FOSTER STOCKBROKING

EQUITY RESEARCH
Materials
16th November 2015

Minemakers Ltd (MAK.ASX)

EIS approval & Mimran investment: Mining to start.

Event:

- **Minemakers (MAK) receives final EIS approval; Placements and project sell-down; Decision to commence mining.**

Investment Highlights:

- **MAK announced its decision to begin mining at its Baobab SMP after a number of recent positive developments.**
- **Financing risk reduced with Mimran placement and investment MoU.** First, MAK agreed with the Mimran Group to place a combined $12.1M of MAK shares, as well as sell 20% of the project for $15.8M at a look-through valuation of $79M (100%), exactly as per our previous valuation. MAK also undertook a $3.1M placement to JP Morgan Asset Management UK. The Mimran deals are an MoU and subject to due diligence. We expect it to complete end December 2015.
- **The $31M in funds raised, together with MAK's cash of $13.6M end September, will be more than adequate to fund the capex and working capital of Baobab SMP (A$27.2M).** Importantly it provides MAK with funding to inject into exploration which is important to progress the larger Baobab project.
- **Decision to start mining follows EIS final regulatory approval.** MAK received final EIS and Community Relocation and Compensation Plan approval last week, eliminating the last regulatory hurdle to mining. Along with the recent funds raised, the company has announced its decision to commence mining.
- **Production targeted second-half 2016.** MAK is aiming for commercial production from the SMP to commence in second half 2016, which will ramp up to 0.5Mtpa product.
- **Site visit confirms appeal.** We visited Baobab in October and were satisfied with the attractive features of the project, including transport and port infrastructure, land accessibility, and free dig nature of the orebody.

Changes to Earnings and Valuation:

- **We have made slight changes to earnings**. Our forecast loss for FY16 has reduced from $3.9M to $3.7M, due to higher net interest income. Our NPAT for FY17 and FY18 have reduced from $6.8M to $5.2M, and from $10.2M to $9.2M, mostly due to MAK now earning 80%, partially offset by lower A$ and higher net interest**.**
- **Our risked valuation of MAK has reduced to $0.23/share from $0.27/share,** with the dilutive impact of the equity placements partially offset by lowering our risking of Baobab's DCF valuation**.** Our unrisked valuation of MAK is $0.35/share, and is largely contingent on de-risking of the large Baobab mining project.

Recommendation:

- **We maintain our Spec Buy recommendation and revise our 12-month price target to $0.23/share,** based on our valuation.
- **We expect a number of catalysts over the next 12 months to derisk Baobab ,** including 1) Commencement of mining; 2) Completion of the Mimran project investment and placement; 3) Binding offtake agreements; 3) commercial production of phosphate rock; and 4) Progression of a large Baobab project.

Recommendation	**Spec Buy**
Previous	Spec Buy
Risk	Very High
Price Target	**$0.23**
Previous	$0.27
Share Price (A$)	**$ 0.145**
ASX Code	MAK
52 week low - high (A$)	0.057-0.165
Valuation (A$/share) - risked	**$0.23**
Methodology	DCF
Capital structure	
Pro-forma Shares on Issue (M)*	518
Market Cap (A$M)	**75**
Pro-forma Net Debt/(Cash) (A$M)*	-41
EV (A$M)	**34**
Options (M)	129
Contingent rights (M)	40
Fully diluted EV ($M)	**58**
12mth Av Daily Volume ('000)	204

**Assumes completion of Mimran placement and sell-down*

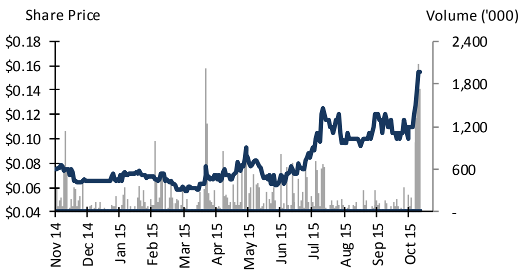
Y/e Jun (A$M)	2015a	2016e	2017e	2018e
Sales	0.0	0.0	83.9	88.3
Adj EBITDA	-7.1	-4.2	23.6	27.0
Adj NPAT attributable	**-6.5**	**-3.8**	**5.8**	**9.2**
Adj EPS diluted $	**-0.15**	**-0.01**	**0.01**	**0.01**
PER x diluted	**nm**	**nm**	**29.6**	**17.8**
EV/EBITDA x	nm	nm	3.2	2.8

*Adj = undelying FSB estimate

Board	
Richard Block	Non-Executive Chairman
Cliff Lawrenson	Managing Director & CEO
Richard O'Shannassy	Non-Executive Director
Ian McCubbing	Non-Executive Director
Timothy Cotton	Non-Executive Director
Substantial Shareholders*	
Baobab Partners & associates	44%
Mimran Group	15%

**Fully diluted pro-forma. Assumes completion of Mimran MoU.*

Share Price Graph



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Foster Stockbroking is engaged in providing corporate services to MAK for which it has earned fees and continues to do so. Services include, but are not limited to, capital markets advisory, institutional research, and marketing roadshows.

