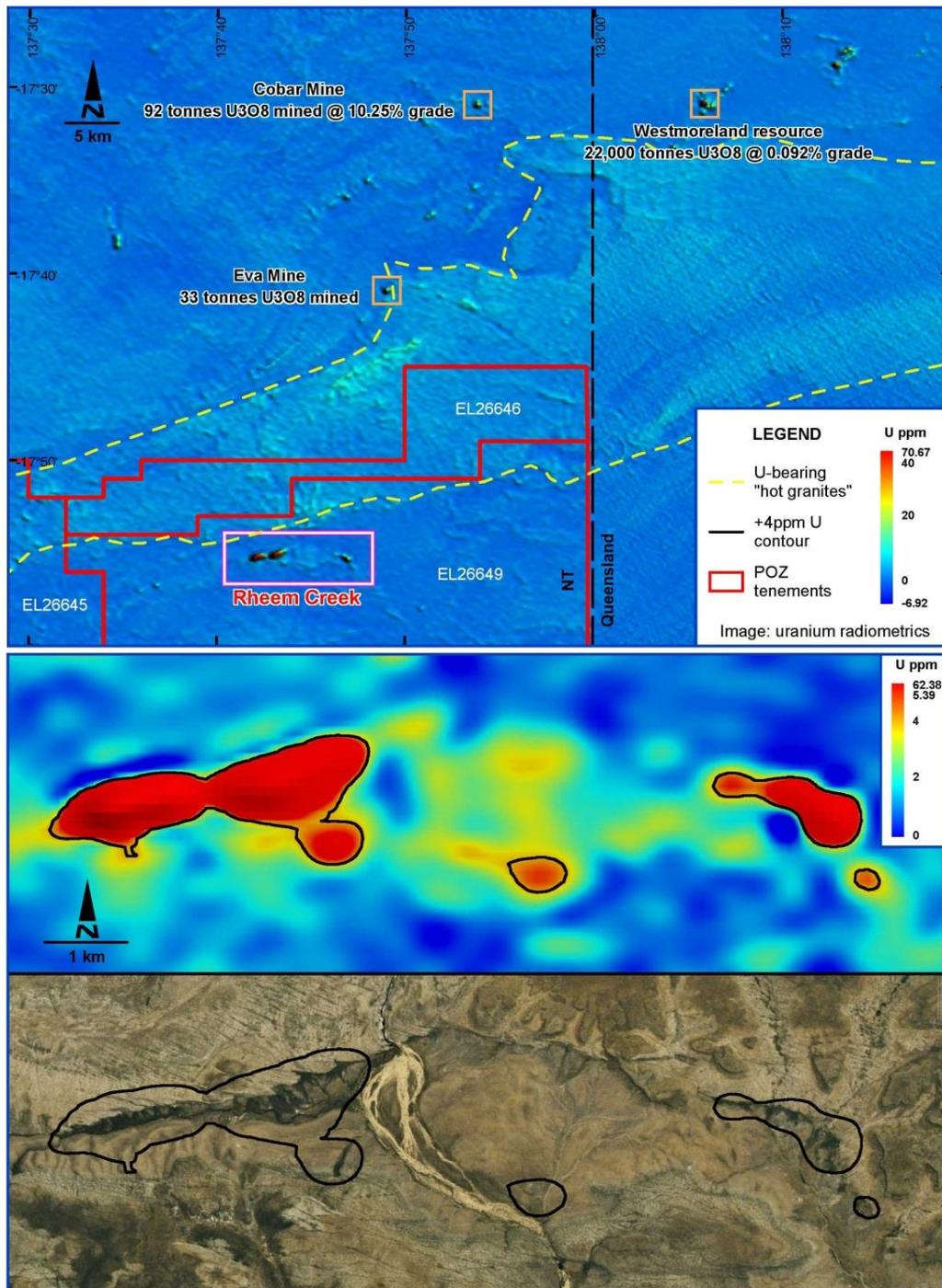
2.4.1 Location and access

The Rheem Creek Uranium Project occurs in the Northern Territory close to the Queensland border.

2.4.2 Tenements

The Rheem Creek Uranium Project consists of three exploration licences, EL26645, EL26636 and EL26649 (Figure 2.10).

Figure 2.10 Rheem Creek Uranium Project



Source: POZ

2.4.3 Exploration

The Rheem Creek Project consists of a series of anomalous radiometric features 2.5 km south of the radiometrically 'hot' granites of the Nicholson Inlier (Figure 2.10). Background uranium averages 1.5 ppm uranium equivalent at Rheem Creek and peaks at 62 ppm over the main anomaly. Other anomalies measure 45 ppm, 21 ppm and 5 ppm. The anomalies are hosted in weakly radioactive Upper Proterozoic Constance Sandstone. Background uranium over the Nicholson Inlier averages 3.5 ppm.

Rheem Creek is 60 km southwest of the Westmoreland deposit which contains 22,000 tonnes U_3O_8 at 0.092% U_3O_8 . It is 48 km south of the historic Cobar mine, which produced 92 tonnes U_3O_8 at 10.25% U_3O_8 , and 28 km south of the historic Eva Mine which produced 33 tonnes U_3O_8 . The Rheem Creek radiometric anomalies are of the same amplitude, or larger, than the radiometric anomalies associated with these occurrences.

United Uranium NL, in joint venture with Geopeko, EZ, and Newmont, explored a large area covering the NT-Queensland border between 1969 and 1971. This work located radioactive spring anomalies in the Lower Fish River – Dingo Creek areas, which includes the current project area. United Uranium NL performed limited geochemical sampling over the Rheem Creek anomaly. No drilling was undertaken.

The area was explored for uranium by Esso Exploration Australia between 1979 and 1981, targeting vein-style uranium and base metals. Esso conducted track etch studies and a water sampling program over the main Rheem Creek anomaly in an attempt to clarify the origin of the hot spring radioactivity, and concluded it was due to radioactive elements precipitating out of groundwater when it came into contact with black soil. No drilling was undertaken.

2.4.4 Exploration potential

POZ believes the Rheem Creek anomalies are significantly underexplored. The mineralisation model put forward by Esso Exploration does not provide an adequate explanation for the encountered anomalism. It does not account for a source of the radioactivity and, although it recognises “that western anomalies derive from radium generated in primary uranium minerals, while eastern anomalies may have either a primary or secondary source,” it does not account for this difference.

Springs in the west of Rheem Creek contain the radium isotopes ^{226}Ra and ^{228}Ra , which are derived from ^{238}U and ^{232}Th respectively and are indicative of a primary uranium source such as granitic or pegmatitic rocks. Springs in the east contain only ^{226}Ra , which indicates these waters may be in touch with a secondary (e.g. roll front-type) uranium deposit.

Springwater chemistry and salinity indicates the groundwater is entirely atmospheric in origin and has not been in contact with the hot granites of the Nicholson Inlier.

POZ believes the Constance Sandstone has potential to host economic uranium mineralisation. The Company is encouraged by the nearby Westmoreland, Cobar and Eva deposits, and believes the source of the very strong uranium and thorium anomalies at Rheem Creek is underexplored.

2.5 HP West tenements

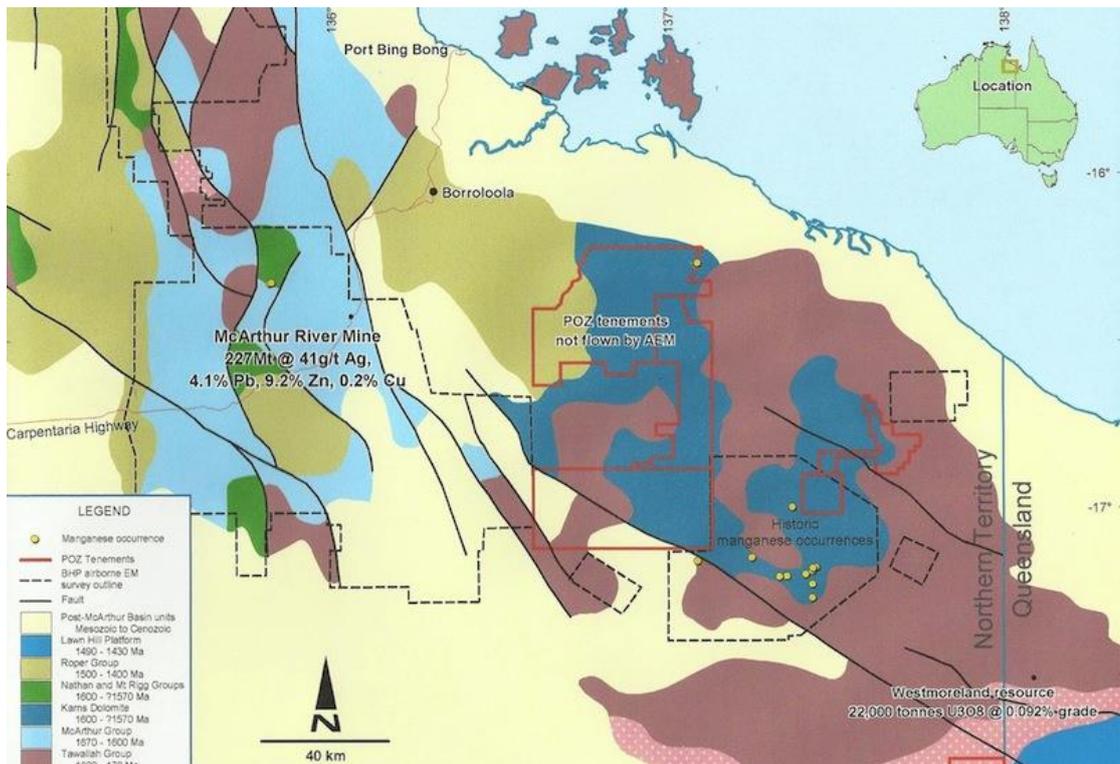
Two extensive, wholly owned tenements lie to the west of the tenements of the Nicholson’s Project (Figure 1.2, EL30604 and EL30605). These tenements are not subject to the Jimpec agreement, but overly identical geology to the balance of the regional holding. POZ has identified phosphate and uranium targets on these tenements (targets C, D, M, N, O, P, Q and R) and Snowden has considered these accordingly in its valuation.

