AGUIA RESOURCES LIMITED

Research Note

ACHIEVING THE RIGHT MIX - SITE VISIT UPDATE

- **Aguia Resources Limited (AGR) is advancing the Bankable Feasibility Study (BFS) on its 74.7Mt phosphate (P_2O_5) resource at its 'Tres Estradas' Project in Brazil's south. AGR's project location is a point of difference, as the Company focuses on the necessary steps leading to production. Brazil, as a whole, currently imports approximately 65% of its phosphate requirements; more importantly in the Rio Grande do Sul State, where Tres Estradas is situated, 100% is imported. AGR aims to supply a phosphate concentrate product for fertiliser end-use, in conjunction with a calcite by-product ($CaCO_3$), domestically at market price. We believe the likelihood for off-take agreements in the future for phosphates is high. Meanwhile, the Tres Estradas Project can produce a very high-grade calcite concentrate that can be used as a premium AGLIME product throughout the agricultural belt and distribute via well-established cooperatives and distribution. Recently, we visited AGR's project in Brazil endorsing the Company's business proposal. Given the opportunity inherent to Tres Estradas' location, the current evaluation of potential improvements on the Project and our DCF valuation of A$0.16/sh; we retain our Speculative Buy rating.**

- **Site visit:** We visited the Tres Estradas Project in southern Brazil including the port installations in the city of Rio Grande. We met with local Management and discussed the Project's technical and commercial rationale of the Study. We are positive on the Project's future optionality, and potential value add to be finalised in the BFS.

- **Bankable Feasibility Study:** The discovery of the new zone can potentially delay the BFS due to the extension of the drilling campaign required to include the new deposit as part of the Study. We believe that the mining cost could potentially be reduced by improving the strip ratio of ore/waste and adding operational flexibility to the Tres Estradas Project. Meanwhile, the Company is performing the metallurgical test with a Pilot Plant in the US whilst analysing several mining scenarios to minimise capital and operational expenditure and maximise the value of the Project.

- **Phosphate Price in Brazil:** AGR's project is an economic project as it can compete with imported products from Morocco. Despite a reduction of international phosphate prices, AGR's product remains competitive as it does not have to pay for sea freight, federal and state import taxes and price markups of intermediates. Currently, the extra cost per tonne of phosphate ranges between US$50-70/t.

- **Valuation:** In light of our site visit, we have reviewed our estimates changing the debt/equity ratio from 50-50% to 60-40% and reducing our local price adjustment (US$60/t to US$50/t) resulting in an increase in our valuation from A$0.15/share to $0.16/share.

- **Dual listing:** Subject to shareholders approval on 4 April 2017, AGR is looking to list on the TSXV and conduct a 5:1 consolidation. Given the strong experience of AGR board in North America, we believe that the access to a mature agricultural capital market could provide a bigger platform to fund the Tres Estradas Project.

- **Catalysts:** AGR's short-term catalysts are: 1) new JORC update, 2) results from the Pilot Plant, 3) phosphate and calcite off-take agreements. A key mid-term catalyst will be the release of the BFS; followed by Tres Estradas Project funding.

14 March 2017

12mth Rating		Speculative Buy
Price	A$	0.081
RIC: **AGR.AX**		BBG: **AGR AU**
Shares o/s	m	451.8
Free Float	%	65.6
Market Cap.	A$m	36.6
Net Debt (Cash)	A$m	(6.3)
Net Debt/Equity	%	n/a
3m Av. D. T'over	A$m	0.06
52wk High/Low	A$	0.14/0.079

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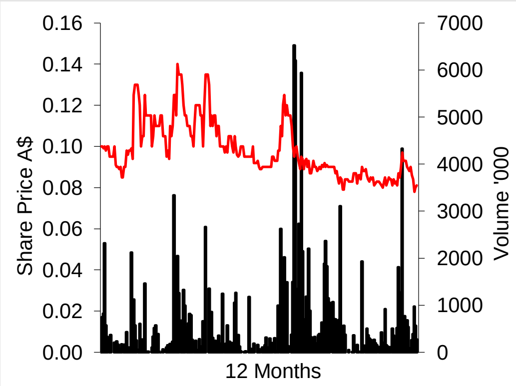
Disclosure: Patersons Securities acted as Lead Manager to a Share Placement that raised A$8.5m at A$0.10/share in October 2016. Patersons Securities received a fee for this service.