Minemakers Ltd (MAK)

Full Year Ended 30 June

Profit and Loss A$M	2015a	2016e	2017e	2018e
Sales revenue	0.0	0.0	83.9	88.3
Operating Costs	7.1	4.2	60.3	61.3
Underlying EBITDA	**-7.1**	**-4.2**	**23.6**	**27.0**
D&A	0.1	0.1	12.5	9.9
Underlying EBIT	**-7.2**	**-4.3**	**11.1**	**17.1**
Net Interest exp / (income)	-0.7	-0.3	-0.4	-0.5
Profit before tax	**-6.5**	**-4.0**	**11.4**	**17.6**
Tax exp / (benefit)	0.0	-0.1	3.4	5.3
NPAT before minorities	-6.5	-3.9	8.0	12.3
Minorities	0.0	-0.1	2.2	3.2
Underlying NPAT attributable	**-6.5**	**-3.8**	**5.8**	**9.1**
Non-recurring items	-36.5	0.0	0.0	0.0
Reported NPAT attributable	**-43.0**	**-3.8**	**5.8**	**9.1**
Underlying EPS diluted ($)	**-0.15**	**-0.01**	**0.01**	**0.01**

Cashflow A$M	2015a	2016e	2017e	2018e
Underlying EBITDA	-7.1	-4.2	23.6	27.0
Change in WC	1.0	-6.6	-2.3	-0.3
Tax paid	0.0	0.1	-4.7	-6.8
Other	1.2	1.2	0.0	0.0
Net interest	0.7	0.3	0.4	0.5
Dividends	0.0	0.0	-0.7	-1.2
Exploration	-0.5	-1.2	-1.4	-1.4
Operating Cashflow	**-4.7**	**-10.4**	**14.8**	**17.8**
Purchase of PP&E	-1.2	-18.9	-4.7	-0.8
Exploration expenditure	-0.5	-1.2	-1.4	-1.4
Asset sales	0.0	17.0	0.0	0.0
Investments	-0.2	0.0	0.0	0.0
Other	0.2	0.2	0.2	0.2
Investing Cashflow	**-1.9**	**-2.4**	**-5.2**	**-1.3**
Share buyback	-0.1	0.0	0.0	0.0
Equity raise	0.0	15.2	0.0	0.0
Debt proceeds	0.0	0.0	0.0	0.0
Financing Cashflow	**-0.1**	**15.2**	**0.0**	**0.0**
Net Cashflow	**-6.7**	**2.4**	**9.5**	**16.5**

Balance Sheet A$M	2015a	2016e	2017e	2018e
Cash	15.4	17.8	27.3	43.9
Receivables	1.8	1.8	6.9	7.3
PPE	0.0	18.8	11.1	2.0
Intangibles	0.2	0.2	0.2	0.2
Capitalised exploration	16.0	29.3	30.6	32.0
Other	0.0	0.0	0.0	0.0
Total Assets	**33.7**	**67.9**	**76.2**	**85.3**
Accounts payable	1.9	1.9	4.7	4.7
Provisions	1.5	1.5	4.7	4.7
Debt	0.0	0.0	0.0	0.0
Other	0.6	11.2	7.8	7.6
Total Liabilities	**4.0**	**14.6**	**17.1**	**17.1**
Reserves and capital	101.7	113.2	113.2	113.2
Retained earnings	-71.9	-75.7	-69.9	-60.7
Minorities	-0.1	15.8	15.8	15.8
Total Equity	**29.7**	**53.3**	**59.1**	**68.2**

Source: Company; Foster Stockbroking estimates

Financial Metrics	2015a	2016e	2017e	2018e
Sales growth %	nm	nm	nm	5%
EPS growth %	nm	nm	nm	66%
EBITDA margin	nm	nm	28%	31%
EBIT margin	nm	nm	13%	19%
Gearing (ND/ND+E)	-108%	-50%	-86%	-180%
Interest Cover (EBIT/net int)	nm	nm	nm	nm
Average ROE %	-13%	-9%	10%	14%
Average ROA %	-13%	-8%	15%	21%
Wtd ave shares (M)	248	498	558	558
Wtd ave share diluted (M)	294	627	688	688

Sales and earnings multiples	2015a	2016e	2017e	2018e
P/E x	**nm**	**nm**	**27.7**	**16.8**
EV/EBITDA x	nm	nm	2.9	2.5
EV/EBIT x	nm	nm	6.2	4.0
EV/sales x	nm	nm	0.8	0.8
Dividend yield %	0	0	0	0