2.6 Manganese Joint Venture

POZ holds three expansive exploration licences (EL27854, EL27855 and EL27856) to the east of the world-class McArthur River base metals mine (Figure 2.1) operated by Xstrata. These tenements have been joint ventured to Jimpec for manganese under a similar arrangement to that at Nicholson.

The manganese (“Mn”) exploration concept is premised on geological similarities between POZ’s tenements and the Groote Eyland manganese deposits; Jimpec proposes flying an electromagnetic survey to identify and drill manganese deposits, which it terms the “Robinson River Project”⁴.

Table 2.3 Manganese Joint Venture



Source: POZ

Snowden is familiar with the geology of the McArthur River basin and considers that these tenements are prospective for base metals above and beyond any manganese prospectivity.

The Northern Territory Geological Survey⁵ notes that:

“A number of small manganese occurrences are located in the Calvert River-Robinson River area of the southern McArthur Basin. These occurrences include Masterton No. 2, Robinson River No. 1 and No. 2, Camp No. 1, Manganese 1, Manganese 2 and Photo and are hosted in chert and dolomite assigned to the Karns Dolomite. Masterton No. 2 (also known as Calvert Hills Manganese Prospect No. 1) is located within the Calvert Hills pastoral lease, about 14 km to the northeast of Calvert Hills homestead. This prospect was first mapped and sampled by Enterprise Exploration Ltd (Murray, 1953); a sample from one of the outcrops assayed 63.32% Mn, 7.37% SiO₂, 1.57% Fe, 0.43% P and 0.51% Al₂O₃.”

⁴ <http://jimpecresources.com.au/index.php/our-projects>

⁵ Ferenczi, 2002

These tenements have not been subjected to any rigorous exploration program or aerial survey but the existence of known high grade manganese deposits around the Gulf of Carpentaria and within the Macarthur basin combined with the large scale of the tenements in the area, portends very well for the existence of manganese deposits of economic significance.

2.7 Horse Well Gold Project, Wiluna (POZ 20%)

The Horse Well tenements lie in highly prospective greenstones of the Yandal belt, in the vicinity of the Jundee mine and abut resources identified by POZ's partner, Alloy.

2.7.1 Location and access

The Horse Well Gold Project is located in the Warburton Mineral Field of Western Australia and is approximately 85 km northeast of the town of Wiluna (Figure 2.11).

Figure 2.11 Horse Well project location

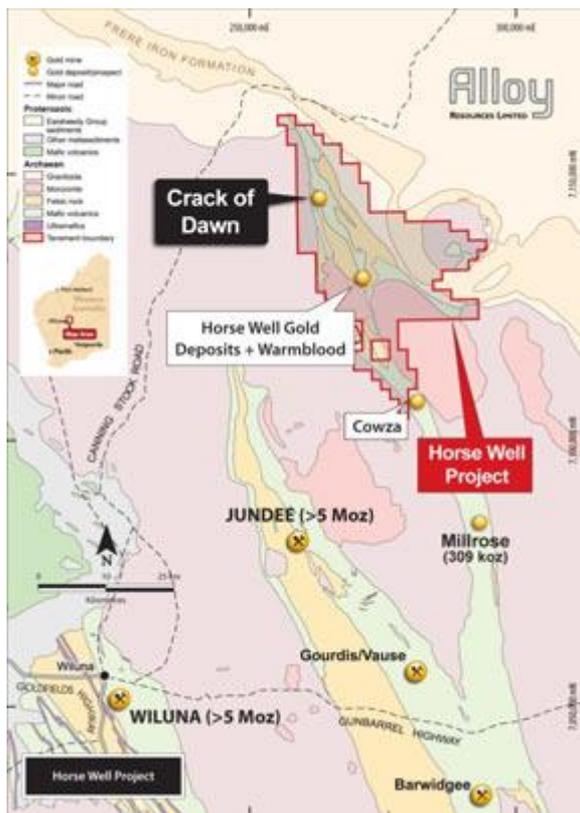


Source: POZ

The Horse Well Gold Project occurs in the northern most part of the Yandal/Millrose Greenstone belt that hosts a number of multi-million ounce gold projects, such as Jundee, Bronzewing, and Darlot-Centenary gold mines (Figure 2.12).

The Horse Well portion of the greenstone belt has only had focused exploration along the southern part, where POZ and previous explorers have identified JORC gold resources in near surface deposits to date. Alloy's 100% owned gold resource at Horse Well currently stands at 1,054,100 tonnes at 2.91 g/t Au (98,700 ounces).

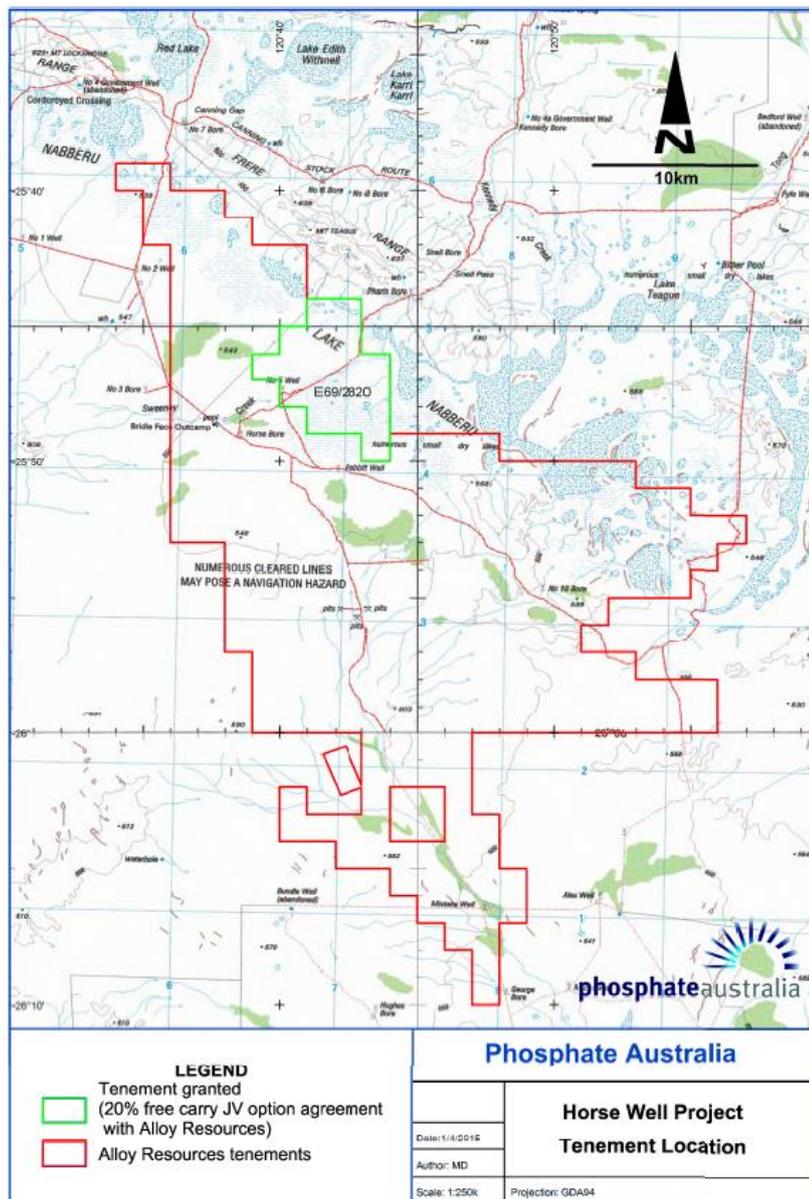
Figure 2.12 Horse Well project area



2.7.2 Tenements

POZ’s Horse Well tenement (E69/2890) abuts Alloy’s projects (Figure 2.13) tenements.

Figure 2.13 Horse Well project tenement location



2.7.3 Joint venture agreement (Alloy)

On 12 September 2012, POZ signed an agreement with Alloy to grant an option to acquire an interest of 80% in tenement E69/2820. Snowden understands that this option has subsequently been exercised.