An investment in this company should be considered speculative and note assumptions employed are contingent on broader market conditions remaining supportive. These can change at short notice. Recommendations are current at the time of publication.

12 Month Share Price Performance



COMPANY OVERVIEW

AGR is an Australian company focused on becoming a fertiliser raw materials producer through the development of its 74.7Mt @ 4.13% P_2O_5 AMR 'Tres Estradas' in the Rio Grande do Sul region on Brazil's southern tip, south-west of Porto Alegre. The Company has spent the past few years delineating the deposit and is entering a development phase. It intends to commence production in late 2018/early 2019. Figure 1 highlights the Company's project location in an area devoid of phosphate raw material suppliers.

In late 2016, AGR commissioned Millcreek Mining Group (Millcreek) to conduct its BFS. Millcreek previously carried out a second PEA release in July 2016. The Millcreek's PEA estimates production at Tres Estradas of 4.5Mtpa phosphate rock yielding 466ktpa P_2O_5 concentrate with a 14-year life of mine (LOM) and a strip ratio of 3.1. The most significant findings to come from the Millcreek's assessment are:

- An increase in recoveries through the use of a column flotation circuit instead of the conventional circuit proposed by the 2015 PEA;
- The increase in recoveries estimated at 80% in the oxide, up from 75%, and a sizeable increase from 65% to 84% in the fresh rock; and
- The benefit from a calcite AGLIME by-product that can be produced from the Tres Estradas feedstock which has added significant value to the economics of the project.

The Tres Estradas Project is strategically located in southern Brazil's agricultural area. It is reported as being 100% reliant on phosphate imports representing a significant opportunity for AGR. The Company aims to supply a phosphate concentrate product for fertiliser end-use, in conjunction with a calcite by-product domestically at significantly lower costs to buyers than currently paid. We believe the likelihood for off-take agreements in the future is high, and note the prevalence of some calcite plants close to the Tres Estradas Project that could potentially be interested in the secondary calcite product.

Figure 1: Tres Estradas Project Location in Brazil

Source: Aguia Resources Limited

Recently, we visited AGR's project in Brazil. Overall, we were pleased with the Company's work to date and endorse the Company's business proposal. In our view, the strong results from the infill programme in late 2016 (aimed to convert Resources to Reserves) has shown the presence of a parallel mineralised structure as well as showing a wider than expected ore body in the primary structure. We believe that AGR will improve the previous PEA with its BFS, and potentially position AGR to execute an off-take agreement and project funding in the near future.

SITE VISIT

During February 2017, we attended a site visit to theTres Estradas Project located in the Rio Grande do Sul State in Southern Brazil. The tour included visiting in-situ the Tres Estradas Project, the core warehouse, the port at Rio Grande, a presentation and ongoing discussions with local management on the project's options for development.

Figure 2: Tres Estradas Project Looking East

Source: Patersons Securities Limited

Access

Access to the Tres Estradas Project is by a 20km dirt road which connects a sealed road that leads to the port/city of Rio Grande. The topography of the project does not represent a significant inconvenience for a mine development given the relatively terrain flatness. The access road is in good condition for small vehicles. However, the dirt road will require a road upgrade to cater for the full-scale project with truck traffic. The Company is currently considering delivering its product to Rio Grande by trucks. Meanwhile, there is a possible future evaluation to build a connecting rail hub to replace trucks depending on the project output as there is an active rail line within 500m from the proposed project site.

Figure 3: Gravel Road connecting the Tres Estradas Project and an Active Railway

Source: Patersons Securities Limited

Power

AGR has indicated that the closest power line has spare capacity, and it is approximately 30km from the proposed Project site. However, a new line will need to be built to connect the Tres Estradas Project with the main power lines. The Company is assessing the size of the power supply which ranges from 2-30Mw of installed capacity. Water is not readily available for the concentrate operations. Nevertheless, the Project could require building a nearby rainwater reservoir on a hill slope. We do not anticipate that the water supply to the Project would be an issue, as the annual rainfall in the area is c.1,500mm per year.

Figure 4: Diamond Rig at the Tres Estradas Project

Source: Patersons Securities Limited

Communities

The Project is located in a farm area. The surface land will need to be purchased for the Project's operation. AGR has indicated that it is in advanced discussions with local landowners in regards to the future land purchase. During our visit, we could not see obvious local problems with the community or trouble accessing the Project's offices in the next town (ex-gold town). Except for one house, no more relocation seems to be required. During our visit, we could see a diamond rig operating right next to a farm house as illustrated below in Figure 5.

