

Millennial Potash Corp. (TSXV: MLP)

Expands and Upgrades a Large Potash Resource in Africa

BUY

Current Price: C\$0.24

Fair Value: C\$1.02

Risk: 5

Sector: Junior Resource

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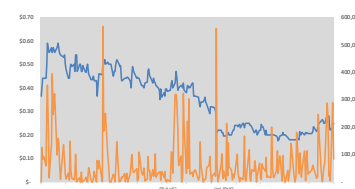
Highlights

- MLP has **delineated a large-tonnage/low-grade maiden NI 43-101 compliant resource estimate** for its Banio potash project in Gabon, Western Africa. The new estimate is 8% higher than a JORC (Australian) estimate completed in 2018.
- Indicated resources account for 36% of total resources (previously nil), implying increased confidence.
- The current estimate covers only 1.5% of the project area. We believe there is **potential for resource expansion** as the deposit remains open in multiple directions. MLP is aiming to complete a Preliminary Economic Assessment (PEA) in the coming months.
- Africa imports most of its potash consumption from Russia. In addition to Africa, **a major target market for Banio's potash is Brazil**, which imports 95% of its potash demand from Canada, Russia, and Belarus. Gabon's proximity to Brazil implies that MLP should have lower transportation costs than other potash suppliers.
- Potash prices are down 45% YoY. Fertilizer demand declined last year, influenced by sluggish global GDP growth, elevated interest rates, and volatile fertilizer prices. On a positive note, **fertilizer prices have begun stabilizing**, which we believe should encourage increased consumption among farmers. We are cautiously optimistic, and **anticipate a recovery in demand this year**. As Russia and Belarus account for approximately 35% of global potash supply, we believe the potash market has a highly vulnerable supply chain.
- Management and board own 30% of MLP's equity. Management has a highly successful track record in resource exploration and M&A. Their previous deals included – a) Millennial Lithium – sold to Lithium Americas (NYSE: LAC) for \$490M in 2022, b) Allana Potash - sold to Israel Chemicals (NYSE: ICL) for \$170M in 2015, and c) Potash One – sold to K&S (DE: SDF) for \$430M in 2011.
- **Upcoming catalysts** include the upcoming PEA, and resource expansion drilling.

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Head of Research

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Equity Analyst

Price and Volume



| | YTD | 12M |
|------|-----|------|
| MLP | 9% | -57% |
| TSXV | 1% | -11% |

Company Data

| | |
|-----------------|-------------------|
| 52 Week Range | C\$0.14 - C\$0.61 |
| Shares O/S | 58M |
| Market Cap. | C\$14M |
| Yield (forward) | N/A |
| P/E (forward) | N/A |
| P/B | 1.4x |

| Key Financial Data (C \$) - YE: August 31 | 2023 | Q1-2024 |
|----------------------------------------------|--------------|-------------|
| Cash | \$1,629,036 | \$552,258 |
| Working Capital | \$2,374,792 | \$1,282,282 |
| Total Assets | \$6,924,926 | \$6,201,037 |
| Revenue | - | - |
| Net Income (Loss) | -\$2,944,564 | -\$604,148 |
| EPS | -\$0.07 | -\$0.01 |

Subsequent to Q1-FY2024, MLP raised \$1.1M through an equity financing.

See last page of this report for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

Maiden Resource for the Banio Potash Project, Gabon

Hosts a large-tonnage/low-grade potash deposit

Located in the potash-rich Congo Evaporite basin in Gabon, which hosts several large potash deposits

Gabon's oil and gas sector hosts majors such as Fortescue (ASX: FMG), Eramet (ENXTPA: ERA), Total (NYSE:TTE), and Shell (NYSE: SHEL)

The latest resource estimate, which was based on two holes/2,260+ m of drilling, has expanded and confirmed the previous estimate

Total contained KCl is up 8%, with no material change in grades

The deposit is dominated by low-grade carnallite mineralization

Location Map



Source: Company

Gabon, known for its **vast petroleum reserves**, ranks third in terms of GDP per capita among African nations. It was a relatively stable country in Africa until last year, when a military coup ensued, leading to the removal of the President, whose family had held onto power for 50+ years. While there have been no reports of unrest within or in close proximity to the Banio project area, **the coup has sparked concerns about the country's economic stability and security**. On a positive note, in a recent meeting between MLP's Chairman and the new President of Gabon, **the President expressed his full support for MLP**, while emphasizing the importance of attracting foreign investments.

