

Chatham Rock Phosphate Ltd

Interim report for 6 months to 30 September 2012

Directory

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Financial Result

Your directors submit the unaudited financial statements of Chatham Rock Phosphate Limited (“CRP”) for the six months to 30 September 2012. The trading result for the period was a loss of \$870,000 (2011 loss \$248,000). An analysis of the result is provided in the table below

	Six months to 30 Sept 2012 (\$,000)	Six months to 30 Sept 2011 (\$,000)
Income	-	10
Expenses	(870)	(258)
Net Profit (loss) before income tax	(870)	(248)
Income tax	-	-
Net profit (loss) after tax	(870)	(248)

The increased deficit for the six months to 30 September 2012 reflected higher activity levels as we moved into the third year work programme for the Chatham Rise Rock Phosphate Project.

Why this project is of national significance

- ❖ It is New Zealand’s only major rock phosphate deposit- providing at least 15 years supply to the local market
- ❖ It is expected to generate annual earnings pre-tax of US92 million
- ❖ It has significant environmental benefits – ultra low cadmium, low carbon footprint, low farm run-off characteristics
- ❖ It will benefit the NZ economy by \$1.3 billion through import substitution, exports and increased economic activity

Operations highlights

The Chatham Rock Phosphate team has achieved huge strides over the past six months. Here’s a taste of key achievements we will deal with in a bit more detail:

- ❖ Encouraging plume modeling results
- ❖ Beneficiation tests yield promising results
- ❖ CRP centre-stage at UMI conference
- ❖ Mining licence application filed
- ❖ Edison research report values CRP at unrisks \$1.87 a share
- ❖ Major economic benefits for NZ from project says IER
- ❖ Royal Boskalis takes 20% holding
- ❖ TSX.V plans well advanced for dual listing
- ❖ Namibian phosphate ground pegged
- ❖ Najib Moutia joins team as VP Strategy & Marketing
- ❖ Extra money spent on environmental research

But the best headline - from an investor perspective - was on the release we issued just after our interim balance date saying: "*share price soars on key milestones*". CRP's shares reached a new high price of 46c on 9 October – doubling in two weeks – on the back of several key milestones. It has since settled around the 40c level.

At 46c, the company's market value is nearly \$59 million, compared with \$8.5 million in January 2012 and \$22 million before the issue of 30 million shares on 24 September to Royal Boskalis and Subsea Investments. Since then the company has:

- applied for a mining licence with New Zealand Petroleum and Minerals
- received a favourable report by Edison Investment Research stating the shares are worth \$1.87 on an un-risked basis, and
- spent several days on Chatham Island widely consulting with a range of community and industry groups
- updated key government Ministers on progress.

Communications

It's gratifying to see the market is recognising the potential of this unique project.

We make no apology for the ongoing stream of information sent by email and posted on the website. We put a lot of effort into building strong relationships with all of our stakeholders – informing them about the project, seeking their input and keeping them advised of our project; be they non-government organisations, officials and advisers, Iwi, media, and of course you - our shareholders.

For example, our visit to the Chatham Islands was a great opportunity to provide the community with information on our plans and to listen to their ideas. We were also able to address any concerns they had and provide information on a wide range of issues. We received a warm welcome and were able to look at potential ways the project could assist the Chatham community.

The focus ahead

The re-rating of our shares is one of the more satisfying outcomes of all of the hard work put in by the team. We have generated a lot of momentum for this project and remain on track to achieve our ultimate goal of going into production on or before New Year 2015.

To achieve that we need to:

- ❖ Raise the last \$US9.5 million needed to finance the work that will take us to the start of production
- ❖ Refine our mining system design so we can start detailed designs early in 2013
- ❖ Complete our environmental consent application to submit as soon as the EEZ regulations are complete, hopefully in the first half of 2013

- ❖ Modify the Royal Boskalis ship that will mine the rock phosphate (planned for 2013-14)
- ❖ Receive our mining licence and marine consents (expected during 2013).