Figure 5: Diamond Rig Operating Next to a Farm House at the Tres Estradas Project

Source: Patersons Securities Limited

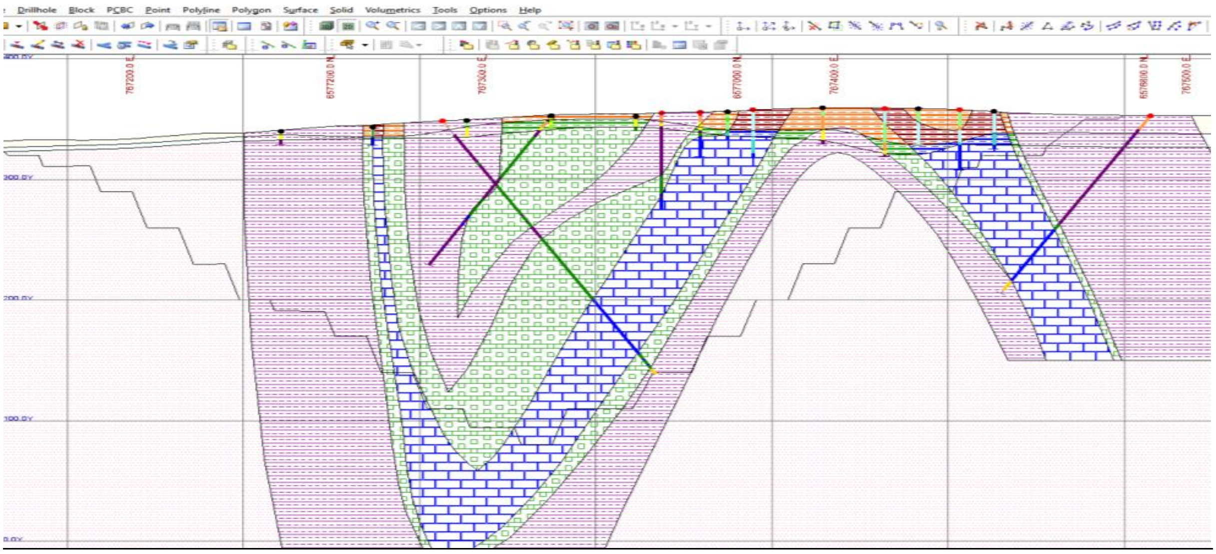
Drilling Programme

AGR has decided to extend its initial in-fill drilling campaign of 9,000m after the discovery of a parallel mineralised structure with a potential strike length of 500m as illustrated below on the cross section in Figure 6. Meanwhile, the in-fill campaign has demonstrated that the resource is thicker than the previous geological model used for the PEA. We anticipate a potential increase in the Resources tonnage and reducing mining cost in the future BFS.

AGR has indicated that the drilling programme has now has been extended a further 1,000m to prove up mineralisation. We believe that AGR could prolong the drilling campaign a further 1,000-2,000m given that rigs are already on site. AGR is targeting to prove up further Resources and Reserves in the discovered area to incorporate it in the BFS. Given the wider new ore body geometry, we believe that mining costs can be potentially lowered due to a reduction in the strip ratio.

By the end of the drill programme, the Tres Estradas Project is estimated to have >25,000m drilled. The drill results are expected to be used in the BFS to feed and conclude tests in the pilot plant, condemnation drilling for the proposed installations, have a definitive understanding of the Resource in geomechanics, geotechnical, hydrology and hydrogeology.

Figure 6: Cross Section Showing the Discovery of New Mineralisation (right drill hole)



Source: Aguia Resources Limited

AGR'S TARGET MARKET IN BRAZIL

AGR is evaluating the best commercial phosphate production profile (while being mindful of Capex requirements) which can be competitive in the local market in southern Brazil. If AGR's project becomes too big, then it could overflow the domestic market and become a phosphate in exporter a market in which AGR is less competitive.

We note that AGR is most completive in the production of phosphate concentrate in the State of Rio Grande do Sul. Hence, the Company has two possible clients for it phosphate concentrate (used mainly for fertiliser purposes) being Yara Brasil Fertilizantes S.A (Yara), with a capacity of producing 800ktpa of granulated fertilisers, and TIMAC Agro (a subsidiary of The Roullier Group). Both companies have their processing plants at the city/port of Rio Grande with a combined capacity of 1.1Mtpa.