The northern half of the project area has had very limited gold exploration completed. During the period 1993 to 1997 part of this area was held and explored by Eagle Mining – the owners of the Nimary gold mine located some 60 km to the south (now part of the Jundee Mine, owned by Newmont).

2.7.4 Geology

The area is almost completely covered by transported sand deposits, making exploration very difficult. Eagle utilised publicly available 200 m line spaced aeromagnetic data to define subsurface geology and this work outlined a structural target in the Horse Bore area where a number of major cross-cutting northeast structures were interpreted, associated with a small intrusive granitoid. Similar structures were associated with gold at Nimary and other Western Australian gold deposits.

2.7.5 Exploration

The “Crack of Dawn” is the name of the Horse Well prospect overlying POZ’s E69/2820. The northern half of the project area has had very limited gold exploration completed. During the period 1993 to 1997 part of this area was held and explored by Eagle Mining, the owners of the Nimary gold mine located some 60 km to the south (now part of the Jundee Mine owned by Northern Star Resources Ltd).

Eagle completed a program of 200 m spaced AC holes on east-west lines spaced 400 m apart over the area of interest. Two areas, Crack of Dawn and Dusk til Dawn, returned anomalous gold results, including 11 m at 3.6 g/t Au at Crack of Dawn, and lesser 4 m to 12 m intersections of 0.2 g/t to 1.0 g/t Au at Dusk til Dawn. Further infill AC drilling at both prospects confirmed the presence of gold.

Alloy decided to follow up these prospects for the first time since 1997, by completing further infill AC drilling in late 2012. A detailed aeromagnetic survey at 50 m line spacing over a 90 km² area was undertaken centred on these prospects. This new data was combined with detailed surveys completed over the southern part of the project and the entire project then interpreted.

Results from the interpretation indicated strong alteration (de-magnetisation) was evident at both existing known prospects as well as the Crack of Dawn area. In total 18 new exploration targets were interpreted, with the highest priority target being a 4 km long zone on the east side of the Crack of Dawn prospect. The new targets are yet to be drill tested.

2.7.6 Exploration potential

The Dusk til Dawn prospect has emerged as the priority target for a major gold discovery at the Horse Well Gold Project. Following assessment of air-core results, this prospect was tested by a single RC hole in July 2013 and followed up with more RC drilling in September 2013. Results appear to show a “Granny Smith” style of gold mineralisation associated with the granite contact.

A new geological interpretation suggests that the Crack of Dawn region may be the focus of a large gold mineralised hydrothermal system over a 30 km² area with three main targets suggested from this interpretation:

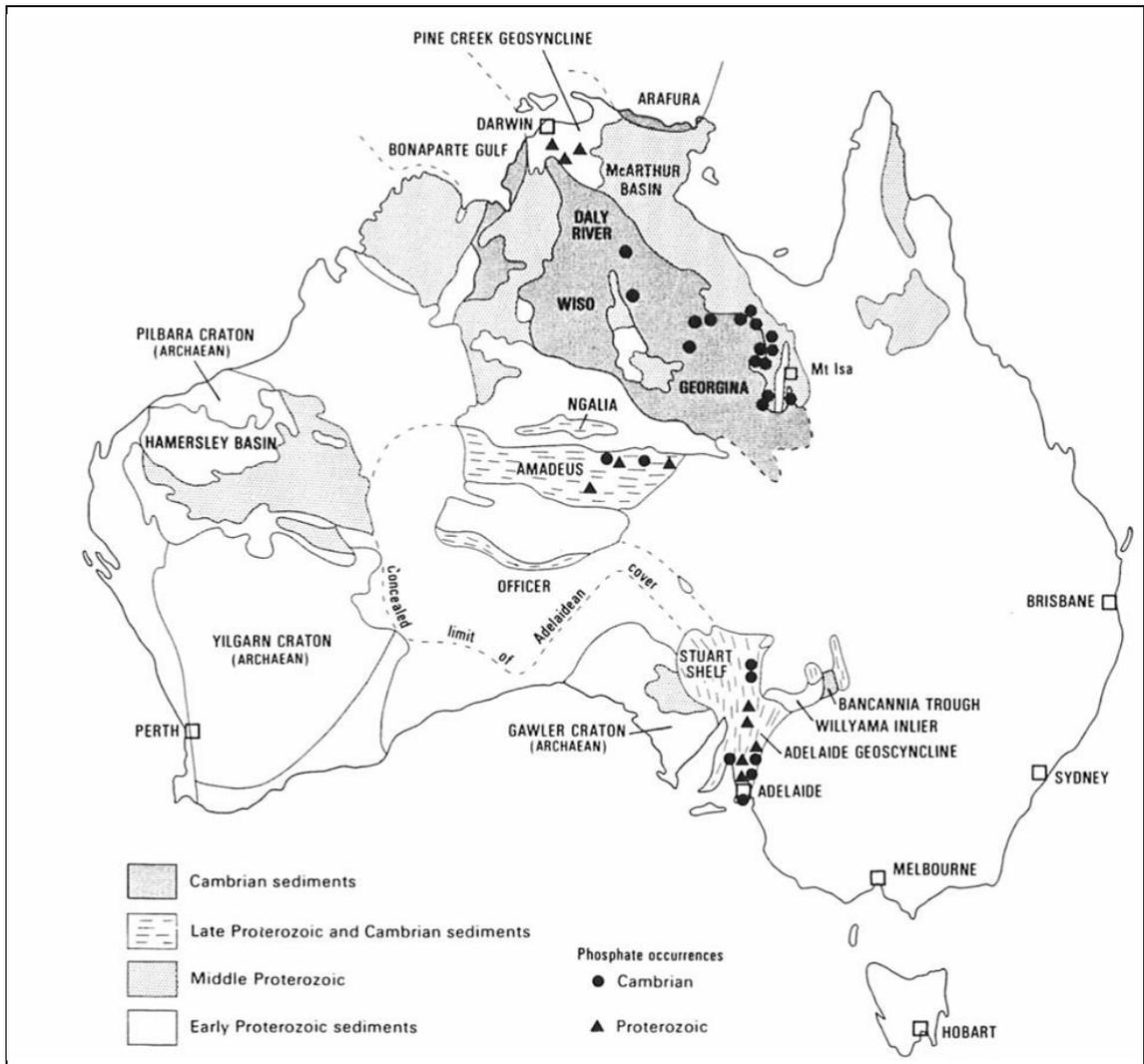
- The 10 strike km contact of the Crack of Dawn Granite with surrounding metasediments for ‘Granny Smith’ style gold mineralisation
- “De-magnetised” zones adjacent to older major faults and alteration of Banded iron Formation (“BIF”) sediments
- An area to the east that is interpreted to host mafic rocks of the “Jundee Mine sequence” located further east of the Celia shear.

3 Overview of Australian phosphate projects

3.1 Australian phosphate occurrences

Figure 3.1 shows the phosphorite occurrences in the Proterozoic and Cambrian sediments of Australia. Although the major Australian phosphate deposits occur in the Georgina Basin, several occurrences having been recorded within the Early to Late Cambrian sediments of the of the Amadeus Basin. The Cambrian Todd River Dolomite which outcrops in the north-eastern margin of the Amadeus Basin has been recorded to contain significant phosphatic occurrences.

Figure 3.1 Phosphate occurrences in Australia



Source: BMR

Most of the large phosphate deposits in Australia occur in the shallow marine Cambrian aged sediments of the Georgina Basin, a large Late Proterozoic to Early Palaeozoic sedimentary basin covering a large part of the eastern Northern Territory and extending into northwest Queensland. The deposits include Duchess phosphate mine in Queensland, and Minemaker Ltd’s Wonarah and Arruwurra deposits in the Northern Territory, which are undergoing feasibility studies. Other deposits within the same stratigraphic horizon include POZ’s Highland Plains, Alexandria, Alroy and Buchannan Dam.

The Amadeus Basin is a large east-west trending intra-cratonic basin of late Proterozoic to Carboniferous aged marine and continental sediments. Phosphorite occurrences exist within the (Early Cambrian) Todd River Dolomite, (Middle Cambrian) Tempe Formation (Late Cambrian – Ordovician) Pacoota Sandstone, all of which are located in the central and eastern portion of the basin. The Todd River Dolomite is considered the most prospective unit for hosting phosphate mineralisation.

3.1.1 Northern Territory

The Northern Territory contains some of Australia's largest undeveloped phosphate deposits, with more than 1,000 Mt of phosphate ore at a 10% P₂O₅ cut-off. Known phosphate deposits are present in the Georgina Basin, Arunta Region and Pine Creek Orogen. Deposits in the Georgina Basin account for 98% of identified resources.

Large sedimentary phosphorite deposits (e.g. Wonarah) in the central Georgina Basin are middle Cambrian (510 Ma) in age. These are within a regional phosphate-rich stratigraphic interval that extends over 500,000 km² in the Northern Territory and into western Queensland where mining of phosphate has been undertaken at the Duchess deposit. The largest undeveloped deposit in the Georgina Basin is Minemakers Ltd's Wonarah phosphate deposit, which occurs in the Cambrian upper Gum Ridge Formation or basal Wonarah Formation, close to the Barkly Highway. The 2012 resource estimate for the Wonarah Project comprises combined Indicated and Inferred Resources (at 10% P₂O₅ cut-off) of 842 Mt at 18% P₂O₅, comprising 707 Mt in the Main Zone and 135 Mt in the Arruwarra deposit.