Company Valuation	A$M	A$/sh	A$M	A$/sh
DCF, WACC 10% nominal				
	Unrisked	**Unrisked**	**Risked**	**Risked**
Segment	**A$M**	**A$/sh**	**A$M**	**A$/sh**
Baobab: SMP (MAK 80%)	73	$0.11	58	$0.10
Baobab: ex-SMP large project (MAK 70%)	103	$0.15	41	$0.07
Wonarah & JDCP	14	$0.02	14	$0.02
Corporate	-10	-$0.02	-10	-$0.02
Exercise of in-money options*	32	$0.05	4	$0.01
Net cash (debt)	29	$0.04	29	$0.05
Company (fully diluted)	**240**	**$0.35**	**136**	**$0.23**
Shares used (M)*	687.0		580.0	

**Includes in-the-money options at risked and unrisked valuations.*
Assumes all performance rights convert.

Commodity Assumptions	2015a	2016e	2017e	2018e
Morocco rock 32% (US$/t)	117	121	127	126
Baobab realised price (US$/t)	0	108	114	117
A$:US$	0.84	0.73	0.69	0.70
Baobab production (kt)	0	0	512	530

Capital structure	M
Ordinary shares	518.4
Perfromance rights	40.0
Options	129.1
Fully diluted	**687.5**

Substantial shareholders*	Interest
Baobab Partners and associates	44%
Mimran Group	15%

**Fully diluted basis - assumes performance rights convert and all options exercised.*

PROJECT INVESTMENT & PLACEMENTS TO FUND MAK INTO PRODUCTION

- On the 3rd and 4th November 2015, Minemakers (MAK) announced two agreements which should ultimately result in the company receiving proceeds of $15.3M as well $15.8M going to directly into the Baobab project. Additionally, a phosphate tenement near Baobab will be vended into the project. The funds should be ample to finance Baobab's capex to start production from the small mine permit (SMP) in Baobab, as well as cover working capital.

JP MORGAN ASSET MANAGEMENT UK PLACEMENT OF $3.1M

$3M placement to JP Morgan Asset Management

- The first agreement was a completed private placement to JP Morgan Asset Management UK for A$3.1M, priced at $0.11/share, comprising 28.2M shares.

MIMRAN NATURAL RESOURCES TO INVEST $28M

MoU for Mimran to take 19.9% of MAK and 20% of Baobab for $28M and nearby tenement.

- The second agreement was an MoU for both a placement and Baobab project sell-down to Mimran Natural Resources (Mimran). This is important not only financially, but politically, operationally, and strategically.
- **The Placement**. The placement to Mimran will be for 19.9% of the company, with 103M shares to be issued at $0.117/share for A$12.1M. This is based on MAK's total share base of 518M shares, comprising the current 375M ordinary shares (inclusive of those issued to JP Morgan) plus 40M contingent rights assumed to be convert to shares upon decision to mine, and the 103M MAK shares to be issued to Mimran.
- **Direct Project Investment**. In addition to the placement, Mimran will purchase 20% of MAK's Baobab project for a consideration of US$11.3M (A$15.8M), plus a transfer of a phosphate exploration permit in Senegal held by Mimran which is nearby the Baobab project. The company owning Baobab, Baobab Mining and Chemicals Corporation (BMCC), will then be controlled 80% by MAK with 20% held by Mimran.
- **Timing**. Both the Mimran placement and its project investment are non-binding and subject to due diligence, while the placement shares above MAK's current capacity are also subject to shareholder approval. The MoU is valid until 31 December 2015, or such later date as agreed by MAK and Mimran. We estimate an initial tranche of 57M shares can be issued to MAK non-conditionally within ASX Listing Rules 7.1 and 7.1A, with a meeting ca. six weeks later to vote approval of balance of 46M shares. Total funding from Mimran's MAK placement and project investment are ca. A$27.9M.

OUR VIEW - A POSITIVE FINANCIALLY, POLITICALLY, AND STRATEGICALLY

Financially Positive - Capex and Working Capital to Bring SMP into Production Now Funded

- Should the Mimran investments be effected, we estimate MAK will have pro-forma cash of $44.6M and no debt. This is more than ample to bring the Baobab SMP into production.

Figure 1: MAK and BMCC Pro-forma Cash

Funds	A$M
Cash end September 2015	13.6
JP Morgan placement	3.1
Mimran placement	12.1
Pro-forma MAK cash ex-BMCC	28.8
Mimran project investment	15.8
Pro-forma MAK cash (100% consolidated)	**44.6**

Source: Company; Foster Stockbroking estimates

- We expect the Baobab SMP capex and working capital will be funded from the sell-down proceeds with the possibility of some project debt being utilised. The rationale for utilising some debt would be for remaining cash to be targeted for contingencies, exploration and importantly, to progress the growth and permitting of a large Baobab project.
- Figure 2 shows the breakdown for both capex and funding. MAK announced it expects pre-production capex to be appx. US$15M, slightly higher than our previous estimate of US$11M. We estimate total pre-production capex and working capital required for the SMP to be A$27.2M. We estimate BMCC will seek to source ca. US$8M of project debt financing.