Alternatively, AGR could target to sell its phosphate concentrate in other states in Brazil. However, transport cost and State taxes make this alternative less competitive.

AGR could also target selling its products in Uruguay and Northern Argentina given the Project's proximity to the Uruguayan border. We believe that his option could be evaluated too, as to Brazil has a Free Trade Agreement with the mentioned countries (Mercosur).

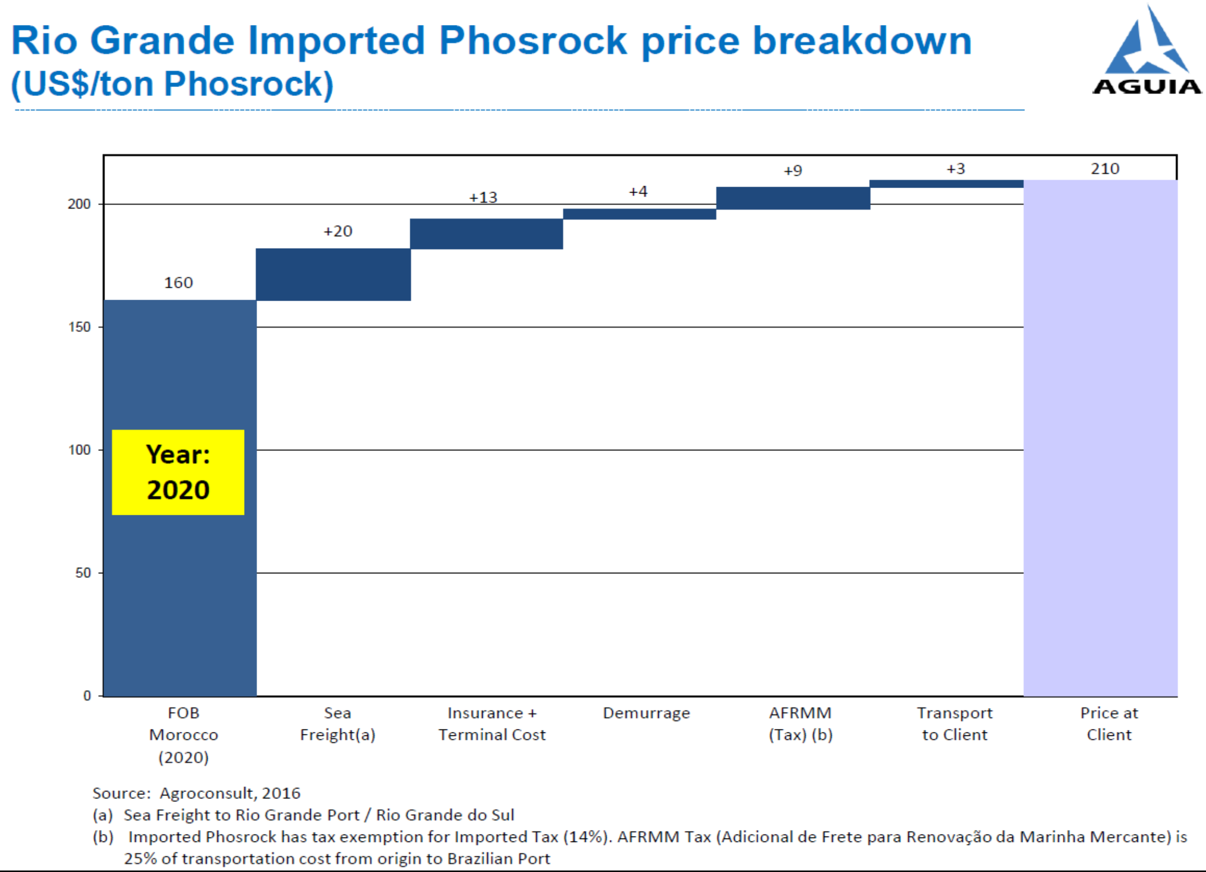
BRAZILIAN PHOSPHATE PRICE CALCULATION

The State of Rio Grande do Sul imports 100% of its fertilisers from abroad. Brazil is not an import free market and can charge a significant cost in import taxes for products. The current price indicated by the World Bank estimates phosphate rock at US$99/t at the end of January 2017.