An additional phosphate discovery was made in late 2010 by Rum Jungle Resources Ltd at the Barrow Creek-1 prospect, 80 km east from the Alice Springs–Darwin railway. At the end of 2012, the deposit had total Indicated and Inferred Resources of 238 Mt at 14.6% P₂O₅ (at a 10% P₂O₅ cut-off). The eastern extension of this orebody comprises Central Australian Phosphate Ltd's Arganara deposit, which has a resource of 310 Mt at 15% P₂O₅.

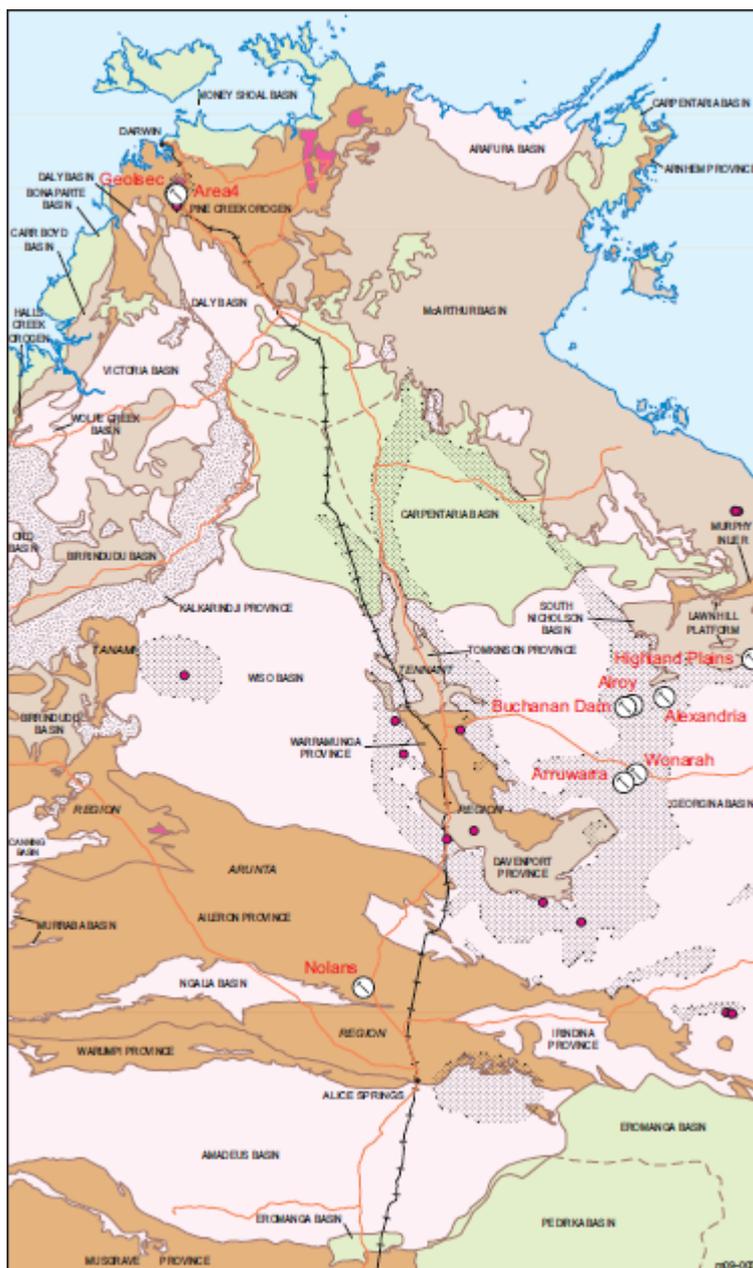
POZ's Highland Plains deposit abuts the Northern Territory/Queensland border on the northern margin of the Georgina Basin. Phosphate occurs in the Cambrian Border Waterhole Formation and has a total Inferred Resource of 56 Mt at 16% P₂O₅ (at a 10% P₂O₅ cut-off) and outcrops at surface.

Sedimentary phosphorite mineralisation is also present in the McArthur Basin (Karns Dolomite), Amadeus Basin (Stairway Sandstone) and Money Shoal Basin (Moonkinu Formation). Phosphate-rich tectonic-related breccias are present in the vicinity of Batchelor (Buckshee Breccia) and South Alligator Valley (Scinto Breccia) within the Pine Creek Orogen. Small deposits (e.g. Geolsec) have been outlined at the former locality.

Apatite-rich veins and apatite-bearing igneous rocks (e.g. carbonatite) are present in the Arunta Region. These relatively small deposits often carry high levels of rare earth elements. The multi-commodity Nolans Bore rare earths orebody has total resources of 47 Mt which includes 11% P₂O₅.

Figure 3.2 shows the important Northern Territory phosphate projects.

Figure 3.2 Northern Territory phosphate projects



Source: www.orestruck.nt.gov.au

As at 2015, there are a number of advanced phosphate projects in the Northern Territory (Table 3.1).

Table 3.1 Advanced phosphate projects in Northern Territory

Region	Deposit	Resource	Company
Arunta Region	Nolans Bore	47 Mt at 11% P ₂ O ₅	Arafura Resources Ltd
Georgina Basin	Ammaroo	1,145 Mt at 14.26% P ₂ O ₅	Rum Jungle Resources Ltd
Georgina Basin	Highland Plains	53 Mt at 16% P ₂ O ₅	POZ
Georgina Basin	Wonarah	842 Mt at 18.1% P ₂ O ₅	Minemakers Ltd
Pine Creek Orogen	Geolsec	1.3 Mt at 12% P ₂ O ₅	Korab Resources Ltd

Source: www.minerals.nt.gov.au/ntgs

Snowden notes that POZ holds a significant volume of material that is classified as less developed phosphate projects in Northern Territory (Table 3.2).

Table 3.2 Less developed phosphate projects in Northern Territory

Region	Deposit	Resource	Company
Georgina Basin	Alroy	5 Mt at 20% P ₂ O ₅	POZ
Georgina Basin	Buchanan Dam	8 Mt at 20% P ₂ O ₅	POZ
Arunta Region	Alexandria	15 Mt at 10% P ₂ O ₅	POZ

Source: www.minerals.nt.gov.au/ntgs

3.2 Overview of phosphate markets

Snowden is not qualified to provide economic forecasts or advice, but has examined publicly available independent sources to inform its valuation. Snowden observes that the price of rock phosphate has stabilised over the past two years after falling from an elevated level. Saleable rock phosphate has a grade of in excess of 32% P₂O₅ and a significant proportion of world production is sourced from increasingly unstable Middle Eastern or North African countries. This is apparently leading phosphate consumers to seek stability of supply in stable jurisdictions and the fall in the Australian dollar has made Australian phosphate projects attractive. Operating and capital costs in Australia have fallen commensurately with the collapse of the iron ore boom.

The current price for P₂O₅ is US\$115 or AU\$147.4/t for 32% P₂O₅ (70% BPL) FAS Casablanca⁶ (refer to Section 3.3.1).

3.2.1 Phosphate prices

Between 19 January 2012 and 30 March 2015, prices have declined for various phosphate products (rock phosphate, phosphoric acid, DAP and TSP) – see Table 3.3. Prices have remained stable for the last six months at between US\$125/t and US\$130/t. Snowden has considered the current phosphate prices in its valuation but has not applied phosphate prices to any of the valuations.

Table 3.3 Phosphate prices

Item	19 January 2012	30 March 2015
Rock phosphate FOB Morocco	US\$200/t to US\$205/t	US\$125/t to US\$130/t
Phosphoric acid, FOB Morocco	US\$1,010/t to US\$1,175/t	US\$725/t to US\$935/t
DAP fertilizer, FOB Tampa	US\$523/t to US\$530/t	US\$470/t to US\$475/t
TSP fertilizer, FOB Morocco	US\$500/t to US\$505/t	US\$395/t to US\$400/t