Banio Resource Estimate

| Mineralogy | Tonnage (Mt) | Grade % KCl | Tonnage (Mt KCl) |
|----------------------------------------|--------------|-------------|------------------|
| Indicated | | | |
| Sylvinite | 20 | 21.6 | 4 |
| Carnallite | 637 | 15.8 | 100 |
| Total (CT+SYL) | 657 | 15.9 | 105 |
| Inferred | | | |
| Sylvinite | 44 | 21.2 | 9 |
| Carnallite | 1,115 | 15.8 | 176 |
| Total (CT+SYL) | 1,159 | 16.0 | 185 |
| Total (CT+SYL) - 2024 | 1,816 | 16.0 | 290 |
| JORC Resource - 2018 (Inferred) | 1,670 | 16.1 | 269 |
| % Change | 9% | -1% | 8% |

Source: Company / FRC

The resource envelope measures 5 km (length) x 3 km (width) x 0.2 km (thickness)

Mineralization has been identified at depths ranging between 230 m and 520 m below surface; we note that Banio's potash beds are shallow compared to projects in Saskatchewan (800-1,500 m deep)

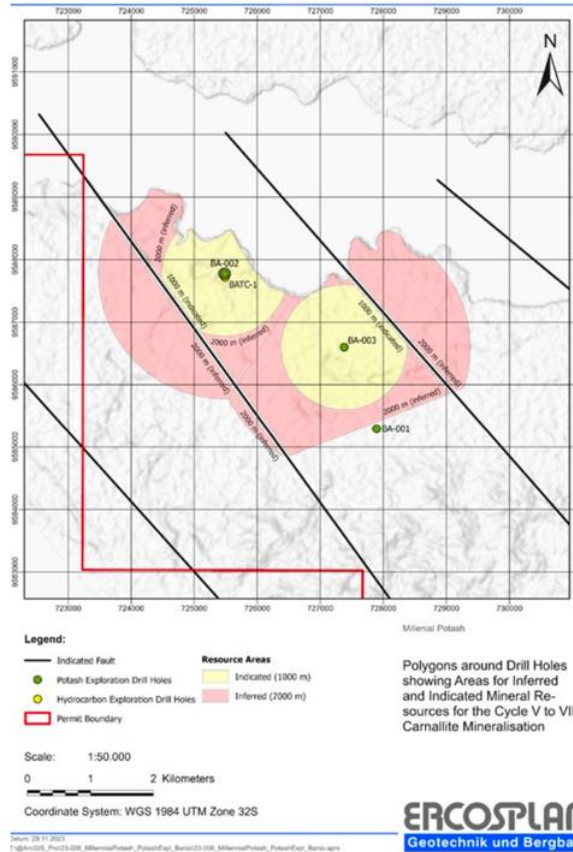
We believe there is potential for resource expansion as the deposit remains open in multiple directions

The maiden resource accounts for only 1.5% of the project area

The deposit is open-pittable, implying potential for relatively low OPEX/CAPEX

Solution mining has lower CAPEX than conventional underground mining

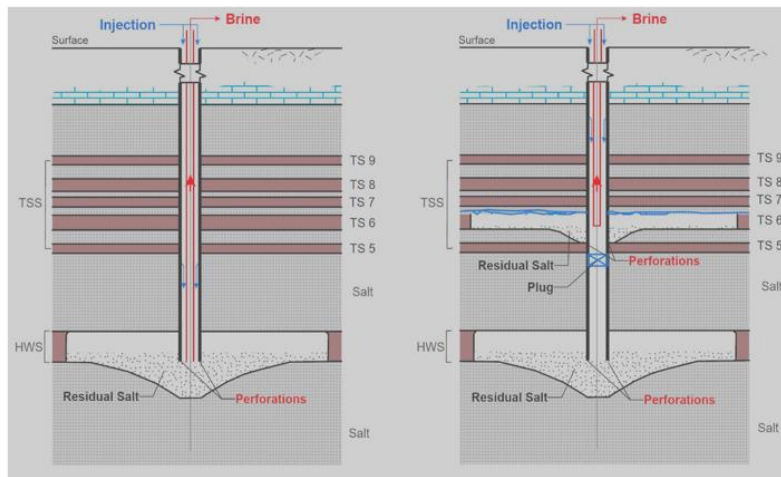
Resource Envelope



Source: Company

Potash beds of Banio are amenable to solution mining, wherein heated water/brine is injected through wells to dissolve ore, and pumped back to surface.