Currently, AGR is the only advanced phosphate rock project in the region. Hence, it has a unique position to supply the local market with limited to no competition. AGR has conducted a market study of the Estate of Rio Grande do Sul by a market expert (June 2015, Agroconsult), to assess the commercial viability of the Project. The market research concluded that the imports price in Brazil (at the State of Rio Grande do Sul) would carry an extra cost of US$50-70/t. The final price in Brazil includes sea freight, insurances, port cost, import taxes, port fees and domestic transport cost. As a result, the Tres Estrada Project can sell its phosphate concentrate a price >US$150/t which makes the project competitive as our valuation uses the parameters from the latest PEA as a base.

Below in Figure 7 we provide an example of how the phosphate rock price is calculated for the Brazilian market.

Figure 7: Phosphate Concentrate Price Estimation for the Brazilian Market



Source: Aguia Resources Limited

The imported phosphate concentrate has a tax exemption (otherwise 14%) on the received FOB price. However, there is a service tax to be paid on the total importing services of 25%.

As an example, the tax calculation of this 25% (US$9/t) is based on the total cost of sea freight (US$20/t, assumed from Morocco) +insurances & terminal cost(US$14/t) +demuirrage (US$3/t). The final price for the local clients will also include the transport cost in Brazil (US$3/t). As a result, AGR has a competitive advantage due to the higher import price paid in Brazil of US$49/t.

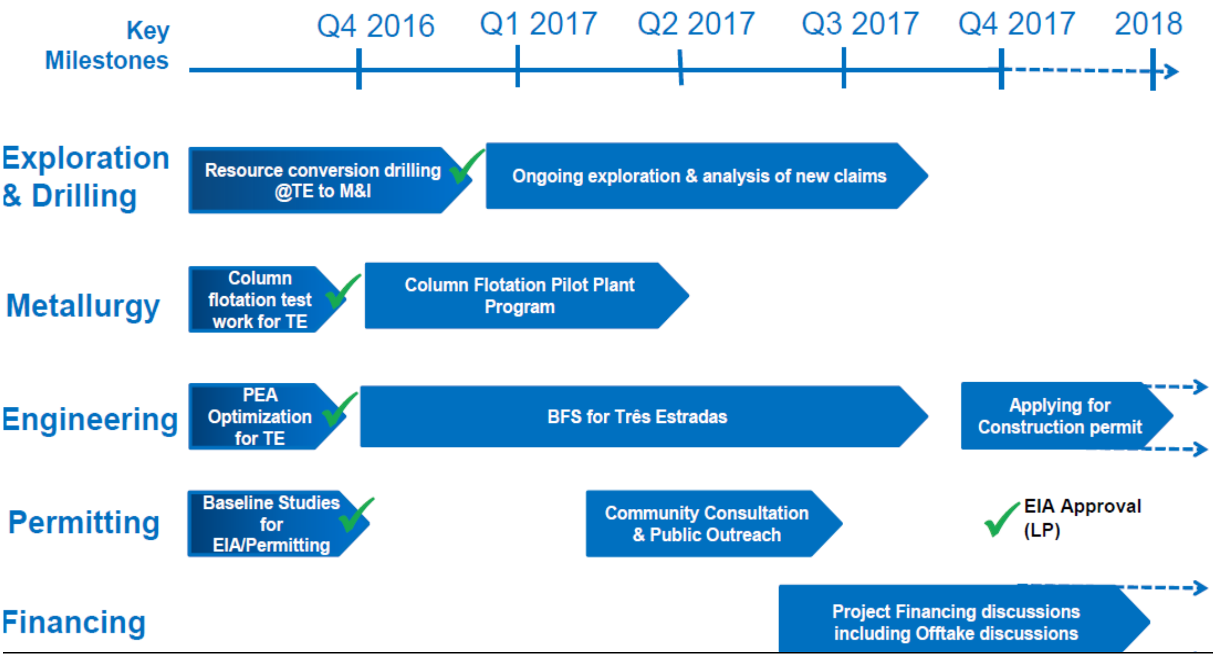
TRES ESTRADAS PROJECT OUTLOOK

AGR has a busy agenda for 2017 which includes:

- The current drilling programme is expected to be completed before the end of March 2017.
- Pilot Plant optimisation is expected to be available by the end of 1H CY17.
- Engineering work for the BFS is planned to take most of the year 2017 and expected to be finished before the end of 2017.
- The application for the Mining Licence to operate the project should be lodged by the end of 2017 or early 2018.
- The project construction is expected to take up to two years; the Company anticipates construction to commence in 2018.