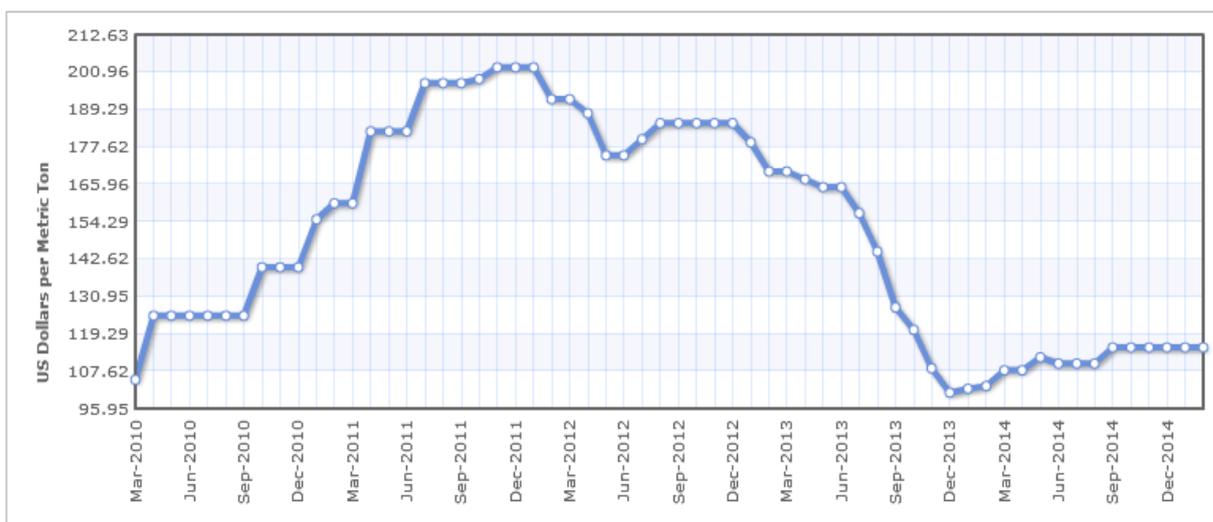
Source: *Profercy Phosphates (2012) and NPK (2015)*; FOB = Free on board

International rock phosphate prices (for 32% P₂O₅ saleable product) have demonstrated a significant spike between the end of 2010 and mid-2013, before collapsing to pre-2010 levels (Figure 3.3). Snowden observes that the price has stabilised to around US\$115/t and has seen commentary to the effect that declining US rock phosphate reserves instability in North Africa and the Middle East, coupled with increase in Chinese costs and decrease in Chinese grades will support the rock phosphate price in the face of increasing world food production requirements⁷.

⁶ World Bank Feb 2015, conversion AU\$1.00 = US\$0.78

⁷ <http://www.crugroup.com/market-analysis/products/PhosphateRockMarketOutlook>

Figure 3.3 Five year rock phosphate price chart



Source: World Bank

3.2.2 World phosphate reserves

World phosphate rock reserves are about 15 billion tonnes, mostly in the North African and Mediterranean region, but also in Southern Africa (Palaborwa), Florida (USA) and numerous operations in Brazil.

Phosphate rock is used mostly to produce fertilizer products for agriculture. There are currently no alternative sources of phosphate nutrient other than to mine/dredge guano or mine igneous carbonatite/foskorite deposits. The Highland Plains phosphate deposits can be classified as phosphorite sedimentary deposits.

3.3 Recent relevant comparable transactions

Snowden has identified five recent global phosphate resource comparable transactions of advanced exploration phosphate projects for the last three years (Table 3.4). These occur in Australia, Peru, Brazil, Namibia and Togo.

There is a wide variation in values due to the location, phosphate grade, resource category and date of transaction which vary from US\$0.48/t P₂O₅ for the Bassar Project in Togo to US\$27.11 for the Korella Phosphate Project in Queensland.

Table 3.4 Phosphate resource comparable transactions

Project name	Country	Date	Resource (Mt)	Grade % P ₂ O ₅	Purchase price US\$M	Interest %	Purchase price 100% US\$M	Implied US\$/t P ₂ O ₅
Korella	Australia	20/08/2012	2.27	27.3	43.00	70.0	61.43	27.11
Sandpiper	Namibia	04/10/2012	27.10	20.41	25.92	42.5	60.98	2.25
Mantaro	Peru	21/05/2013	37.82	9.06	25.00	70.0	35.71	0.94
Bassar	Togo	24/05/2013	4.84	22.00	2.34	100.0	2.34	0.48
Bomfim	Brazil	12/09/2014	1.21	6.45	2.22	25.0	8.89	7.35
Average								7.63
Median								2.25

Snowden observes that the Korella, Sandpiper, Mantaro and Bassar transactions took place at a time of elevated prices. The value of the projects is complicated by the grade of the deposit and more importantly the product recovery on processing to produce a saleable product of in excess of 32% P₂O₅.

POZ technical work indicates that the WMTZ resource returns a metallurgical recovery of around 75% at a head grade of around 23% P₂O₅ to produce a saleable product. Snowden observes that this is commensurate with other economic rock phosphate projects in its experience.

3.3.1 Implied unit price for valuation purposes

The comparable transactions identified by Snowden have an average value of US\$7.63/t P₂O₅ and median value of US\$2.25/t P₂O₅. For the purposes of this valuation, Snowden has considered the stage of development of the Highland Plains project, its grade, location and potential capital cost, based on observation of other projects.

Snowden has valued the WMTZ portion of the Inferred Resource separately to the balance of the Highland Plains Resource, in recognition of the amount of technical work done on that portion of the Resource and its apparent amenity to mining. Snowden has applied an implied value of between AU\$2.00/t and AU\$7.00/t for the WMTZ Resource and a value of between AU\$0.70/t and AU\$2.00/t for the balance of the Highland Plains Resource (Table 3.5). The Preferred Value is a simple median between these parameters and Snowden is neutral as to the realised value of phosphate projects, given its observations in Sections 3.2 and 3.3 above.

Importantly, Snowden has further ameliorated these valuations by applying the indicative metallurgical recoveries indicated by preliminary testwork; these being approximately 50% for the global resource material and 75% for the WMTZ.

Table 3.5 Snowden Resource valuation multipliers

Resource	Classification	Tonnes (M)	% P ₂ O ₅	Met. recovery (%)	Lower value AU\$/t	Upper value AU\$/t	Preferred value AU\$/t
Highland Plains	Inferred	43.0	14	50	0.70	2.00	1.35
WMTZ	Inferred	10.0	23	75	2.00	7.00	4.50
Total	Inferred	53.0	16.0	55			

4 Iron Ore

4.1 Iron ore prices and Fair Market Value

The rights to iron and manganese mineralisation on some tenements have been joint ventured by POZ to a third party and targets have been identified. Some of these tenements have identified phosphate or uranium targets, others (notably E28153) have no other exploration targets identified and Snowden has considered this in its valuation of these tenements.

Sandstone-hosted haematite has been historically mined in the Northern Territory and Kimberley, notably in the Kimberley at Cockatoo and Koolan islands and at Roper Bar. The mineralisation is typically oolitic and economic resources typically are enriched through a combination of structural thickening and partial metamorphism by magmatic intrusives and meteoric processes.

Snowden does not forecast metal prices but notes that market sentiment was extremely negative at the time of the Valuation Date, a sentiment that has subsequently crystallised (Figure 4.1). In determining Fair Market Value, Snowden has subjectively applied a discount factor of 0.50 to the Technical Values derived by the Kilburn technique, to account for the observed extreme market negativity towards developing iron ore projects. This 50% discount comprises an allowance for the observed fall in iron ore prices.

Figure 4.1 Iron ore prices, 2010 to 2014



Source: Australian Financial Review

4.2 Currency exchange rates

Rock phosphate is traded in US\$/t and the US\$:AU\$ exchange rate has yielded a decline in the value of the AU\$, corresponding to the reduction of the iron ore price over the period (Figure 4.2). The exchange rate stabilised at around the time of the Valuation Date, it has subsequently significantly declined, in line with sentiment and forecasts current at around the time of the Valuation Date. Snowden consequently considers this sentiment to be material.

While Snowden does not forecast exchange rates, it is understood that long term Australian Reserve Bank expectations are for a US\$:AU\$ rate of about 0.75, which will assist Australian phosphate project developers, all other things being equal.

Snowden has observed increased interest in Australian projects in recent months, after a hiatus of around two years and infers that this is driven partly by the reduction in the exchange rate and partially by a noted reduction in capital and operating costs for mining projects.

Figure 4.2 US\$:AU\$ exchange rate 2015



Source: RBA

5 Valuation

5.1 General valuation considerations

Mineral assets are defined in the VALMIN Code (2005) as “all property including, but not limited to real property, mining and exploration tenements held or acquired in connection with the exploration, the development of and the production from those tenements together with all plant, equipment and infrastructure owned or acquired for the development, extraction and processing of minerals in connection with those tenements”.

The VALMIN Code defines the value, that is fair market value, of a mineral asset as the estimated amount of money or the cash equivalent of some other consideration for which the mineral asset should change hands on the valuation date between a willing buyer and a willing seller in an arms-length transaction, wherein each party has acted knowledgeably, prudently and without compulsion.

The VALMIN Code notes that the value of a mineral asset usually consists of two components: the underlying or Technical Value and the Market component which is a premium or discount relating to market, strategic or other considerations which, depending on circumstances at the time, can be either positive, negative or zero. When the Technical and Market components of value are added together the resulting value is referred to as the Market Value.

The value of mineral assets is time and circumstance specific. The asset value and the market premium (or discount) changes, sometimes significantly, as overall market conditions and sentiment, commodity prices, exchange rates, political and country risk change. Other factors that can influence the valuation of a specific asset include the size of the company's interest, whether it has sound management and the professional competence of the asset's management. All these issues can influence the market's perception of a mineral asset over and above its technical value.

5.2 Methods of valuing mineral assets

The VALMIN Code (2005) makes reference to a number of valuation methodologies in common use and refers to publications hosted by the Mineral Industries Consultants Association.

