



Phosphate Market and Company Update

September 2014

Aguia Update: Conceptual Mining Study Indicates Economic Potential for Três Estradas

Aguia continues to advance the Rio Grande phosphate deposit in south Brazil. The company recently announced a conceptual mining study completed by SRK Consulting (Canada) Inc. (SRK) that indicated low cost parameters that should support robust economic potential for the Três Estradas (TE) phosphate project. Note that the mining study was based on the mineral resources audited by SRK and effective 17 May 2013, which represents less than half of the mapped strike length of the TE deposit phosphate mineralization. Highlights of the mining study and potential production of SSP are summarized in the table below.

Conceptual Mining Study Highlights

<u>Technical Parameters</u>		<u>Economic Parameters</u>	
Mining Recovery	95%	Selling Price SSP	/t SSP 330
Mining Dilution	5%	<u>Opex</u>	
Process Recovery P2O5	60%	Mining	45
Concentrate Grade	28%	Processing	105
SSP Conversion Factor	1.65	Transport	10
		G&A/Other	17
		Total Opex	177
			US\$mIn
<u>Production Parameters</u>		Capex	217.8
SSP (tpa)	350000	(incl. 15% contingency)	
Life of Mine (years)	12		

Source: Company Reports

A comprehensive drill program is planned to validate the resource at Três Estradas South. Initial shallow auger drilling at Três Estradas South has returned excellent results with grades up to 20%+ P2O5 (16m @ 14.4% P2O5 from surface, including 6m @20.1% P2O5; 10m @12.6% P2O5 from surface, including 6m @15.5% P2O5; 15m @ 13% P2O5 from surface, including 2m @ 21.4% P2O5; and 15m @ 10.4% P2O5 from surface). Aguia also plans to undertake delineation drilling of the neighbouring Joca Tavares project with the objective of outlining potentially 100 million tonnes of phosphate mineral resources between the two deposits. The reader is cautioned that the potential quantity and grade estimates are conceptual in nature; that there has been insufficient exploration to define a mineral resource; and that it is uncertain if further exploration will result in the determination of a mineral resource. Once this work is completed, it is expected that an update of the conceptual mining study will be prepared and the a preliminary economic assessment (PEA) will be published.

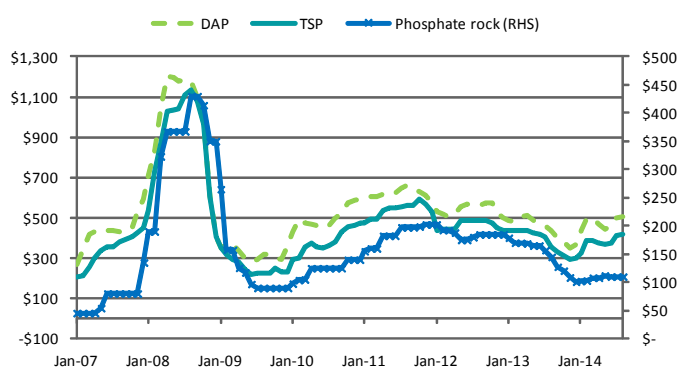
With respect to metallurgy, it is a high priority to undertake a pilot plant test program including column flotation to optimize the global recoveries of the phosphate mineralization

from TE. Column flotation has been a crucial step to demonstrate recoveries above 70% and increased concentrate grades at all operating phosphate mines in Brazil.

Agua's Board is currently reviewing a number of funding options for the next phase of the exploration and project development that are expected to be announced shortly.

Phosphate Fertilizer Prices Continue to Rise Modestly; Stock Prices Face Headwinds

Phosphate Rock and Fertilizer Prices (\$/mt)



Source: Worldbank

Phosphate nutrient and fertilizer prices inched up in August with DAP and TSP prices +1% m/m. Phosphate rock, DAP and TSP prices are now up 9%, 37% and 40% YTD. As indicated in our previous update, the H1 14 rebound was off 3-year record lows in November 2013 and due to strong global demand (in a

lean distribution system), plant outages (some planned, some not), harsh weather in North America and Morocco, and higher sulphur prices, notably in China. Phosphate rock prices peaked in March and have levelled off due to normal seasonal pressures. However, phosphate rock prices have started to move up again, increasing 2% w/w to \$113/t for the week ending Sept 5, 2014. Phosphate fertilizer demand is expected to remain strong (+2% y/y to 65mIn-66mIn t DAP/MAP/TSP in 2014 as per Mosaic); however, potential factors impacting price could be the India monsoon (potential to be below average this year and push out purchases), Chinese phosphate exports, geopolitical problems and near term soft commodity prices.