So if we thought we have been busy, there's no sign the pace is going to let up any time soon!

Operational Review

Here's a diary of the last six months' highlights:

18 October: Tests to beneficiate the rock phosphate extracted by Chatham Rock Phosphate are encouraging. Beneficiation is a process to raise the level of phosphate in the rock that can increase its value. It also extends its variety of uses and the types of fertiliser that can be manufactured. Scientists at Victoria University working for CRP have already succeeded in beneficiating the rock from 21.6% to 28.5% P₂O₅.

The next step is to scope the cost of achieving this value increase on a commercial scale. If the cost of beneficiation is attractive relative to the increase in value of the product we will embark on a full feasibility study to build a beneficiation plant. Such a plant would create a number of jobs and have a significant positive influence on the New Zealand economy above and beyond the base case benefit of \$1.3 billion.

18th October: CRP was centre stage at the Underwater Mining Institute conference held at Shanghai. CRP principal scientist Dr Robin Falconer updated the conference on recent corporate milestones and presented the findings of the four cruises conducted in the Chatham Rise licence area over the 2011-12 summer at a cost of \$7 million.

The cruises, on the Dorado Discovery, used the latest technology to closely analyse the resource, already well defined using older technology in the 1970s and 80s. The scientists demonstrated how modern techniques have been able to assist CRP in developing its mining plan, design its mining system and pinpoint areas of marine life. Dr Falconer said the main factors influencing the design of mining system and plan were the variations in the water depth and features, the thickness and composition of the sandy silt and resource concentrations.

Also presenting on the project were speakers from Royal Boskalis, NIWA and Odyssey Marine. It is the third year CRP – now one of the most advanced marine mining projects in the world - has updated the marine mining industry on progress.

28 September: Chatham Rock Phosphate filed its mining licence application with New Zealand Petroleum and Minerals ("NZPM"). The application is the culmination of two and a half years' work since CRP was granted a prospecting licence in February 2010.

It is a comprehensive summary of the scientific work we have completed and our plan on how we intend to extract the rock phosphate resource. It's a very significant achievement reflecting a huge effort by a very skilled scientific and management team. The mining licence will be

assessed by NZPM over the coming months. CRP plans to file its marine consent application, whose centrepiece will be a comprehensive environmental impact assessment report, in the first half of next year.

The mining licence application includes information on the rationale for the application; technical data on the location, physiography, climate, local resources and infrastructure, geology and understanding of the resource; CRP's proposed work programme; its approach to environmental planning (full information will be included in the marine consent application); the company's ability to manage the project and an independent economic assessment.

27 September: Edison Investment Research valued CRP shares on a success case at \$1.87 a share in its first independent report on the company.

Wellington based analyst John Kidd said CRP is moving closer to demonstrating a technically and commercially viable undersea mining project with the equity stake taken by Royal Boskalis significantly reducing doubts over the project's technical viability.

Mr. Kidd said the main focus over the next year will be managing the other main area of risk – mining and environmental approvals. “In our view Boskalis deciding to join the project at an equity level after completing extensive hands-on due diligence over 18 months is a very material endorsement of the project and of the confidence it has in the technical viability of its mining concept”.

The unrisks \$1.87 valuation is based on a US\$10 million capital raising in 2012 prior to a listing on the TSX-V and assumes full dilution of shares and options. The unrisks valuation on an undiluted basis (assuming existing options are not converted) is around \$2.29. Last sale price for the shares is then 23c. The main value drivers are the rock price, foreign exchange movements and mining costs.

25 September: All resolutions before the Special Meeting of shareholders were passed and CRP has issued new ordinary shares to Subsea Investments II, Royal Boskalis and the directors of CRP in lieu of directors' fees. CRP issued 16,867,592 shares to Subsea at 20c and 10,595,638 shares to Boskalis at 22c, plus 120,688 ordinary shares to its directors at 23.2c in satisfaction of directors' fees owing to 30 September.