5.2.1 Mineral assets with Mineral Resources and Ore Reserves

Where Mineral Resources and/or Ore Reserves have been defined, Snowden's approach is to excise them from the mineral property and to value them separately on a value per resource tonne/metal unit basis or on the basis of a discounted cash flow (“DCF”). The value of the exploration potential of the remainder of the property can then be assessed. Where appropriate, discounts are applied to the estimated contained metal to represent uncertainty in the information.

In Snowden's opinion, an Expert charged with the preparation of a development or production project valuation must give consideration to a range of technical issues as well as make a judgement about the “market”. Key technical issues that need to be taken into account include:

- Confidence in the Mineral Resource/Ore Reserve estimate
- Metallurgical characteristics
- Difficulty and cost of extraction

- Economies of scale
- Proximity and access to supporting infrastructure.

5.2.2 Discounted cash flow analysis

A DCF analysis determines the Technical Value of a project by approximating the value if it were developed under the prevailing economic conditions.

Once a Mineral Resource has been assessed for mining by considering revenues and operating costs, the economically viable component of the resource becomes the Ore Reserve. When this is scheduled for mining, and the capital costs and tax regime are considered, the Net Present Value (“NPV”) of the project is established by discounting future annual cash flows using an appropriate discount rate.

The resulting “classical” NPV has several recognised deficiencies linked to the fact that the approach assumes a static approach to investment decision-making, however the NPV represents a fundamental approach to valuing a proposed or ongoing mining operation and is widely used within the mining industry.

5.2.3 Comparable market value

When the economic viability of a mineral resource has not been determined by scoping or high-level studies, then a “rule of thumb” or comparable market value approach is typically applied. The comparable market value approach for mineral resources is a similar process as to that for exploration properties (refer to Section 5.2.4), however a dollar value per resource tonne/metal in the ground is determined.

As no two mineral assets are the same, the Expert must be cognisant of the quality of the assets in the comparable transactions, with specific reference to:

- Grade of the resource
- Metallurgical qualities of the resource
- Proximity to infrastructure such as an existing mill, roads, power, water, skilled work force, equipment, etc.
- Likely operating and capital costs
- Amount of pre-strip (for open pits) or development (for underground mines) necessary
- Likely ore to waste ratio (for open pits)
- Overall confidence in the resource.

5.2.4 Mineral assets in the exploration stage

When valuing an exploration or mining property, the Expert is attempting to arrive at a value that reflects the potential of the property to yield a mineable Ore Reserve and which is, at the same time, in line with what the property will be judged to be worth when assessed by the market. Arriving at the value estimate by way of a desktop study is notoriously difficult because there are no hard and fast rules and no single industry-accepted approach.

It is obvious that on such a matter, based entirely on professional judgement, where the judgement reflects the Expert’s previous geological experience, local knowledge of the area, knowledge of the market and so on, that no two valuers are likely to have identical opinions on the merits of a particular property and therefore, their assessments of value are likely to differ – sometimes markedly.

The most commonly employed methods of exploration asset valuation are:

- Multiple of exploration expenditure method (exploration based) also known as the premium or discount on costs method or the appraised value method
- Joint venture terms method (expenditure based)
- Geoscience rating methods such as the Kilburn method (potential based)
- Comparable market value method (real estate based).

It is possible to identify positive and negative aspects of each of these methods. It is notable that most valuers have a single favoured method of valuation for which they are prepared to provide a spirited defence and, at the same time present arguments for why other methods should be disregarded. The reality is that it is easy to find fault with all methods since there is a large element of subjectivity involved in arriving at a value of a tenement no matter which method is selected. It is obvious that the Expert must be cognisant of actual transactions taking place in the industry in general to ensure that the value estimates are realistic.

In Snowden's opinion, a valuer charged with the preparation of a tenement valuation must give consideration to a range of technical issues as well as make a judgement about the 'market'. Key technical issues that need to be taken into account include:

- Geological setting of the property
- Results of exploration activities on the tenement
- Evidence of mineralisation on adjacent properties
- Proximity to existing production facilities of the property.

In addition to these technical issues the Expert has to take particular note of the market's demand for the type of property being valued. Obviously this depends upon professional judgement. As a rule, adjustment of the technical value by a market factor must be applied most judiciously. It is Snowden's view that an adjustment of the technical value of a mineral tenement should only be made if the technical and market values are obviously out of phase with each other.

It is Snowden's opinion that the market in Australia may pay a premium over the technical value for high quality mineral assets (i.e. assets that hold defined resources that are likely to be mined profitably in the short term or projects that are believed to have the potential to develop into mining operations in the short term even though no resources have been defined).

On the other hand exploration tenements that have no defined attributes apart from interesting geology or a "good address" may well trade at a discount to technical value. Deciding upon the level of discount or premium is entirely a matter of the Expert's professional judgement. This judgement must of course take account of the commodity potential of the tenement.

There are numerous factors that affect the value, such as proximity to an established processing facility and the size of the land holding. The current Australian market in exploration tenements is affected by the size of the landholding. In Snowden's opinion, a large or consolidated tenement holding, in areas with strong exploration potential attract a premium because of its appeal to large companies.

5.3 Snowden's valuation methodology

It is Snowden's opinion that no single valuation approach should be used in isolation, as each approach has its own strengths and weaknesses. Where practicable, Snowden undertakes its valuations using a combination of valuation techniques in order to help form its opinion.

5.3.1 Resources valuation

Snowden's opinion is that the identified Resources warrant valuation using an indication of the market value of a tonne of commodity in the ground.

To establish a benchmark market value for in-ground commodity, Snowden has completed a search of the publicly available information on recent market transactions involving iron ore resource projects over the preceding three to four-year period, particularly those that involve advanced exploration projects.

Snowden's search is not intended to be a definitive listing of all market transactions in this period but rather a list of transactions which offer comparability to the POZ phosphate deposits in terms of reported tonnes, grade or the state of the mining operation as a whole. The level of disclosure and complexity of some of the transactions reviewed, limited Snowden's ability to assign meaningful cash equivalent values and these were therefore disregarded for the purpose of this analysis.

5.3.2 Exploration potential

Having considered the various methods used in the valuation of exploration properties, Snowden is of the opinion that the Kilburn method provides the most appropriate approach to utilise in the technical valuation of the exploration potential of mineral properties on which there are no defined resources. Kilburn, a Canadian mining engineer was concerned about the haphazard way in which exploration tenements were valued. He proposed an approach which essentially requires the valuer to justify the key aspects of the valuation process.

The valuer must specify the key aspects of the valuation process and must specify and rank aspects which enhance or downgrade the intrinsic value of each property. The intrinsic value is the base acquisition cost ("BAC") which is the average cost incurred to acquire a base unit area of mineral tenement and to meet all statutory expenditure commitments for a period of 12 months. Different practitioners use slightly differing approaches to assign a BAC.

The Kilburn method systematically assesses and grades four key technical attributes of a tenement to arrive at a series of multiplier factors. The multipliers are then applied sequentially to the BAC of each tenement to establish the overall Technical Value of each mineral property. A fifth factor, the Market factor, is then multiplied by the Technical Value.

The successful application of this method depends on the selection of appropriate multipliers that reflect the prospectivity of a tenement. There is the expectation that the outcome reflects the market's perception of value. The Kilburn method attempts to implement a system that is systematic, transparent and defensible. It endeavours to take account of the key factors that can be reasonably considered to impact on the exploration potential.

The keystone of the method is the BAC which provides a standard base from which to commence a valuation. The acquisition and holding costs of a tenement for one year provides a reasonable and importantly, consistent starting point. Presumably when a tenement is pegged for the first time by an explorer the tenement has been judged to be worth at least the acquisition and holding cost.

In the Northern Territory, there are several classes of mineral tenement, the exploration and Snowden has determined the respective BACs per unit of area from the Northern Territory Government Department of Minerals and Energy website (Table 5.1).

Table 5.1 Northern Territory BACs

Licence type	BAC	Unit area	Abbreviation
Exploration Licence	\$3.80	hectares	EL
Minerals Licence	\$19.00	hectares	ML
Minerals Exploration Permit	\$59.00	hectares	EMP
Access Authority	\$0.00	hectares	AA

In most instances, Snowden applies a holding cost in addition to the statutory tenement rental rate. The holding cost is generally the annual exploration expenditure commitment attached to a particular tenement. In the Northern Territory, a tenement holder submits a costed exploration proposal to the Government and this then becomes the commitment. In other States, this expenditure is mandated.

5.3.3 Comparable market transactions

In Snowden's opinion, the use of comparable market transactions is a critical final step to validate the conclusions of any mineral asset valuation. Once the Expert has derived a valuation using the methodologies outlined above, it is valuable to compare the derived results with actual transactions that are reported in the public domain in order to validate that the conclusions drawn by the Expert match those of actual transactions.

5.4 Valuation approach

In Snowden's opinion, there are two key elements that can be ascribed value when considering the Technical and Market Values for the projects:

- The Mineral Resource, valued using a range of market values derived from Comparable Transactions
- Exploration potential for new resource in the surrounding tenements using valued derived by the Kilburn technique.