Stock price reaction to increased nutrient and fertilizer prices remains mixed for phosphate producers. The "P-centric" producers – Mosaic (MOS), Phosagro (PHOR), and Jordan Phosphate Mines (JOPH) – have responded -2%, +19%, and -12% YTD, respectively. However, stock prices of junior explorers and developers continue to fall as financing and viability challenges remain. The group is down 4% m/m and is now down 17% y/y YTD. The exception is Brazilian-based DuSolo Fertilizer (DSF-V), which is up 24% m/m and 48% y/y YTD. Agua is up 13% m/m.

Brazil Imports Continue to Rise

Data from ANDA and Mosaic indicates phosphate shipments in Brazil were up 25% m/m and 11% y/y in July (470,000MT). YTD, P2O5 shipments are up 7% y/y to 2.3 million MT. However, production of phosphate fertilizer in Brazil has declined y/y. Production of MAP/TSP is down 9% m/m (148,000MT) and down 4% y/y YTD to 1.19 million MT.

Production of SSP was up 1% m/m (442,000MT) but down 12% y/y YTD to 2.59 million MT. Reduced production this year is primarily due to beneficiation issues at a number of Brazilian mines.

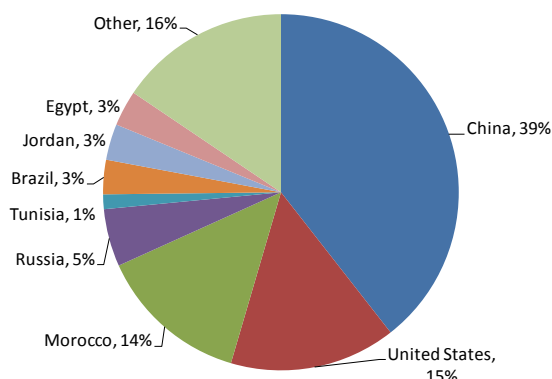
Imports of DAP/MAP/TSP were up 19% m/m and 67% y/y in July (504,000MT). YTD, P2O5 imports are up 6% y/y. Mosaic is forecasting Brazil to receive P2O5 shipments (DAP/MAP/TSP) of 7.1-7.4 million MT in 2014, up 2% from 7.1 million MT in 2013.

Monthly Phosphate Focus: Potential for Global Supply Risk due to Concentrated Export Market and Geopolitical Issues

We saw last year what can happen to nutrient prices in a concentrated market when potash prices dropped 25% on the back of Uralkali's decision to break away from its marketing group (BPC) and sell potash on its own. While it is a well known fact that the potash market has been historically controlled by two major marketing groups – Canpotex (POT, AGU and MOS) and Belarussian Potash Company (URKA and Belaruskali) – which resulted in controlled pricing, it is a lesser known fact that the phosphate market is also concentrated to a degree, most notably with respect to phosphate ore and the export market which is dominated by Morocco.

While Morocco is home to the largest phosphate ore reserves in the world (~84% of global reserves), China is the largest global producer of phosphate rock (39%), followed by the US (15%) and then Morocco (14%). That being said, China and the US consume the majority of their own rock. The export market is relatively small versus total rock production (~30 mln tpa exported versus ~195 mln tpa produced

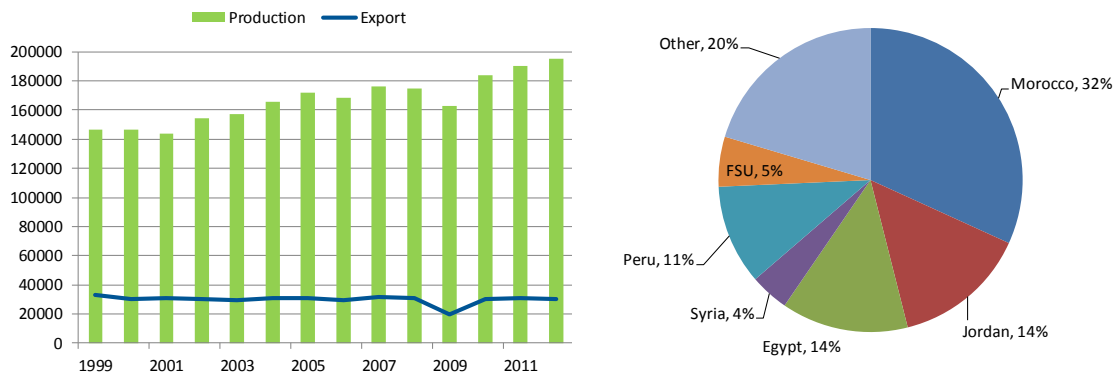
Phosphate Rock Production (2012) by Country



Source: USGS, Company Reports, BC Insight, IFA, IFDC,

globally, or 15%) as most phosphate rock is consumed internally to produce P2O5 fertilizers (results in a cost advantage notably due to reduced transport costs). Of the 30 mln tpa that is exported, ~9-10 mln tpa is sourced in Morocco (~32%) and ~65% of the export market is sourced in North Africa. We expect the amount of phosphate rock available for export to decline over time as major producers (notably OCP in Morocco, the largest phosphate producer in the world) build out downstream processing (phosphoric acid and fertilizers) in order to increase the value-add (and margins) of their operations.

