

Potash sector undervalued but a price Rebound is around the Corner

☒ Potash and Phosphate Week in Review: The ProEdgeWire potash and phosphate index for the week ending on May 10 improved considerably in comparison to the past few weeks but still registered an average loss, albeit a minor one at -0.53%. There were no stellar performances or abysmal losses, but only one Company stood out for gains, Potash Minerals ('Potmin', ASX: POK), which continues to benefit from its late April announcement that the US Federal Bureau of Land Management (BLM) has granted it permission to drill in federal land at the Company's Hatch Point property in Utah. Potmin believes that the best grades of sylvinitite – the type of potash being pursued and to be developed using a proven solution mining process – reside under the federal held land. Potmin rose 11.43%.

Magna Resources (CNSX: MNA), which is also developing a potash project in Utah, is expecting to hear from the BLM by the end of next summer but it stayed flat for the week at 0.00% variation. Shares of Allana Potash (TSX: AAA | OTCQX: ALLRF)), meanwhile, started to move up again after weeks of lackluster share performance in spite of a series of favorable announcements ranging from its completion of Allana Potash has been proceeding toward production having filed the final mining application and feasibility with the Ministry of Mines for its Dallol potash project in Ethiopia. Allana expects to complete all regulatory requirements before the end of 2013 and is on track to reach production by early 2015. Allana's shares are, by all logic, rather undervalued but current and prospective investors have more reason to remain confident in view Germany's announcement last week that it would support Ethiopia's agricultural sector through "knowledge and

technology transfer” according to the Federal Minister of Agriculture, Ilse Aigner.

The German government has funded a new agricultural research facility in the country aimed at training farmers. Ethiopia has been growing at an average annual rate of 7% and is aiming to become one of the main agricultural producers in all of Africa. Potash will be a significant ingredient of this growth. The fact that Germany’s president made it a point to visit Ethiopia last March is testament to the country’s growing importance. With an annual growth rate of nearly 7 percent, Ethiopia has attracted attention from international investors and the fertile soils of Ethiopia have great potential. Having made tremendous progress since the famine of the mid-1980’s there are clear signs of a growing middle class in Ethiopia and agriculture is perhaps the fastest growing sector. Allana is slated to come into production at an ideal time and will find a willing domestic Ethiopian potash market as well as an export based one.

Potash prices have been under pressure for some time because major customers have held back orders and enforced discounts and there are still fears – as yet unfulfilled – of an excess supply of potash as new companies enter the market. Yet, some manufacturers have already scrapped their plans for expansion and there are still doubts over whether or not BHP Billiton will go ahead with plans to open the world’s biggest potash mine at the Jansen potash project in Saskatchewan. Europe’s largest potash producer K+S Kali GmbH said it has yet to decide whether or not it will go ahead with its own plans to open a new mine in Saskatchewan, even as it presented very positive first quarter results on May 14. Nevertheless, all potash producers agree that while there are questions about the short and mid-term, demand for potash and phosphate will rise in the long term, given the increasing world population.

The potash market last week also resented from Chinese growth statistics that while healthy fell below expectations, leading

to fears of slower growth in the global economy and weaker demand for commodities. For the rest of the year, potash price prospects are actually bullish given the late start to the planting season caused by unfavorable weather conditions throughout the West. However, until a clearer picture of where the economy is headed in general, commodity performance will remain uneven. There are hints of a turnaround as some rating agencies have noted improving budget deficit and economic growth in Greece, one of the 'roots' of the current market slump as Fitch upgraded Greece's rating on Tuesday. Industrial production in the Eurozone rose higher than expected in March at 1.0% while banks had predicted less than half of that at 0.4%. The more optimistic general economic should start to translate to higher commodity prices over the next months.