

Economics of MOP Supply

Michael Freeman, British Sulphur Consultants

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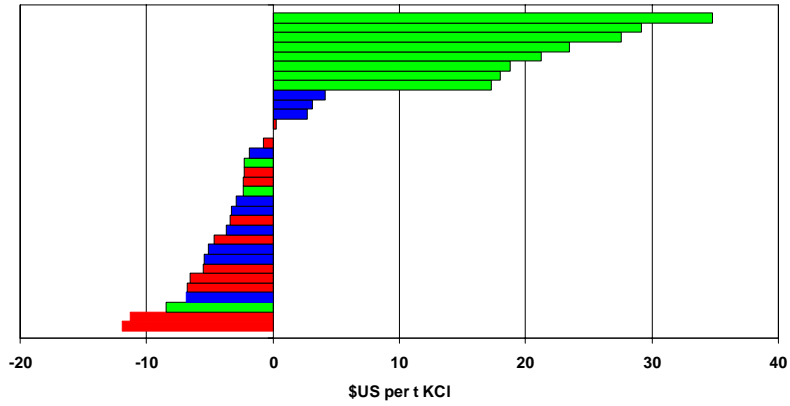
The Cost of Producing MOP

\$36

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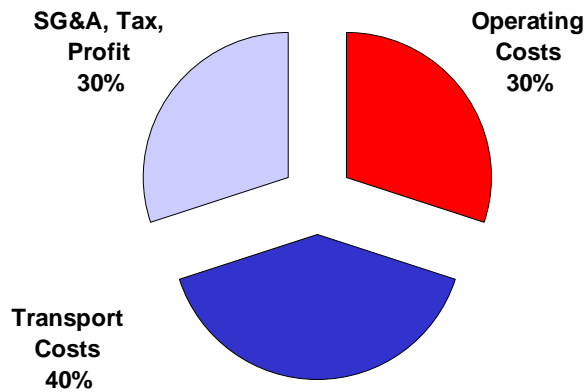
A Handful of Producers Have High Costs in Relation to the Average



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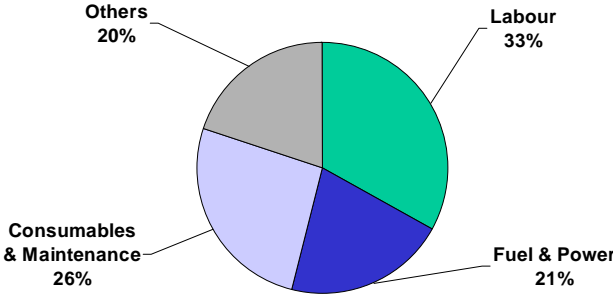
Main Components of Delivered MOP Price



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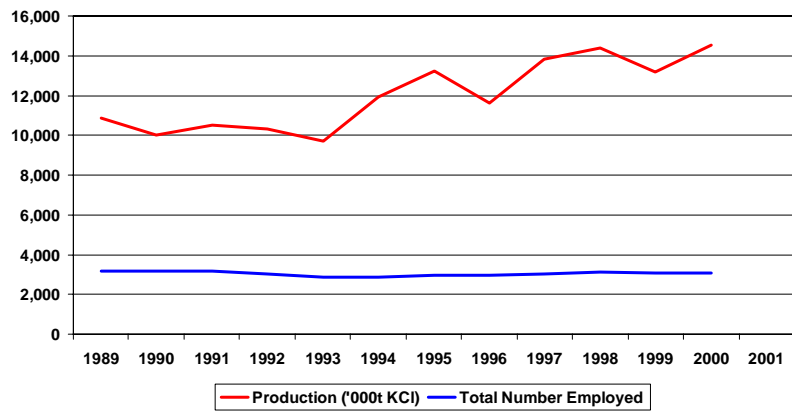
Structure of Gross Operating Costs