Figure 2: Forecast Baobab SMP Expenditure and Source of Funding

Expenditure	US$M	A$M	Funding source	US$M	A$M
Overburden removal	6.9	9.7	Sell-down proceeds	11.3	15.8
Wet screen plant	4.2	5.9	Debt	8.1	11.4
Borefield water	1.0	1.4			
Surface infrastructure	1.6	2.2			
Social and community	0.1	0.1			
Pre-production capex	**13.8**	**19.4**			
Working capital	**5.6**	**7.9**			
Total pre development cost	**19.4**	**27.2**	**Total funding**	**19.4**	**27.2**

Source: Company; Foster Stockbroking estimates.

- We expect most capex spend on the SMP will be incurred early-to-mid 2016 as mining overburden gets well underway and the construction of the wet screen commences. This will dovetail fittingly with the expected Mimran deal completion which will inject funds to BMCC end 2015/early 2016.
- The placements and project investment have now eliminated any lingering market uncertainty of highly dilutive equity funding for MAK and timing delays for production. MAK's surplus of cash required for bringing the SMP into production can be applied to pursue exploration both within and outside the SMP, as well as on the newly vended Mimran tenements, which is important in MAK pursuing ultimate goal of permitting and operating a large phosphate rock mine at Baobab.

Mimran investment implies valuation of A$79M for Baobab – as per our previous estimate

- Mimran's purchase of 20% of Baobab implies a valuation of US$56.3M, or A$79.0M, vs our risked valuation of Baobab for the same amount (A$79.0M) which we determined principally by DCF in our report of 25 September 2015. Besides being flattering to our analysis, it gives us confidence in the value of the project, which we expect to increase as it derisks.
- In truth, the value implied for Baobab is slightly higher, as Mimran is also vending nearby phosphate exploration tenements that it holds into MAK. However we do not know the value of this ground, and at this stage we assume modest value only.

Politically Positive - 20% Investment Satisfies Senegalese Participation in Large Project

- MAK and Mimran expect that the latter's 20% equity holding in Baobab should satisfy the Senegal legal requirement under the mining code that a large mining permit (in this instance Baobab ex-SMP) have local participation. This removes another a sovereign risk factor in MAK needing to address this issue in pursuing a large mine (>0.5Mtpa of product) in Baobab.

Strategically Positive – Mimran Experience in Agriculture Sector and in Senegal

- Mimran is a member of the Senegalese Groupe Mimran (Mimran Group), which includes Grands Moulins d'Abidjan and Grands Moulins de Dakar, one of the largest producers of flour and agri food in West Africa. The Mimran Group is a major sugar producer in the region and the largest private sector employer in Senegal. As well as holding gold exploration permits in the country as well as investment in the TSX/ASX-dual listed Senegal gold miner Teranga Gold.

David Mimran to Join Board

- As part of the MoU between Mimran and MAK, David Mimran - CEO of Grands Moulins d'Abidjan and Grands Moulins de Dakar; Director of Mimran Group - would join the MAK Board once the agreement is completed. Mr Mimran is also a Director of Teranga Gold, Co-Chairman of Mimran Schur Pictures, and on the Board of Trustees of Mount Sinai Hospital, New York. He has also served on the Board of Archer Daniels Midland.

SITE VISIT - CONFIRMS POTENTIAL OF BAOBAB PROJECT

- We visited the Baobab project during October 2015, which included meeting with key MAK management and staff, Dakar Port operator TVS Necotrans, and MAK's largest shareholder Baobab Partners.

Site Visit to Baobab MP - Highly accessible

- We flew from Sydney into Dakar via Dubai on Emirates. MAK have their office in the city which is where core and samples from Baobab are also stored. Dakar itself is an urban city with a greater population of 2.5M.
- Visiting the SMP – which is ca. 145km east of Dakar - was relatively easy. From Dakar we drove on 125km of sealed highway, and then 20km of fairly good dirt road, the trip taking ca. three hours. Along the way we observed typical small West African rural villages, interconnected by a number of sealed roads. Major activity is agricultural. Baobab is surrounded by established transport infrastructure, located only 20km away from a 125km sealed highway connecting it to the Port of Dakar, also known as Port Autonome de Dakar.

- The Phase 1 pit was only metres from the main road, while the terrain at the SMP was fairly flat with modest vegetation. This should all contribute to ease of access to the site for workers and equipment. The overburden was observed to be sandy and confirmed the free dig opportunity MAK have espoused for mining of the resources.
- We saw the village on the SMP, which may need to be relocated. Although it lies outside the 500m perimeter zone for planned mining, we understand MAK may provide option of relocation should the villagers wish to. The village comprises ca. 130 people and approximately twenty dwellings.
- Relocation has been factored into MAK's capital for the project, as well as accepted as part of the Community Compensation and Relocation Plan and EIS approval the company received on 10 November. Most activity by population is substance farming. MAK also intends to employ many of the locals as it builds and operates its mine.