Typical Solution Mining



Source: Company

A DFS, based on a small-scale production scenario (0.6 Mt/year using solution mining), returned an AT-NPV10% of US\$511M

This project has an unusually low OPEX (US\$66/t), due to its shallow and thick resources

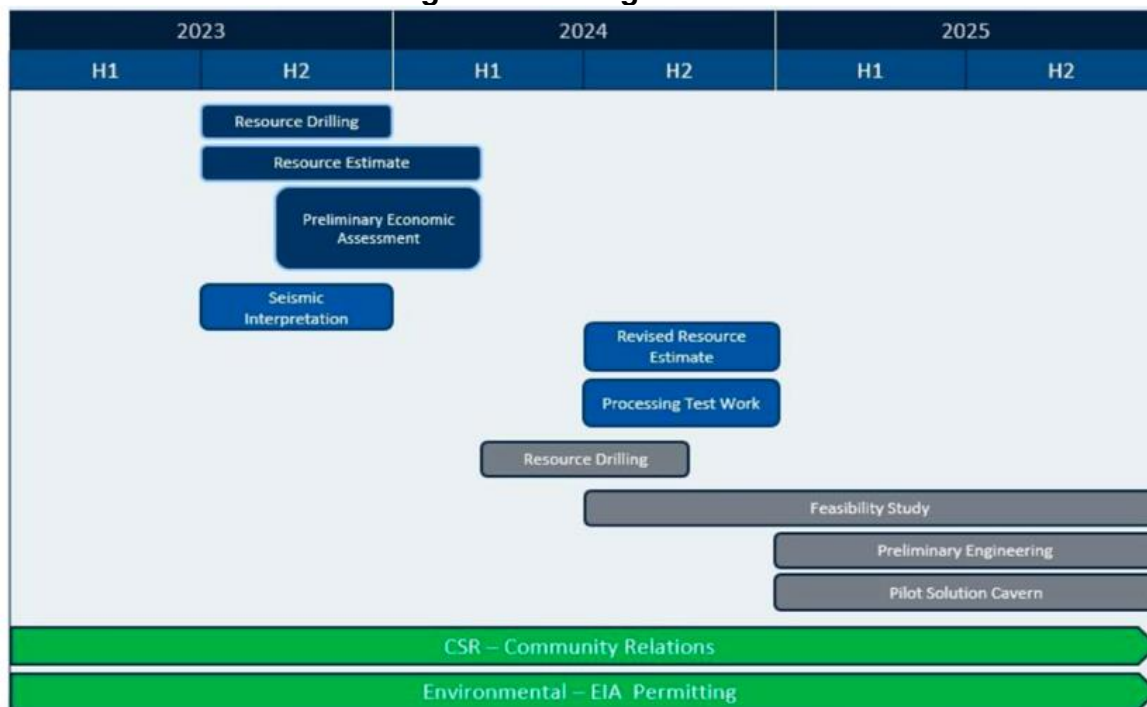
A **direct comparable** to Banio is the Kanga project, located 60 km to the south, in the Republic of Congo. This project has carnallite resources as well, totaling 12 Bt grading 16.9% KCl (depths ranging between 300 m and 1,100 m). As these grades and depths are very similar to that of Banio, **we believe Banio should generate similar economics as Kanga.**

| Kanga Project - Definitive Feasibility Study - 2020 - Soution Mining | |
|----------------------------------------------------------------------|-----------|
| Mine Life | 30 |
| Annual Production | 0.6 Mt |
| Initial CAPEX | US\$457M |
| OPEX | US\$67/t |
| Potash Price | US\$288/t |
| AT-NPV10% | US\$511M |
| AT-IRR | 22% |

Source: FRC / Kanga

Upcoming Plans

Management's Target Timelines



Source: Company

Management is planning resource expansion drilling, and aiming to complete a PEA in the coming months

Financials

| (C \$) - YE: August 31 | 2023 | Q1-2024 |
|--------------------------------|--------------|-------------|
| Cash | \$1,629,036 | \$552,258 |
| Working Capital | \$2,374,792 | \$1,282,282 |
| Current Ratio | 5.78 | 4.66 |
| Monthly Burn Rate (G&A) | -\$197,598 | -\$182,136 |
| Cash from Financing Activities | \$5,558,772 | - |
| Cash Spent on Properties/Othes | -\$3,776,112 | -\$510,583 |

| Options | # | Exercise Price | Amount |
|--------------|-----------|----------------|-------------|
| Total | 5,766,000 | \$0.41 | \$2,385,600 |
| In-the-Money | - | - | - |

| Warrants | # | Exercise Price | Value |
|--------------|-----------|----------------|-------------|
| Total | 6,334,488 | \$0.69 | \$4,339,418 |
| In-the-Money | - | - | - |