1. Labour

One Third of Total Costs

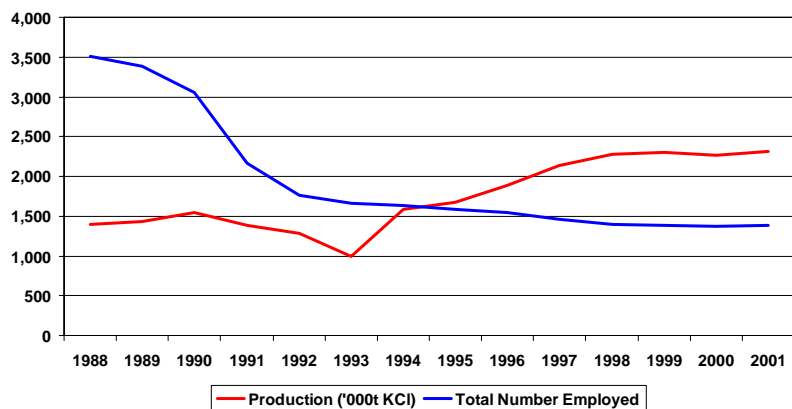
Sask Productivity Boosted



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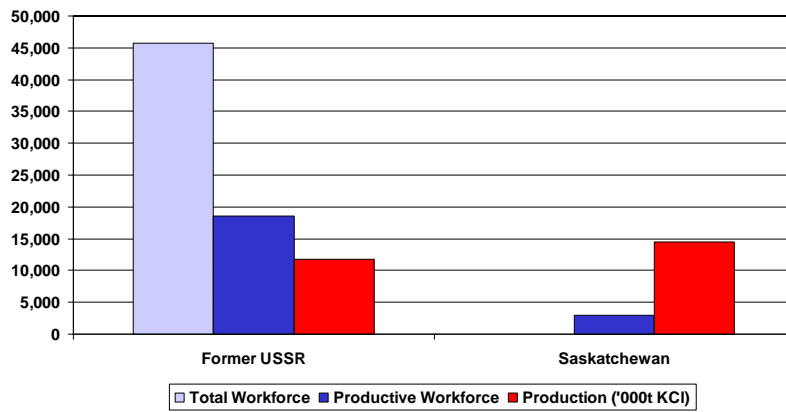
Zielitz Reduces Workforce by Two-thirds



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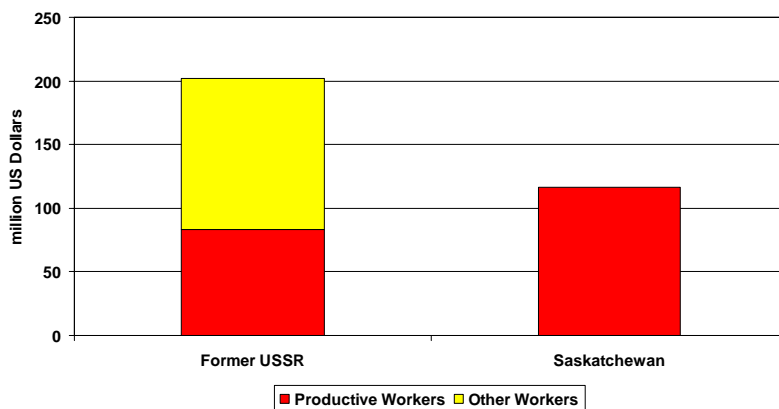
FSU Industry has Many Times More Workers than Sask - - - -



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- - - - But Has a Lower Wage Bill



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2. Fuel & Power

21% of Total Costs

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Some Uses of Fuel & Power in MOP Production

FUEL

- Drying
- Heating brine
 - solution mines
 - thermal dissolution
 - scavenging
- Power Generation

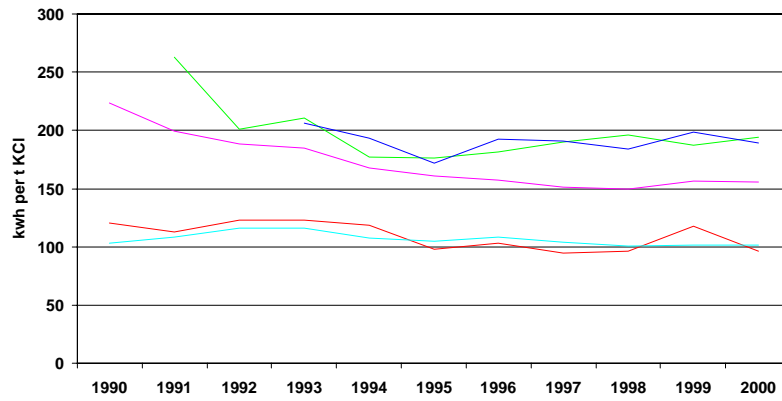
POWER

- Mechanical mining
- Conveyors
- Ventilation
- Hoisting
- Grinding
- Flotation
- Pumps
- Screening
- Compaction