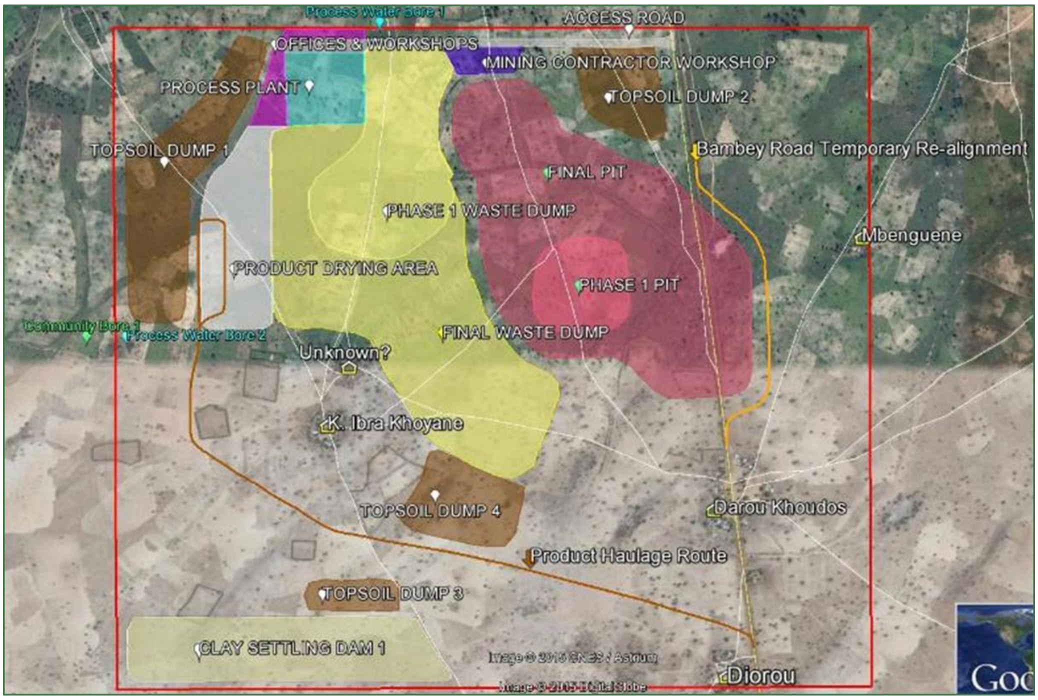
Core observation – Clear mineralisation to assist mining

- **Spotting to minimise ore loss and mining dilution**. From observing the drilled cores of Baobab, we saw the clear difference by colour in the stratigraphic layers of rock. The overburden layer, averaging ca. 29m, is a uniform sandy-brown colour containing aluminium phosphates at low mineralisation <5% P_2O_5. The high-grade high phosphate mineralisation then appears as a whitish colour averaging 3m. Below this the basement rock exhibits a greyish dirtier colour, being a ferruginous marly clay.
- This clarity in demarcation between the high-grade mineralised phosphate layer, overburden, and basement rock, will assist will assist in selective mining. MAK expects to employ spotters to assists mining excavators, minimising ore loss and mining dilution.

Mining Schedule Completed

- Australian Mining Consultants (AMC) have completed a design of mining schedules and pits. Phase I mining of the SMP is called Area C, which should be mined as a pit for 3.5 years. A bulk sample of 90kt product will be targeted during initial mining. Remaining of Area C contains 1.59Mt of product.
- The company identified areas at the SMP for waste and topsoil dumps, product drying areas, product haulage route, and offices and workshops. The wet season, predominantly July to August, should pose no problem, at worst meaning the product may need to dry longer on the pad. A tarpaulin will be installed.
- Dirt road may need to be moved 8 to 18 months into mining depending on further exploration drilling, because of high grade phosphate identified within its vicinity.
- MAK has identified contractor for mining, likely to do crushing as well, who will also likely supply excavators and trucks.

Figure 3: Proposed Mine Layout at Baobab SMP



Process plant and metallurgy progressed

- Wet screen is the long lead plant item, and will be sourced from the USA, with Consulmet (RSA) likely to design it. It will be conventional screen, akin to a Derrick. The process plant itself will be mobile to move around the SMP.
- MAK has demonstrated it can produce two phosphate rock products – a 32.7% P_2O_5 rock (57% P_2O_5 recovery; 38% mass recovery) in the first year of mining, and a higher grade 34.5% P_2O_5 rock (54% P_2O_5 recovery; 26% mass recovery) using a magnetic separator.
- In the first two phases of mining, the Fe_20_3 and alumina will be low, and the 32.7% product should be produced with wet screening only. However after eight months of mining, a magnetic separator be will needed (A$3.6M capex) as the iron content of the ore being mined increases. Lead time for a magnetic separator is estimated to be 4-5 months.