Global Phosphate Rock Production and Exports ('000t); 2012 Exports of Phosphate Rock by Country

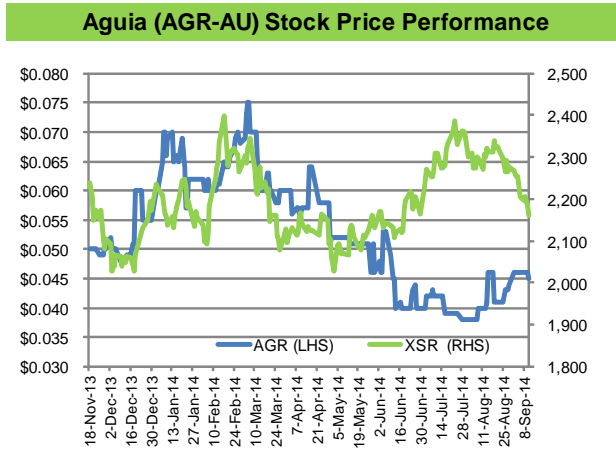


Source: USGS, Company Reports, BC Insight, IFA, IFDC

The fact that ~65% of the exported phosphate rock market is sourced in North Africa is a concern to some. The region is known for geopolitical issues, which has impacted phosphate production in the past. Examples include: 1) Tunisia has been out of the market in the past due to civil unrest (related to employment at the GCT mine among other issues) and has reduced phosphate rock production to 2.6 mln t in 2012, down from 8.1 mln t in 2010, 2) Syria continues to struggle with violence and uncertainty with its political regime, 3) revolutions in Egypt have caused unrest although phosphate rock exports have increased to 4.1 mln t in 2012, up from 2.5 mln t in 2010, 4) Jordan, the second largest exporter of phosphate rock in the world, has a youth unemployment rate of ~40%, and 5) Morocco (#1 global exporter) could be impacted by the potential independence of the Western Sahara. Phosphate rock reserves are part of the dispute (Western Sahara accounts for ~10% of Morocco's phosphate production). The fact that Morocco is home to 84% of global phosphate ore reserves, and OCP currently controls ~32% of the phosphate rock export market, underscores the need for a more diverse and secure supply of phosphate rock for fertilizer production.

Brazil currently imports 1.5 mln tpa of phosphate rock, of which 40% is sourced from Morocco. Over time, we expect Brazil to reduce its dependence on imports of fertilizers and nutrients to support its growing agricultural business, which is a major global food source.

About Agua



Capital Structure

Ticker - ASX	AGR
Shares Outstanding (July 9 2014)	213.9M
Market Cap at A\$0.045/share	A\$9.6M
Cash Balance (March 2014)	A\$1.2M
Unlisted Options (average price A\$0.27)	22.5M
Performance Shares (expire July 2016)	1.5M

Source: FT.com, AGR

3.94% P2O5, respectively) with only 45% of the mapped strike length drilled to date. Joca Tavares (JT) is the second discovery approximately 40 km to the south. The site has excellent infrastructure (TE is less than 1km from all railway links to the Rio Grande port – one of only two ports in Brazil with an acid terminal).

Agua is currently focused on the flagship Rio Grande phosphate deposits in Rio Grande Do Sul (RS) state in south Brazil. The area is an established farming area (wheat, rice, soybean, corn, dry beans and lesser quantities of sugar cane and coffee) and currently imports 100% of its phosphate needs (~500,000tpa P2O5) as there are no existing mines operating in the area. The Rio Grande project is a collection of three new igneous phosphate discoveries – Três Estradas (Nov 2011), Joca Tavares (June 2013) and the Porteira target. The current focus is Três Estradas (TE), which has a 10MT indicated and 21MT inferred JORC resource (5.03% and

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Competent Persons Statement

The information is extracted from the report entitled Quarterly Report and Appendix 5B released on 30 April 2014, the Tres Estradas Phosphate Project released on 29 May 2014, and the Mining Study – Tres Estradas Phosphate Deposit released on 16 September 2014 which are available to view on www.aguiareources.com.au. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.