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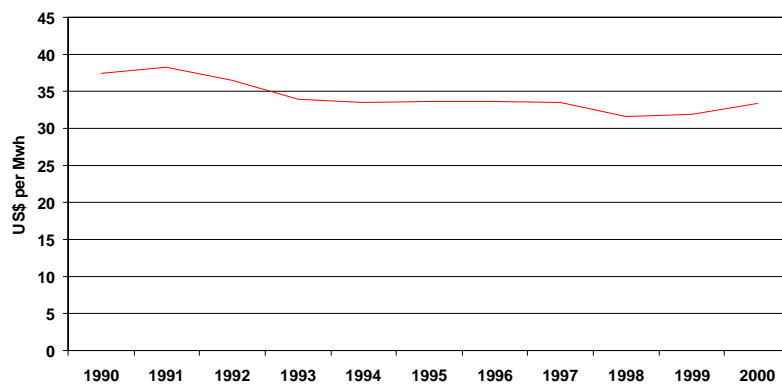
No Recent Change in Canadian Power Consumption



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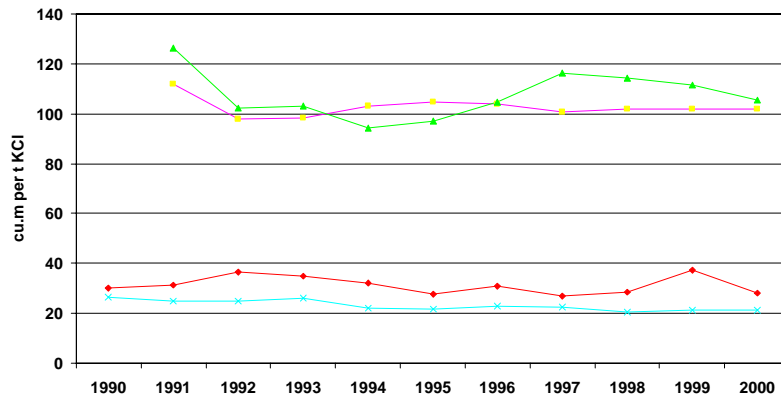
Electric Power Prices



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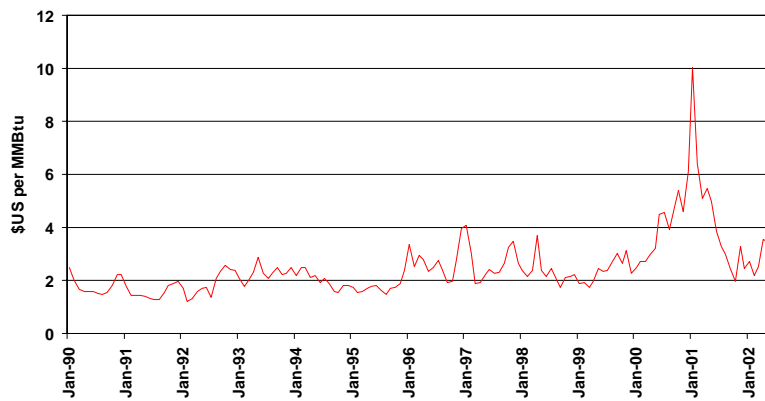
No Recent Change in Canadian Gas Consumption



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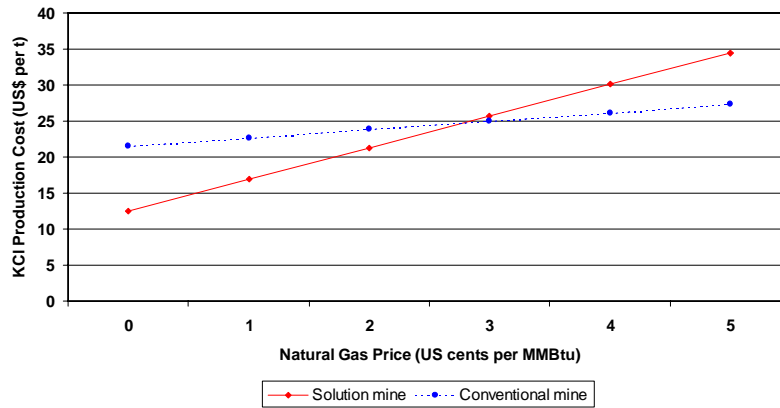
Natural Gas Prices