Potential for a third product could provide capex saving

- Further met testwork is being done at Adelaide to examine potential for creating a third product at lower grade at ca. 28% P_2O_5. This could potentially open up further of the resource as it would require a lower cut-off grade. The economics of this will need to be worked through as it will be determined by a price –volume and cost-capex trade off.
- If the third product is produced, the requirement for a low Fe impurity may not be an important factor in selling or price for customers. This would eliminate and/or delay the need for a magnetic separator, allowing for capex saving. For example, if a 28% P_2O_5 rock is produced, a cycloned size fraction of fines, say 106 to 212 microns instead of being pumped to clay settling dam sections.

Water drilling key

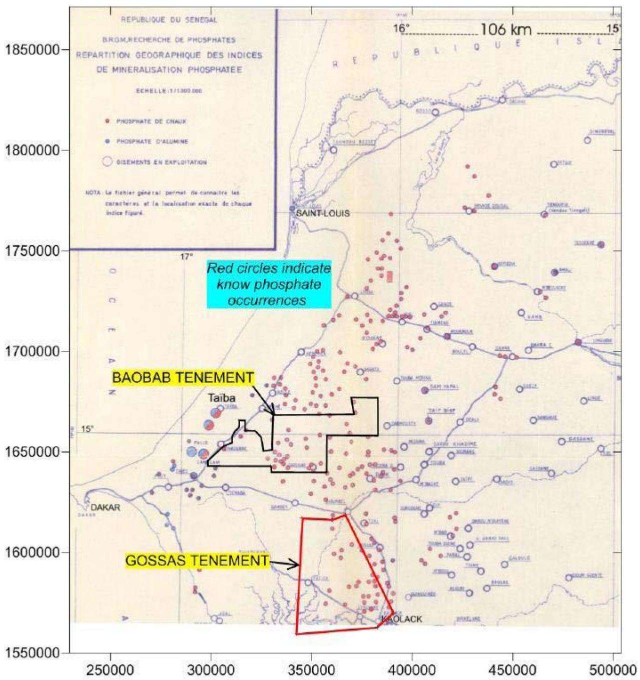
- Three levels of aquifers have been identified: 1) 30-40m from surface, which will potable be for villagers; 2) 50m will be for local community and 3) 450m below will be process water that MAK will use for its plant. Bauer have been engaged by MAK to do water drilling. MAK have water drilling permits for five areas.

Exploration – Targeting economic strip of 6.8:1.

- MAK is targeting high grade phosphate mineralised areas at Baobab where the strip ratio is equal to or less than 6.8:1. At this limit the economics are solid for mining and producing phosphate rock. This guiding metric is important given the large area tenement area (1,553km2) and the need to astutely deploy exploration dollars. From drilling it can become quickly evident if the area lies within this strip ratio by simple rule of thumb of overburden to phosphate layer.

- MAK is currently drilling down to 125m x 125m spacing to provide further confidence and de-risking of planned mining. As part of the Mimran placement and project investment, Mimran's Gossas' phosphate tenement will be vended into MAK. As with Baobab, this tenement had historical BRGM drill holes that indicated phosphate mineralisation, but no recent drilling has been undertaken. The tenement provides MAK with further scope to explore for resources as part of a larger project.

Figure 4: Mimran's Gossas Tenement in Relation to Baobab



DECISION TO COMMENCE MINING – MAK TO MOVE FROM DEVELOPER TO MINER

- Following receipt of final Government approval for both the Environment Impact Study (EIS) and Community Support and Relocation Plan on 10 November 2015, MAK announced its decision to commence mining.
- The company is targeting initial commercial production second half 2016. We have outlined the expected timeline and progress to achieve production in Figure 2. MAK believes that the three most critical paths, in order, will be mining of overburden, identifying process water, and process plant engineering.
- The decision to mine also catalyses the conversion of 40M of the 80M contingent rights into shares held by Baobab Partners. The other 40M rights will convert once commercial production of phosphate rock is achieved. As a result of the decision to mine, Mr Farouk Chaouni will become a Non-Executive Director of MAK effective ca. 19 November 2015.

Figure 5: Timeline for Production from Baobab SMP.

Milestone	Date
Decision to commence mining	November 2015
Recruit mining personnel	November 2015
MoU for offtake	November 2015
Finalised process plant & engineering	November 2015
Order long lead equipment	November 2015
Drilling to identify process water	November 2015
Mining contractor begins removal of overburden	December 2015
Finalise road haulage contract	December 2015
Sign contract with port operator TVS Necotrans	March 2016
Start of wet screen construction	March 2016
Completion of wet screen construction	May 2016
Commission of wet screen	May 2016
Mining of ore	June 2016
First product	**July 2016**

Source: Company; Foster Stockbroking estimates.