5 September: A study by the New Zealand Institute of Economic Research (“NZIER”) says New Zealanders will be \$1.3 billion better off as a result of developing the CRP resource. The highly respected economic research agency was commissioned by CRP to study the economic impacts of its project. The report supports the company's mining licence application. An environmental analysis by NZIER is underway.

“Implementing the mining project over 16 years is equivalent to the country becoming \$1.3 billion richer today,” the report said. “At least \$800 million of that welfare will accrue to people with no ownership in CRP.” On an annual basis it represents a wealth injection of \$180 million a year, of which \$115 million benefits non-owners of CRP.

CRP expects the project to increase New Zealand's exports of rock phosphate by \$230 million a year and substitute for \$110 million of domestic imports annually. CRP's injection of wealth creates flow-on effects that generate another \$80 million in other non-phosphate exports. "The increase in household incomes generated by the extra wealth allows imports to rise by \$170 million over and above the direct impact of CRP."

The project will generate \$300 million of export revenue for each of the 16 years of production, boosting GDP by \$380 million. It will also remove New Zealand's dependence on imported rock phosphate, of which New Zealand imports at least \$185 million annually.

The report notes the benefits are sensitive to world demand for rock phosphate. The scenario does not include the investment or environmental costs of the project (which is being assessed separately) and assumes the increase in domestic production does not reduce the price of rock phosphate.

The NZIER report looked at the direct and flow-on effects of the project including \$105 million in profits for CRP, \$32 million in tax and royalties, \$38 million in transport and \$190 million in costs, as well as downstream spending by households.

22 August: Prior to the full report, Edison Investment Research issued an interim report noting the most significant risks relating to the project were easing.

"CRP is moving closer to demonstrating a commercially and technically viable undersea mining project. Risks still remain but the most significant are easing. Doubts over the technical viability of undersea seabed mining at the depths CRP is contemplating have reduced substantially, with global dredging major Royal Boskalis taking an equity stake in CRP. The other main risk, mining and environmental approvals, will be CRP's major focus over the coming 12 months."

CRP commissioned Edison to produce independent research because share-broker analysts do not research the company. Edison sends its research directly to a relevant international investor audience and provides readership data to its corporate clients. The research reports are distributed to a global database of professional investors, advisors and analysts in major financial centres worldwide, plus organisations like Bloomberg, Reuters, Factset and Yahoo Finance.

27 July: Royal Boskalis announced it would take a 20% shareholding in CRP and assume a seat on the board. It is the first time a major dredging company has taken a substantial equity position in an undersea mining project.

Peter Berdowski, CEO Boskalis, said CRP offers a unique opportunity for Boskalis to get involved in the fledgling deep-sea mining industry. "This is a very interesting growth opportunity allowing us to draw on our wealth of expertise and to contribute this to the successful development of this unique project, together with our partner Chatham."

CRP is honoured Boskalis, the industry's global leader, has chosen to support this innovative

New Zealand project. Boskalis is a great partner and works very collegially with CRP, despite the difference in size and scope of the companies. It has amassed centuries of knowledge of the marine industry and can call on the best resources globally.

It follows meetings at the Boskalis headquarters in Papendrecht, the Netherlands, in late June to review the past year of activities since Boskalis was appointed as the project's technical partner to design a process to extract phosphate nodules from the seabed.

CRP and Boskalis have entered two agreements – a contract for services and an investment agreement. The contract for services provides for Boskalis to undertake a range of services to CRP in three phases:

- ❖ initial design work on a rock phosphate extraction and recovery system and providing support to CRP on the survey cruises undertaken earlier this year with Odyssey Marin Exploration. The cost of these services to CRP is €500,000.
- ❖ The provision of geotechnical reports, the conceptual design of recovery and separation systems, environmental impact assessments and transportation options for rock phosphate recovery. The cost of these services to CRP will be approximately €630,000.
- ❖ The final detailed design of the rock phosphate recovery and separation system. The cost of this phase is estimated to be €4 million with the parties splitting those costs equally.