Snowden prefers to validate its valuations with reference to a directly comparable recent transaction. The limited number of transactions in this instance (refer Table 3.4) precludes this verification in this instance.

5.4.1 Exploration potential valuation opinion

Snowden has valued the POZ's exploration tenements according to the Kilburn technique. The Resources have been specifically excluded from this exercise and the valuation only examines the perceived potential of the mineralisation contained on these tenements.

For the purposes of valuing exploration potential, the presence of identified Resources is ignored other than as indicating the presence of mineralisation. The Resources are valued separately.

Snowden has valued the exploration potential of the tenements through examination of POZ's data and geological maps and returned a Technical Value of between AU\$4.3M and AU\$17.7M, with a preferred value of AU\$10.9M.

5.4.2 Exploration licences

Snowden has been guided by internal POZ commentary on the exploration potential of the exploration licences and is of the opinion that mineralisation beyond the identified mining areas is for the most part thin and low in tenor. This may be attractive were a beneficiation process to prove to be economic, but Snowden's opinion is that only the enriched high-grade direct shipping ore ("DSO") offers an immediate exploration target.

On examining the available geophysical and sectional information, Snowden comments that:

- The mineralisation attracts high stripping ratios that are unlikely to be justified by the revenue generated from the grades indicated
- The magnetic imagery does not appear to indicate the presence of sufficient magmatic intrusives to present bulk quantities of enriched high-grade ore
- The above considered, there remains a large area of SIM that has not been adequately tested and POZ has identified and prioritised areas for further exploration
- There remains potential for areas of structural thickening in the folded areas of the SIM, particularly where high-resolution magnetics indicate potential for magmatic intrusion.

Snowden has applied Kilburn valuations to the exploration licences in the Highland Plains, Nicholson, Murphy Uranium, Manganese JV, Musgrave, HP West and Horse Well projects (Table 5.2 to Table 5.8). Snowden notes that the "Manganese JV" tenements attract a valuation of AU\$1.2M, driven by their large area, but also considering the prospectivity of this area for McArthur River-style base metals mineralisation, irrespective of any manganese potential that may be present.

Snowden has not valued the exploration tenements at Ellendale (EL04/2388), Collie (EL12/11), Leinster (EL38/3036 and EL38/3038), Marymia (EL52/3276) and Dalgarranga (EL59/2114).

Table 5.2 Highland Plains – exploration licence (Kilburn technical valuation)

Lease	Area (ha)	BAC (AU\$)	Share	Off property	On property	Anomaly	Geology	Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL25068	22,770	86,526	100%	2.0 2.5	2.0 2.5	2.5 3.0	1.5 2.0	1,297,900	3,244,700	2,271,300

Table 5.3 Nicholson Project – exploration licences (Kilburn technical valuation)

Lease	Area (ha)	BAC (AU\$)	Share	Off property	On property	Anomaly	Geology	Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL28152	1,134	4,309	100%	1.0 1.5	1.5 2.0	1.5 2.0	1.0 1.5	9,700	38,800	24,300
EL28153	2,603	9,891	100%	1.0 1.5	1.5 2.0	1.5 2.0	1.0 1.5	22,300	89,000	55,700
EL26604	4,059	15,424	100%	1.0 1.5	1.0 1.5	1.0 1.5	0.9 1.5	6,950	39,050	23,000
EL26645	133,500	507,300	100%	1.0 1.5	1.5 2.0	1.5 2.0	1.0 1.5	570,700	2,282,850	1,426,800
EL26648	160,600	610,280	100%	1.0 1.5	1.0 1.5	1.5 2.5	1.5 2.0	686,550	3,432,850	2,059,700
EL26649	148,900	565,820	100%	1.0 1.5	1.0 1.5	1.0 1.5	1.0 2.0	282,900	1,909,650	1,096,300
EL26650	161,600	614,080	100%	1.0 2.0	1.5 2.0	1.5 2.0	0.8 1.0	552,650	2,456,300	1,504,500
EL28220	150,900	573,420	100%	1.0 1.5	1.0 1.5	1.0 1.5	0.9 1.0	258,050	967,650	612,900
Total								2,389,800	10,529,550	6,459,900

Table 5.4 Murphy Uranium – exploration licence (Kilburn technical valuation)

Lease	Area (ha)	BAC (AU\$)	Share	Off property	On property	Anomaly	Geology	Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL26646	29,340	111,492	100%	1.0 1.5	1.0 1.5	1.0 1.5	0.4 0.5	22,300	94,050	58,200

Table 5.5 Manganese JV – exploration licences (Kilburn technical valuation)

Lease	Area (ha)	BAC (AU\$)	Share	Off property	On property	Anomaly	Geology	Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL27854	155,000	589,000	100%	1.0 1.5	1.0 1.5	1.0 1.5	0.4 0.9	117,800	894,550	506,200
EL27855	148,500	564,300	100%	1.0 1.5	1.0 1.5	1.0 1.5	0.4 0.9	112,850	857,050	485,000
EL27856	77,470	294,386	100%	1.0 1.5	1.0 1.5	1.0 1.5	0.4 0.9	58,900	447,100	253,000
Total								289,550	2,198,700	1,244,200

Table 5.6 Musgrave Project – exploration licences (Kilburn technical valuation)

Lease	Area (blocks)	BAC (AU\$)	Share	Off property		On property		Anomaly		Geology		Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL692864	200	198,200	100%	1.0	1.5	1.0	1.5	2.0	2.5	1.0	1.5	396,400	1,672,300	906,800
EL693191	54	53,514	100%	1.0	1.5	1.0	1.5	1.0	1.5	1.0	1.5	53,500	270,900	140,500
Total												449,900	1,943,200	1,047,300

Table 5.7 HP West Project – exploration licences (Kilburn technical valuation)

Lease	Area (ha)	BAC (AU\$)	Share	Off property		On property		Anomaly		Geology		Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL30604	81,130	308,294	100%	1.0	1.5	1.0	1.5	1.0	2.0	0.5	0.8	77,050	554,950	316,000
EL30605	81,280	308,864	100%	1.0	1.5	1.0	1.5	1.0	2.0	0.5	0.8	77,200	555,950	316,600
Total												154,250	1,110,900	632,600

Table 5.8 Horse Well Project – exploration licence (Kilburn technical valuation)

Lease	Area (blocks)	BAC (AU\$)	Share	Off property		On property		Anomaly		Geology		Lower (AU\$)	Upper (AU\$)	Preferred (AU\$)
EL692820	18	17,838	20%	2.0	2.5	1.5	2.0	2.0	2.5	1.5	2.0	32,100	89,200	60,700

6 Valuation summary

6.1 Exploration potential – technical valuation

Snowden has separated the Technical Value of any Resources from the implied value of the exploration potential considered to be contained in the relevant tenements (Table 6.1).

Snowden qualifies its Preferred Value by commenting that it is neutral as to any realised value of the assets within the stated range, given its observation of recent market transactions and other factors. The Technical Value is expressed separately to the Fair Market Value.

Table 6.1 POZ projects – Technical Value summary

Project name	Technical Value range (AU\$M)		
	Lower	Upper	Preferred
Highland Plains	1.30	3.24	2.27
Nicholson Project	2.39	10.53	6.46
Murphy Uranium	0.02	0.09	0.06
Manganese JV	0.29	2.20	1.24
Ellendale	0.00	0.00	0.00
Collie	0.00	0.00	0.00
Leinster	0.00	0.00	0.00
Marymia	0.00	0.00	0.00
Dalgaranga	0.00	0.00	0.00
Musgrave	0.09	0.39	0.21
HP West	0.15	1.11	0.63
Horse Well	0.03	0.09	0.06
Total	4.28	17.66	10.94

6.2 Exploration projects – Fair Market Value

The VALMIN Code (2005) distinguishes between Technical Value and Fair Market Value. Snowden has expressed the Fair Market Value of the exploration projects as a discount to the Technical Value (Table 6.1) to account for extreme market sentiment currently prevailing.

Snowden has subjectively applied a 10% discount for all project areas with identified targets, except for the Musgrave Project, due to negative sentiment for most commodities except base metals. Snowden maintains a neutral opinion on the market value of the Musgrave Project and has not applied a discount here. Snowden similarly maintains a neutral opinion on gold projects, given recent activity, and has not applied a discount to Horse Well.

For those project areas with no identified targets, including those that comprise the “Manganese JV”, Snowden has subjectively applied a 25% discount in cognisance of current market conditions for exploration projects. Snowden has subjectively discounted those tenements that encompass only identified iron targets by 50% to the Technical Value (Table 6.2).

Table 6.2 Fair Market Value of POZ exploration projects

Project name	Fair Market Value range (AU\$M)		
	Lower	Upper	Preferred
Highland Plains	1.17	2.92	2.04
Nicholson Project	2.10	9.29	5.70
Murphy Uranium	0.02	0.07	0.04
Manganese JV	0.22	1.65	0.93
Ellendale	0.00	0.00	0.00
Collie	0.00	0.00	0.00
Leinster	0.00	0.00	0.00
Marymia	0.00	0.00	0.00
Dalgaranga	0.00	0.00	0.00
Musgrave	0.09	0.39	0.21
HP West	0.14	1.00	0.57
Horse Well	0.03	0.09	0.06
Total	3.76	15.41	9.56

6.3 Resources – Fair Market Value

Snowden has valued the Resources identified at Highland Plains according to Recent Transactions and considers that the Comparable Transaction ranges selected adequately reflect market sentiment in what appears to be a stabilising market (refer to Section 3.3.1 above).