THE MARKET FOR PHOSPHATE ROCK

- We met with Mr Farouk Chaouni, a major shareholder in Baobab Partners, MAK's largest shareholder, to canvas his views on the phosphate rock market.
- Mr Chaouni segments the global ca. 30Mtpa traded phosphate rock market into three groups:
    1. **Buyers of long-term stable supply.** These customers mostly require phosphate rock to produce high grade phosphoric acid. The flexibility to accommodate new sources of offtake is limited by the acid plant setup which can be sensitive to impurities. The emphasis is on high quality rock with low impurities. These buyers include those from Brazil, India, and Belgium. The estimated size of this segment is 8-10Mtpa.
    2. **Buyers interested mostly on P_20_5 content and price, less about impurities**. These include customers using phosphate rock for direct phosphate rock application, SSP SSP production (i.e. adding phosphate rock to phosphoric acid) and TSP producers. Buyers care about getting highest P_20_5 content at best price. Impurity is less of an

issue. These buyers are spread across markets such as Brazil, New Zealand, India, and Egypt. Supply to this segment are from rock exporters in Algeria, Syria, Egypt, India, Pakistan, and Senegal. Estimated size of this market is ca. 5-7Mtpa.

3. **Finally there is the traders market**. Ca. 13-17Mt p.a.

- We believe all the above groups, but in particular 2 and 3, will be a focus for MAK and interested in its product. For example, the company has already stated that it is in discussions with SSP and phosphoric acid producers for offtake.
- We also met MAK's marketing manager who has had considerable experience and knowledge of the industry and major customers, having worked in marketing for Morocco's OCP, the world's largest producer of phosphate rock.
- We understand that some potential offtakers have already been to site, and that MAK is in discussions and/or signed MoUs with both a number of traders and end users of phosphate rock. We expect binding contracts will be signed once these parties receive bulk samples and are satisfied with product quality.

ICS and Sephos mine operations observed

- En-route to visiting Baobab from Dakar, we took short detours to observe the phosphate rock mines Taiba and Lam Lam.
- Taiba is owned by Industries Chimiques du Senegal (CS), which is controlled by the Indorama Group (India), and lies ca. 100km from Dakar. We also saw ICS' phosphoric acid plant located adjacent to the mine. The Taiba mine has operated since 1960, while acid production commenced in 1984.
- Production at Taiba was last reported at ca. 550kt, however ICS is seeking to expand production to 2Mt pa. Product grade is ca. 36% P_2O_5. Some of the rock is exported from Dakar, principally to India. The balance of the rock is fed to the phosphoric acid plants.
- We believe ICS represents a potential attractive offtake opportunity for MAK, given proximity to plant which would lower transport costs in addition to eliminating port charges and freight netback.
- Lam Lam mine is operated by Sephos Senegal (Sephos), controlled by Tervalis Desarollo (Spain), with production ca. 350-500kt of mostly 32% P2O5 phosphate rock.

PORT OF DAKAR VISIT

- We met with TVS Necotrans (TVS), the operator of Dakar Port's bulk handling and storage, with whom MAK has signed an MoU. TVS is an associate of French logistics company Necotrans with 30 years' experience. It operates in over 40 countries across Africa, Europe, Asia, North America, and South America, and has over 4,000 staff globally with turnover of 1B euros.
- In 2013 TVS won a 25-year concession to operate Port of Dakar's bulk handling and storage. It can also handle food or container cargo on a spot basis. The company's African experience – 25 years of operating in the continent, presence in 15 African countries, and 3Mt of cargo transported over Africa – places it in good stead to operate the port. As part of winning the concession, TVS will be committing to upgrade and modernise the port.
- TVS guided us on a tour of the Port of Dakar's bulk facilities, where we observed the loading and unloading of trucks. TVS is expecting to handle 2.3Mt of bulks in 2015 at Port of Dakar

across three berths. Improvements are underway to increase handing capacity to 13.2Mtpa including accommodation of Panamax vessels in 2018. Currently it serves Handymax.

- Major bulk exports are coal, iron ore, phosphates, and diesel. Major imports include sulfur, which ICS consumes in manufacturing phosphoric acid at its Senegal acid plants. Other bulks handled include wheat and rice.
- MAK's MoU with TVS entails shipping up to 500kt p.a. by 3rd quarter 2016, with scope to increase above this amount. While road haulage is the initial transport mode, MAK has begun investigations into using rail, for the longer term use for a large scale project.

New port location likely to tie in with MAK's larger scale Baobab production

- Senegal is seeking to build a new port at Bargny, about 32km from Dakar and closer to the Baobab project, which will have reported ultimate capacity 37Mt, and expected to be operational in 2019-2020. A 4.4km jetty will be built to access deepwater, and negating need for dredging. The port will be able to accommodate Panamax vessels. Prior to completion of the jetty, floating loadouts will be employed from 2017.
- TVS expects to be involved in bulks storage and handling of Bargny, and we believe the timing ties in nicely with MAK's own timing for the larger-scale production from Baobab.