Source: FRC / Company

In December 2023, MLP raised \$1.1M through an equity financing

FRC Valuation

| | |
|----------------------------------------------------------------------------------------------|---------------------|
| DCF Valuation | 400,000 tpa |
| Operating Life (years) | 30 |
| Weighted Avg. Product Price (US\$/t)- 15-year average | \$302 |
| Exchange Rate (C\$:US\$) | 1.35 |
| Avg. Operating Cost in US\$/t | \$90 |
| Initial CAPEX (US\$M) | \$300 |
| Discount Rate | 14.6% |
| After-Tax Net Asset Value (C\$), net of remaining payments to acquire a 100% interest | \$62,213,207 |
| Working Capital | \$1,963,011 |
| No. of Shares | 63,218,000 |
| Fair Value per Share (C\$) | \$1.02 |

Source: FRC

Our DCF valuation decreased from \$1.25 to \$1.02/share

Valuation declined due to share dilution since our previous report, and as we raised our discount rate estimate from 13.6% to 14.6% to account for elevated country-risk levels; we typically use 11.6% for development-stage projects in North America

Our valuation is highly sensitive to key inputs

| | | Avg. Product Price (US\$/t) | | | | |
|--------------------------|------|-----------------------------|--------|--------|--------|--------|
| | | \$250 | \$275 | \$302 | \$400 | \$500 |
| Exchange Rate (C\$:US\$) | 1.15 | -\$0.40 | \$0.21 | \$0.86 | \$3.22 | \$5.63 |
| | 1.25 | -\$0.43 | \$0.23 | \$0.94 | \$3.50 | \$6.12 |
| | 1.35 | -\$0.46 | \$0.25 | \$1.02 | \$3.79 | \$6.62 |
| | 1.40 | -\$0.47 | \$0.26 | \$1.05 | \$3.93 | \$6.86 |
| | 1.45 | -\$0.49 | \$0.27 | \$1.09 | \$4.07 | \$7.11 |

| | | Avg. Product Price (US\$/t) | | | | |
|-------------------------|----------|-----------------------------|---------|---------|--------|--------|
| | | \$250 | \$275 | \$302 | \$400 | \$500 |
| Operating Cost (US\$/t) | \$70.00 | \$0.16 | \$0.86 | \$1.63 | \$4.40 | \$7.23 |
| | \$80.00 | -\$0.15 | \$0.56 | \$1.32 | \$4.09 | \$6.92 |
| | \$90.00 | -\$0.46 | \$0.25 | \$1.02 | \$3.79 | \$6.62 |
| | \$110.00 | -\$1.07 | -\$0.36 | \$0.40 | \$3.18 | \$6.01 |
| | \$130.00 | -\$1.68 | -\$0.97 | -\$0.21 | \$2.56 | \$5.39 |

| | | Avg. Product Price (US\$/t) | | | | |
|---------------|-------|-----------------------------|---------|---------|---------|---------|
| | | \$250 | \$275 | \$302 | \$400 | \$500 |
| Discount Rate | 7.5% | \$3.34 | \$4.76 | \$6.28 | \$11.82 | \$17.47 |
| | 10.0% | \$1.47 | \$2.54 | \$3.71 | \$7.93 | \$12.24 |
| | 14.6% | -\$0.46 | \$0.25 | \$1.02 | \$3.79 | \$6.62 |
| | 17.5% | -\$1.10 | -\$0.54 | \$0.08 | \$2.30 | \$4.57 |
| | 20.0% | -\$1.48 | -\$1.00 | -\$0.49 | \$1.39 | \$3.30 |

Source: FRC

We are reiterating our BUY rating, and lowering our fair value estimate from \$1.25 to \$1.02/share. As fertilizer prices have started stabilizing, we anticipate a recovery in potash demand in 2024. Key catalysts for the stock include the upcoming PEA, and resource expansion drilling.

Risks

We believe the company is subject to the following key risks:

- The value of the company is dependent on potash prices
- **Exploration and development**
- FOREX
- **Access to capital and potential for share dilution**
- No economic studies

Maintaining our risk rating of 5 (Highly Speculative)

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

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2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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