Rather than directly apply value ranges implied by recent transactions, Snowden has applied metallurgical recoveries identified by POZ technical work to the Resource by way of accounting for the project's location and stage of development, thereby resulting in what Snowden considers to be a Fair Market Value.

Snowden has valued the WMTZ separately to the balance of the Resource, in recognition of the technical work undertaken on that project and its relatively shallow depth (Table 6.3).

Table 6.3 Summary of Resource Valuation (AU\$M)

Project	Lower	Upper	Preferred
Highland Plains (balance)	\$2.00	\$6.00	\$4.00
WMTZ	\$3.00	\$12.00	\$8.00
Total	\$5.00	\$18.00	\$12.00

6.4 Environmental, heritage and native title liabilities

For the purpose of this valuation, Snowden has not undertaken a detailed assessment of environmental, heritage or native title liabilities (if any) within the project areas, nor is qualified to do so.

Given the nature of the target minerals, the project history and the presence of existing native title claims over the project area these liabilities, whether of a historical nature as a legacy of the previous mining activity, or newly applied as conditions future operations, could be onerous and therefore would be taken into consideration by any potential purchaser/operator of the project.

It is not within Snowden's expertise to assess environmental, heritage and native title liabilities, however Snowden considers that:

- The projects do have heritage aspects associated with it, however Snowden has not been provided any information on how this might impact on future development
- The projects are in an area subject to a native title claim, however Snowden has not been provided any information on how this might impact on future development.

7 Summary of valuation results

Snowden considers that the Fair Market Values for POZ's Mineral Assets lies in a range between AU\$8.9M and AU\$33.8M, with a Preferred Value of **AU\$21.6M** (Table 7.1). Snowden qualifies this Preferred Value by commenting that Snowden is neutral as to any realised value of the assets within the stated range, given its observation of recent market transactions and other factors.

Table 7.1 Summary of Fair Market Value

Property	Lower (AU\$M)	Upper (AU\$M)	Preferred (AU\$M)
Highland Plains Resources	6.17	20.92	14.04
Other exploration properties	2.60	12.49	7.51
Total	8.76	33.41	21.56

8 Risk Evaluation

8.1 Valmin Code

The VALMIN Code (2005) Clause 103 states:

The report should include an evaluation of the Risks_{SD30} likely to apply to the Assets under consideration, including an analysis of the uncertainties inherent in the assumptions made and the effects they may have on the Valuation.

Risks and uncertainty can arise with respect to the availability and quality of data and other information concerning:

- a) Geology of mineral deposits and the dependant estimates of grade, resources and reserves;
- b) Geological prospectivity and the possibility that further exploration may fail to demonstrate any economic mineralisation (in the case of projects without defined reserves);
- c) Ore processing and the variability of metallurgical parameters such as recovery rates, process plant availability and the ability of new processes to be financed and to live up to expectations;
- d) Construction, including unforeseen foundation conditions, weather and industrial disputes, all of which may affect both capital costs and completion date;
- e) Production of marketable commodities in terms of quality and price;
- f) "Country risk" involving social, political, environmental, cultural and security factors which cannot be controlled by project operators;
- g) Oil-in-place and recovery factors for Petroleum Assets.

As an indication of the risk profile of the subject of the valuation, the Value of an Asset should, if possible, be expressed numerically as a range, together with the most likely figure.

(When assessing risk profiles, reference should be made to Australian/New Zealand Standard AS/NZS 4360:1995 "Risk Management" for Assets located in these countries and to sources of risk management information such as the Minerals and Industry Risk Management Gateway (MIRMGate) at www.mirmgate.com).

Snowden notes that AS/NZS 4360:1995 has been replaced by ISO 31000: 2009.

8.2 Geology, Mineral Resources and Ore Reserves

Snowden has reviewed the geology of the phosphate deposits and considers that the style of mineralisation is well understood and that the Inferred Resource of 53 million tonnes at 16% P₂O₅ at a 10% P₂O₅ cut-off, estimated in accordance with the 2004 JORC Code guidelines have been estimated competently. The resources are Inferred which carries a defined risk of uncertainty (nominally ± 50% of resource tonnes at ±10% of grade). Snowden's valuation range incorporates the risk associated with Inferred Resources.

8.3 Geological prospectivity and exploration potential

Snowden has reviewed the geological prospectivity (exploration potential) of the tenements and considers that there is potential to increase the resource base for phosphate deposits at Highland Plains, although future discoveries may be lower grade. There is some potential for discovering iron, manganese and uranium deposits in the Northern Territory tenements, although Snowden considers it unlikely that they would be economic at present.

Snowden considers the Musgrave Region in Western Australia to have good exploration potential for base metal (copper and nickel) deposits as the region is under-explored and has favourable geology.

The tenement (E69/2890) associated with the Horse Well Project, subject to joint venture occurs in the northern most part of the Yandal/Millrose Greenstone belt that hosts a number of multi-million ounce gold deposits, such as Jundee, Bronzewing and Darlot-Centenary gold mines. Snowden notes that exploration has focussed on the tenement area to the south as E69/2980 has significant cover, making exploration difficult and expensive and probably less prospective.

8.4 Ore processing and metallurgy

Snowden has reviewed the phosphate metallurgical testwork and notes that flotation testwork has resulted in grades of 32.3% P₂O₅ (upgraded from 23.4% P₂O₅) at 76% recovery from the coarse and fine fractions. The metallurgical testwork has established a method of beneficiation with economic recoveries, indicating that the deposit has good potential to provide a saleable product.

8.5 Capital cost risks

Snowden notes that technical studies have been completed at scoping study level in 2009 which indicated CAPEX estimates for a slurry pipeline varying from AU\$184 M to AU\$226M. Snowden notes that these are indicative prices only and that significant additional work is required to finalise estimated capital costs of the project.

8.6 Marketing risks (quality and price)

Snowden is not aware of any marketing agreements that POZ has for phosphate, but notes that the final product produced from testwork appears to meet the standard specifications for phosphate product at 32% P₂O₅ with minor deleterious elements.

8.7 Sovereign risk (social, political, environment and security)

Snowden notes that Australian sovereign risk is one of the lowest in the world and currently not considered to be significant. Snowden is not aware of any native title or environmental issues that could hold up development of the project.

9 Declarations by Snowden

9.1 Independence

Snowden is an independent firm of consultants providing a comprehensive range of specialist technical and financial services to the mining industry in Australia and overseas, through offices in Perth, Brisbane, Johannesburg, London, Vancouver, Toronto and Belo Horizonte (Brazil). Its corporate services include technical audits, project reviews, valuations, independent expert reports, project management plans and corporate advice.

This report has been prepared independently and the authors do not hold any interest in any of the entities, their related parties, or in any of the mineral properties which are the subject of this report. Fees for the preparation of this report are being charged at Snowden's standard rates, whilst expenses are being reimbursed at cost. Payment of fees and expenses is in no way contingent upon the conclusions drawn in this report.

The Snowden personnel responsible for the preparation and review of this report are Mr Jeremy Peters (Principal Consultant) who is the principal author of this report and Mr Terry Parker (Principal Consultant). Mr John Elkington (General Manager) peer reviewed the report to ensure it complies with the guidelines as laid down by both the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Experts Reports (VALMIN Code, 2005) and The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code, 2012).

9.2 Qualifications

Mr Jeremy Peters has almost 25 years' experience as a geologist and mining engineer in exploration, open pit and underground mining. He holds Registered Mine Manager certificates in Western Australia and the Northern Territory. Mr Peters has significant exploration and mining experience to the level of Exploration Manager and Registered Mine Manager in iron ore, gold, base metals, nickel and industrial minerals in all states of Australia. He has undertaken exploration and consulted internationally in both mining and geology, and is familiar with a variety of reporting codes.

Mr Peters is an advisor to major stock exchanges in relation to reporting codes and listing compliance. He is recognised as a Competent Person for estimation of Resources and Reserves for a variety of commodities and mining techniques and is a Valuation Expert as defined by the VALMIN Code (2005).

Mr Terry Parker has 41 years' experience as a geologist working in Africa, the Middle East and Australia for Anglo American, Rio Tinto, Barrack Mines and Simcoa Operations Pty Ltd. He has worked in exploration and mining for gold, base metals and industrial minerals. He has a Diploma in Surface Mining, Quarry Manager Certificate (WA) and an MBA specialising in mineral economics. He has consulted to the mining industry worldwide for 16 years, including Snowden in Perth (1995 to 1999 and 2010 to 2015) and Snowden in Johannesburg, South Africa (2008 to 2010). He has consulted on a wide range of commodities, including phosphate and participated in numerous technical audits, valuations, independent geologist reports and competent person's reports. He has more than five years' experience in exploration and mining of bulk commodity and industrial minerals.

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Grant Mooney – Non-Executive Director & Company Secretary

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