LARGE MINE OPTION TO PROGRESS

- With ample cash and Mimran likely to satisfy the 20% equity Senegalese participation requirements, we believe MAK will progress toward achieving a large mining operation at Baobab (>0.5Mtpa). We expect the company will aim for 1.0 to 2.0Mtpa of phosphate rock product.
- In order to achieve this, the company will need to prove up ca. 60-80Mt of Measured and Indicated Resources that would support an ideal ten year mine life. This obviously requires a sustained and targeted drill campaign which the company will pursue.
- Once resources and a plan for a large mine operation have been identified, we expect MAK would submit a mining application. While no precise targeted date has been guided, we expect MAK would aim to submit an application within next five years. The state is entitled to a 10% free carried share of exploration and large mine permitted mining concessions. Holders of large mining permit concessions are exempt from corporate tax for a period of seven years, after which the holder will be subject to the 30% rate in the general tax code.

EARNINGS FORECASTS - CHANGES

- Following the agreements for project sell-down and placements, we have made changes to our earnings forecasts and valuation for MAK.
- Major changes we have incorporated into our model are:
  - The issue of 131.2M shares from placements;
  - MAK equity in BMCC diluting to 80%;
  - $31M in cash from project selldown and placements;
  - Reduction in A$ in FY2017 from US$0.72 to US$0.69 and in FY2018 from US$0.72 to US$0.70.
  - Increase in pre-production capex from US$11m to US$15M.
  - Accounting for BMCC as a controlled consolidated entity of MAK.
- Our forecast loss for FY16 has reduced slightly from –$3.9M to –$3.8M, due to higher net interest income. Our NPAT estimates for FY17 and FY18 have reduced from $6.8M to $5.8M and from $10.2M to $9.2M, mostly due to MAK now earning 80% of Baobab, partially offset by weaker currency and a higher net interest income.

MAK VALUATION – A$0.23/SHARE RISKED, A$0.35/SHARE UNRISKED

- We value MAK by sum of the parts. We continue to use a DCF on the Baobab project using 10% WACC nominal terms. The major changes we have made in addition to those described above in our changes to earnings forecasts are:
  - **Our risk factor for both the SMP and ex-SMP resources have both decreased by 10% each**. i.e. our risk factor has decreased from 30% to 20% for the SMP and from 70% to 60% for the ex-SMP resources. This is because of reduction in financing and sovereign risk from the Mimran investment.
  - **Valuation of large mine project (ex-SMP resources) is now based on 2Mtpa production instead of 0.5Mtpa,** with the financing and sovereign derisking. MAK equity assumed to be 70%, with 10% Senegalese Government free-carry.
- **The result is that our risked valuation of MAK has decreased only slightly from A$0.27/share to A$0.23/share,** with the reduction of the dilutive impact of the placement offset to a major extent by lowering our risk on Baobab and factoring in a large scale mine scenario ex-SMP.
- **Our unrisked valuation is A$0.35/share,** and is highly contingent on MAK successfully executing progress toward the large mine scenario in the next few years.

Figure 6: Valuation of MAK

Segment	Unrisked A$M	A$/share	1- Risk factor	Risked A$M	A$/sh
Baobab: SMP (MAK 80%)	73	$0.11	80%	58	$0.10
Baobab: ex-SMP large mine (MAK 70%)*	103	$0.15	40%	41	$0.07
Wonarah/JDCP	14	$0.02	na	14	$0.02
Corporate	-10	-$0.02	100%	-10	-$0.02
Exercise of in-money options**	32	$0.05	100%	4	$0.01
Pro forma net cash (debt)	29	$0.04	100%	29	$0.05
MAK	**240**	**$0.35**		**136**	**$0.23**
Diluted shares**	687.0			580.0	

**MAK to reduce to 70% from 80% via government free carry in large project.*

***Includes only options that are in the money at unrisked and risked valuations.*

RECOMMENDATION – MAINTAIN SPEC BUY, TARGET PRICE $0.23/SHARE

- We maintain our Spec Buy recommendation on MAK with a price target of $0.23/share, revised down from $0.27/share, based on our change in valuation. We see the company's potential to re-rate dependent on a number of catalysts over the next twelve months, namely:
  - Completion of the Mimran placement and investment in Baobab;
  - Commencement of mining;
  - Any binding offtake agreement;
  - Production and sales of phosphate rock;
  - Progression of larger scale Baobab project.

APPENDIX

Figure A: JORC inferred Resources Baobab Project

Prospect	Note	Ore (Mt)	P_2O_5	CaO	MgO	Al_2O_3	Fe_2O_3	SiO_2
	Within SMP	25	23%	31%	0.10%	2.0%	3.1%	38%
	Ex- SMP	40	21%	29%	0.14%	2.4%	3.9%	39%
Gadde Bissik East	Sub-Total	65	22%	30%	0.12%	2.2%	3.6%	38%
Gadde Bissik West		3	21%	29%	0.13%	4.3%	4.7%	35%
Gadde Bissik	**Total**	**68**	**22%**	**30%**	**0.12%**	**2.3%**	**3.6%**	**38%**

Source: Company; Foster Stockbroking estimates.

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