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Impact of Natural Gas Prices on KCl Costs



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3. Production Consumables & Maintenance Materials

26% of Total Costs

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Production Consumables

- Chemicals (flotation, anti-dusting, anticaking)
- Diesel fuel
- Drill bits, miner bits
- Explosives
- Rods & Balls (milling)
- Roof bolts & resin packs
- Timber (roof supports)
- Ventilation materials

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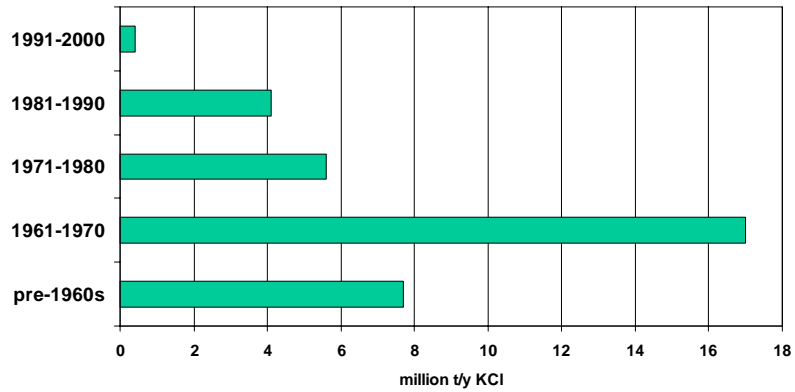
Maintenance Materials

- Bearings
- Conveyor materials
- Electric cables
- Gearboxes
- Hydraulic hoses
- Lubricants
- Motors
- Pipes
- Pumps
- Ropes
- Scaffolding
- Screens
- Steel plates

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Most MOP Capacity is Over 30 Years Old



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4. Other Cost Components

20% of Total Costs

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Other Cost Components

- Royalties & production taxes
- Internal transport costs
- Extra costs for water inflow
- Other non-specific costs
- Non-productive workers

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5. By-Product Credit

<5% of Total Costs

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Additional Products

- **By-Products (involuntary) – no separate costs**
- Co-Products (voluntary) – each has identifiable costs
- Multiple Products (semi-voluntary) – individual costs cannot easily be isolated

Production Cost Outlook

- Expect unit cost of labour and other purchases to rise in real terms
- Expect maintenance to cost more

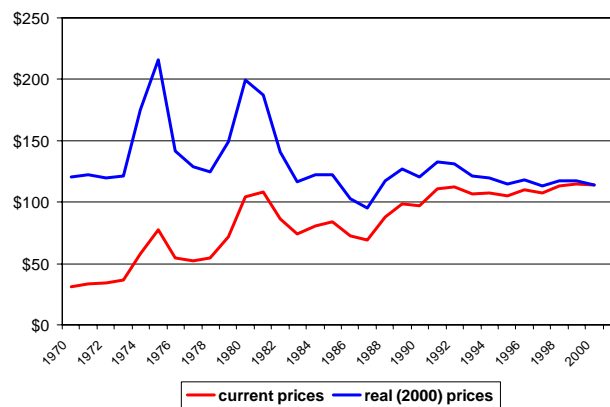
Revenue Outlook

- Don't count on real revenue increase from MOP sales

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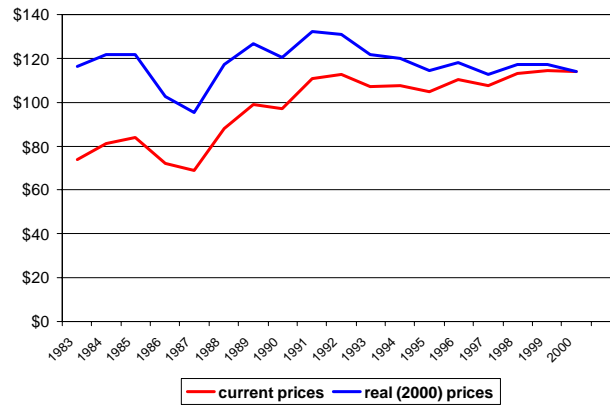
Long Term Trend of MOP Prices - Two Commodity Shocks and a Slump, Followed by Stability



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Real Prices Have Stabilised



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The Industry Response

- Invest for greater productivity and efficiency
- Seek continuous small improvements
- Look for special situations

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