16 July: CRP announced plans to seek a dual listing of CRP shares on the Toronto Stock Exchange secondary (venture) board (the TSX.V). Directors have resolved to adopt this approach, which effectively separates the listing process from the normally associated financing, usually described as an Initial Public Offer or IPO. CRP has sufficient shareholders required to dual-list on a number of overseas exchanges without undertaking an IPO.

Adverse market conditions still prevailing in overseas markets continue to delay the company's earlier decision to undertake an IPO. However the directors remain determined to provide a more efficient market for the company's shares. The Canadian market is the most logical market to join, given the number of fertiliser companies already listed there.

The process to dual list requires the filing of an application, the preparation of both an information memorandum similar to a prospectus and a technical report. As these reports were already being prepared in mid 2011 in anticipation of the IPO, they simply require updating, and this process is now well underway.

8 July: Royal Boskalis is now working on the next stage of Chatham Rock Phosphate's undersea project, following successful meetings in the Netherlands. The two companies have been working together for the past year since Boskalis was appointed as the project's technical partner to design a process to extract phosphate nodules from the seabed. CRP appointed Boskalis in June 2011 as a result of a selection process involving three of the four industry leaders.

The meetings considered a detailed report from Boskalis on a proposed extraction method for the rock phosphate resource. The report had previously been analysed by four international

experts advising CRP who also attended the meetings. Also discussed were initial findings from the wealth of environmental, geotechnical and engineering data collected during four cruises on the Chatham Rise over 48 days during the 2011-12 summer.

June 15: CRP announced it has applied for five prospecting licences offshore Namibia covering about 45 square kilometres. The licences, to prospect for undersea phosphate are at water depths similar to the licence area CRP holds on the Chatham Rise, offshore New Zealand. CRP's strategy is to extend the use of the mining capability it has developed to extract undersea phosphate. If the project proves successful it will significantly increase the marine rock phosphate resources under our control. It makes good sense to use the applied technology we are developing in New Zealand elsewhere and Namibia is the most advanced in the development of offshore phosphate reserves.

The area is very prospective, with several other companies undertaking exploration in well proven areas. The conditions are similar to what we already know. Based on the extensive work already completed by Sandpiper in a nearby area we believe the extraction costs appear attractive.

June 8: CRP announced the appointment of a former senior business development executive at the world's largest phosphate producer OCP, as Vice President Strategy. Mr. Najib Moutia, who worked for the Morocco-based giant for 30 years, will head CRP's worldwide business development and sales.

His focus for more than 20 years has been South Asia and the Pacific and he is incredibly well connected. He also has a master's degree in chemical engineering, and so he knows exactly what products suit which companies or countries. He has an encyclopedic knowledge of the industry and just about everyone of note in it.

Mr. Moutia, now based in Montreal, will provide both business development and technical support. He is also fluent in English, French, Arabic and Spanish. Among his achievements have been growing OCP sales in Pakistan from \$US2 million to \$US500 million, making OCP the dominant New Zealand and Australian supplier and strongly growing the Thai market.

17 May: CRP has spent an extra \$US1.7 million on extensive environmental research on cruises using Odyssey Marine Exploration's Dorado Discovery. CRP extended the time the Dorado was out at sea to gather valuable information for mining licence and marine consent applications, seeking environmental consents and determining the final technical aspects of the extraction techniques designed by Royal Boskalis Westminster to recover rock phosphate.

