

KORE POTASH – Q2 UPDATE CONFIRMS PROGRESS TOWARDS FINANCING THE KOLA PROJECT

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By Dr. Michael Green

There seems to be no let up in the rapid progress that investors are witnessing at Kore Potash. This morning the company published a review of operations for Q2 2022. As with all these quarterly updates, there is really no new information but it does remind the market of the substantial progress that the company has made over the past 3 months on financing the flagship Kola Project.

Kore is a potash development company which owns a 97% stake in both the flagship Kola Project and the smaller DX Potash Project in the Sintoukola Basin in the Republic of Congo (RoC). During Q2 2022 Kore has a catalogue of notable successes. Importantly, this latest announcement served to remind investors that the next key milestone in the financing process for the construction of Kola is expected in August 2022.

Amongst the notable achievements in Q2 2022, the biggest step concerns the potential finance for the construction of Kola. This progressed in line with the Memorandum of Understanding signed with Summit Consortium in April 2021. Also, during the period, the Optimisation Study on the Kola Project was delivered along with Kore's team completing a detailed review of this study. This all resulted in the company signing Heads of Agreement for the construction of Kola, as reported 3 weeks ago.

This morning the board reconfirmed that the Engineering, Procurement and Construction (EPC) contract proposal for the construction of Kola based on the outcomes of this study is expected in August 2022. This is seen to be the next key milestone in the financing process because once Kore receives the EPC contract proposal and agreement on key EPC terms, then the financing proposal for the complete construction of Kola is to be expected.

These days it has become increasingly difficult for small cap resources companies to raise funds, so it is really good to see that Kore has US\$7.6 million of cash in the bank.

At the time Brad Sampson, Kore's CEO commented that *"Recent global events have heightened concerns in food security and continuity of supply of fertiliser to feed the world's growing population. The dramatic increase in the potash price reinforces the need for the development of new low-cost potash production from high quality potash deposits located close to customers, such as our projects in the Sintoukola basin. The progress towards financing our Kola Project is exciting and we look forward to receiving the financing proposal later this year."*

In the last quarter, Kore was able to highlight that Summit Consortium reaffirmed its commitment to provide the company with a financing proposal for the full construction cost of Kola. The financing proposal will be provided after Kore has received the EPC proposal and has agreed with SEPCO Electric Power Construction Corporation on the key EPC terms. This looks to us to be the makings of an amazing deal as from the outset it has been made clear that all the financing negotiations have been based on the understanding that Kore will be fully funded for the construction of the project and suffer no dilution.

We believe the Kola optimisation study (announced in late June 2022) outlined excellent outcomes, which demonstrated the value that is being created here for all to see. At a potash price of US\$1,000/t MoP CFR Brazil (less than current price of something like US\$1,100/t MOP CFR Brazil) the Kola financial metrics carry out at a post-tax NPV(10) of US\$9.354 billion and an IRR of 49% on ungeared post tax basis. These estimated returns were boosted by a big saving in the capex figure. This was little surprise to the Kore management team as at the DFS stage they had always felt that there were some US\$600 – 800 million of potential cost savings.

There is no doubt that the potash price has seen a dramatic rise over recent times. A growing population will require more food. At the same time the declining amount of arable land means that greater yields are necessary and more fertiliser will need to be applied. This situation has been exacerbated by global warming. So, 2-3% growth in potash demand per annum has been forecast over a long period of time. This will require new potash projects to be brought online to meet the growing demand.

There does seem historically to be very little slack capacity in the supply and demand of potash. Sanctions against Belarus in 2020-21 took out a large chunk of the world's potash supply. The war in Ukraine and Russian sanctions has also taken out another large chunk of supply. Depending on who you talk to, between 10-20% potash is now unavailable and effectively off the market. So, as long as sanctions continue against Russia, potash prices look like they are going to prevail.

These recent global events have highlighted the need to develop more potash projects and Kola is unique because of its location on the coast and is extremely close to Brazilian and African markets. Interestingly enough, Brazil is still getting potash from Russia, so the country is desperately searching for new sources to significantly reduce this dependence.

The potash market looks to be playing into Kore's hands as the company is positioned to replace potash supply from the northern hemisphere. Not only are the company's production costs enviably low, but Kore is also blessed with having the shortest shipping route to the giant Brazilian market and the fast-growing African market. As we can see now, all the pieces are now almost in place to allow Kore to commence a dramatic growth trajectory.

In May 2021, [we updated our analysis](#) on Kore Potash with a conservative price target of 11.2p and a Conviction Buy stance when the stock was trading at 1.175p. Now with the shares standing at 1.15p, we are more than happy to reiterate our **Conviction Buy** stance.

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