An outline of the project task schedule is illustrated below in Figure 8.

Figure 8: Tres Estradas Schedule Plan



Source: Aguia Resources Limieted

After meeting with Management, we believe that the Company has the right team, workforce and experience to deliver the Project on time and budget. We are encouraged to see that AGR engages with experts when needed for technical/commercial/permitting/environmental solutions. As a result, we believe that AGR can deliver the project, and is best prepared to identify, mitigate and provide solutions to project risks.

Figure 9: Outcrop and Location of a Drilling Collar

Source: Patersons Securities Limited

CAPITAL RAISING AND TSXV LISTING

On 3 March 2017, AGR announced a notice for a General Meeting on 04/04/2017. The main points of the meeting (subject to shareholder approval) are to consolidate of capital (5:1), listing on the Toronto Exchange (TSXV), raise up to $8m at 80% of the average market price (VWAP) and to issue options to employees.

AGR believes that wider access to funding for the Tres Estradas Project is required to become a phosphate producer successfully. The dual listing in TSXV and the ASX can potentially provide a robust funding platform for the Company.

We believe that AGR could benefit from a better-established agriculture investment culture in North America. We welcome AGR's proposal as we believe that dual listing can provide stronger support for AGR to become a phosphate producer. We note that AGR Management/Board have significant Institutional experience in North America with from its Managing Director (Justin Reed) and its Executive Chairman (Paul Pint) with a combined total experience close to 40 years.

VALUATION

We have updated our estimate of AGR to $0.16/share (previous $0.15/share) using a sum-of-parts methodology. We applied a Discounted Cash Flow (DCF) method to the economic assessment of the Tres Estradas Project. No nominal values have been given to the exploration assets as they are too early to be accounted. The Company's cash balance at the end of December 2016 of $6.2m was added to the estimate.

The valuation methodology for each segment is described in further detail below.

We have updated our model to reflect the changes from the latest PEA. We used a capital spend of US$135m to be raised in a 60/40 debt/equity split, a 14-year LOM yielding 400ktpa phosphate and 1.39Mtpa calcite. We have valued the Tres Estradas at a discount rate of 12% to account for project uncertainties.

We used a long-term price assumption for phosphate from the World Bank forecast (released in January 2017) plus US$50/t (from US$60/t) to reflect the value of the phosphate rock in Brazil. The reviewed phosphate concentrate value used an averaged US$167/t (from US$177/t) and US$45/t for calcite (unchanged). Each of these metrics has been estimated more conservatively than those employed in the Millcreek PEA.

In regards to upfront capital, we have modelled a 60:40 debt/equity split for the estimated A$176m required for the Tres Estradas Project at a conservative issue price of A$0.07/sh. We acknowledge a capital raising at this price level would be significantly below the A$8.5m raised by AGR at A$0.10/share in October 2016.

We derived a value on the Tres Estradas Project of US$168m. Using an exchange rate of US$0.76/AUD, we calculated a final AUD valuation of $220m.

We note that in the BFS there is potential to reduce the Project's capital requirements as well as operational cost. AGR currently does not have off-take agreements in place to fund the c$160m from its PEA. However, we believe that this situation has the potential to be turned around given the current developments and business improvement that are under study by the Company. If the capital requirements are reduced by 30% or 40%, the project value could yield $0.23/share and $0.26/share respectively.

However, AGR could secure project financing using a higher proportion of debt or through an equity issue at a higher share price or by reducing the capital needed to commission the Project. To test the previous idea, we have tested two cases, the first one a 70/30 split and 80/20 split cases. We have used the same raise issue price of A$0.07/sh. As expected, a higher debt ratio resulted in a higher valuation. The share price values for AGR under these scenarios are $0.21/share and $0.26/share respectively.

We do note the negative implications and hazards of this larger debt burden on the Company's Balance Sheet, should this scenario eventuate. Hence, it is important for AGR to optimise and reduce the capital and working capital requirements for the Tres Estradas project.

RISKS

Commodity Price Risk: A key risk for AGR exists in the price of the produced product which, in this case, is the value of phosphate and calcite concentrates. AGR's value is governed primarily by the price it receives for its product and a reduction in commodity prices has the potential to affect our valuation and current recommendation negatively.

Sovereign Risk: Whilst Brazil is a well-established mining jurisdiction in its own right, the country is not without its sovereign risk. Potential exists for restrictions to be imposed on the Tres Estradas project that could hamper its development and affect market sentiment and our valuation and recommendation.