The team on the Dorado surveyed 13 of the environmental areas identified by NIWA (eight target mining areas and five reference areas outside mining zones) and collected more than 77 km of remote operating vehicle (ROV) video transects, recording more than 150 hours (or 700 Gb) of video and 62,000 observations from the video transects as well as 17,000 still photos. In addition, the cruise collected 130 box cores from 38 sites, 3 km² of high-resolution bathymetry and backscatter data and more than 500 km² of regional bathymetry data. The ROV

stopped on 12 occasions to take biology samples or close-up photos. The sampling and photography will enable detailed assessment of animals that live on the seafloor. The information, targeted at the Rise's significant phosphate resource, will also contribute significantly to the store of public good information used by scientists to understand New Zealand's oceanic environment.

Odyssey and CRP had earlier agreed CRP could meet some of the costs payable to Odyssey through an issue of shares as well as by cash. The total costs payable to Odyssey for its work is approximately USD\$5.7 million. Of this, USD\$4 million was paid to Odyssey in cash.

Odyssey undertook four surveying cruises for CRP from December to April. These cruises have provided CRP with a wealth of scientific data about its offshore permit area as well as bulk samples of rock phosphate for further analysis.

2 May: Scientists and engineers working for CRP have started the huge job of studying the wealth of data gathered during 48 days of surveying on the Chatham Rise this summer. This includes 35 tonnes of phosphate rock and sandy silt to analyse, with the results being used to design our mining and environmental management systems and prepare the reports for our applications for a Mining Licence and Marine Consent.

The analysis will assist the design of systems for phosphate recovery, on-board separation of the nodules, and redeposition of sediment back to the sea floor. In addition, CRP will use the data for a very detailed range of environmental studies, the rock phosphate beneficiation studies already underway, the feasibility of on-board glauconite separation systems, and fertiliser market development.

The information, targeted at the Rise's significant phosphate resource and the environment in which it is located, also contributes significantly to the store of public good information used by scientists to understand New Zealand's oceanic environment.

CRP gathered the data during four research surveys of the Chatham Rise licence area using a range of high tech equipment. The surveys collected geophysical data in December, bottom samples in February, environmental data in March and geotechnical data in April.

Boskalis engineers who were on the survey have remained in Wellington for the analytical work. The design of the mining system will bring together technologies used in a wide variety of extraction systems. Considerations range from evaluating the nature of the material and where it is deposited, to how it is lifted, separated and returned, the vessel design, and off-loading port selection.

The design process also includes developing a model to assess the environmental impacts of each stage of extraction. The research is also looking at the potential impact of extraction and sediment deposition on local ecosystems and identifying sensitive species and areas of special environmental conservation, as part of habitat mapping.

The modeling and analysis will also consider the natural dynamics of the area – the variation of water flow speed and direction over depth, turbidity, light attenuation in the water column,

occurrence of upwelling events, natural settlement behaviour of fines, possible density currents and ecosystem resilience. CRP has commissioned NIWA to study the wider Chatham Rise ecosystem to contribute to the Environmental Impact Report being coordinated by consultants Golders.

Results for announcement to the market	
Reporting Period	Six months to 30 September 2012
Previous Reporting Period	Six months to 30 September 2011

	Amount (000s)	Percentage change
Revenue from ordinary activities	\$0, \$10	(100%)
Profit (loss) from ordinary activities after tax attributable to security holder.	(\$870), (\$248)	(251%)
Net profit (loss) attributable to security holders.	(\$870), (\$248)	(251%)

Interim/Final Dividend	Amount per security	Imputed amount per security
It is not proposed to pay a dividend for the reporting period.	N/A	N/A

Record Date	Not Applicable
Dividend Payment Date	Not Applicable

Comments:	<p>Chatham Rock Phosphate has not gained or lost control over any entities during the year.</p> <p>There has been substantial investment in the Company in the twelve months since 30 September 2011.</p> <p>There are no unrealized gains resulting from the revaluation of assets included as separate items after profit before extraordinary items.</p> <p>Chatham Rock Phosphate does not operate any dividend or distribution reinvestment plan.</p>
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