Funding Risk: Capex estimates associated with plant and pre-mine construction for the Tres Estradas project are valued at circa A$166m (US$118m) in the revised Millcreek PEA and A$183m (US$130m) internally. Such a significant capital requirement may prove to be a large task. While we note the extensive capital markets experience of Board Members Justin Reid and Paul Pint, we must acknowledge and highlight the significant funding risk attached to getting Tres Estradas through to a cash generative stage.

Resource Risk: A majority of AGR's Tres Estradas Mineral Resource Estimate is in the Inferred category and thus is too geologically speculative to be considered reliable. As such, it is important that AGR continues to infill drill the Tres Estradas deposit to convert a larger portion of the resource estimate to Indicated status, through which a JORC compliant reserve can eventually be issued to the market.

Off-take and Permitting Risk: AGR has not yet signed off-take agreements with potential purchase partners and is yet to apply for environmental and mining permits in Brazil.

DIRECTORS AND MANAGEMENT

Mr Justin Reid, M.Sc., MBA Managing Director:

Mr Reid is a geologist with extensive capital markets experience focused on the mineral resources sector. During his career, Mr Reid has raised more than C$4b for mining investment having led multiple acquisitions and restructuring activities along with the development and sale of Sulliden Gold to Rio Alto Mining. Mr Reid is a Director of TSX listed Kombat Copper Inc and is the President and CEO of TSX listed Sulliden Mining Capital Inc.

Mr Paul Pint, CPA, CA Executive Chairman:

Mr Pint is a capital markets professional with more than 20 years international experience as part of various Canadian institutional equity and investment banking teams. He assists Aguia in establishing strategic direction and growth opportunities as well as building investment relationships with a focus on Europe, North America and Australia. Mr Pint is a Chartered Professional Accountant and holds a Bachelor of Commerce degree from the University of Toronto.

Mr David Gower, M.Sc., P.Geo Non-Executive Director:

Mr Gower has spent more than 25 years in the minerals industry holding senior positions with Falconbridge Limited and Noranda Inc. (now Xstrata), having previously held a senior executive position with a number of Forbes & Manhattan group companies with a focus on natural resources. Mr Gower has particular experience in Brazil, having played an instrumental role in discovering the Araguaia nickel deposits and the Autazes potash deposit. He is also the qualified corporate person for resource and geological input into Brazil's largest undeveloped gold deposit. Mr Gower is currently a director of Castillian Resources Corp, Emerita Gold Corp, Alamos Gold Inc and Apogee Silver Ltd.

Mr Alan Pickett Non-Executive Director:

Mr Pickett is a fertiliser professional with experience dealing with fertiliser products, blends and end-users globally. Previously, he spent 14 years with CRU Fertilisers, the fertiliser division of CRU International Ltd. Mr Pickett specialises in the areas of commercial development and marketing of projects. He has been involved with the feasibility studies for a number of phosphate and potash projects throughout his career.

Mr Brian Moller Non-Executive Director:

Mr Moller is a capital markets, mergers and acquisitions and corporate restructuring executive with particular experience in natural resources transactions. He is a partner of legal company HopgoodGanim, heading the firm's Corporate Advisory and Governance practice. Mr Moller currently holds directorships with DGR Global Ltd, Platina Resources Ltd and Navaho Gold Limited and is the chairman of ASX listed Austin Limited and AIM-listed SolGold plc.

Mr Alec Pismiris Non-Executive Director:

Mr Pismiris is a director of Capital Investment Partners Pty Ltd, providing corporate advisory services to several ASX listed resources companies. He has more than 25 years' experience in the equities, investment banking and mining industries and is a member of the Australian Institute of Company Directors. Mr Pismiris is currently a director of Agrimin Limited, Cardinal Resources Limited, Mount Magnet South NL and Pelican Resources Limited.

Dr Fernando Tallarico, M.Sc., PhD (Economic Geology) Technical Manager:

Dr Tallarico has over 20 years' relevant experience in exploration and has been a key player for Aguia in acquiring and developing the Company's current phosphate projects. A large part of his experience has been gained with CVRD, having spent more than nine years working in South American countries in senior roles with BHP and Noranda/Falconbridge. Dr Tallarico's most recent position was as exploration director for fertiliser raw materials hopeful Falcon Metals. He continues to leads Aguia's exploration team after stepping down from a director position to focus on the Tres Estradas project's development.

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