

Significantly de-risked, potash powerhouse Allana Potash is on the fast track to production



One of my favorite potash plays is arguably the most advanced potash junior in the world – Allana Potash Corp. (TSX: AAA | OTCQX: ALLRF). Allana, led by experienced potash power-

player, [President and CEO Farhad Abasov](#), is currently developing its flagship property, the Dallo Potash Project, in Ethiopia's Afar State and is poised to become one of the largest potash producers in Africa. With Feasibility completed earlier this year and all other requisite milestones achieved (on schedule), the company is entering the pre-construction stage of development and plans to start construction of the mine by the end of this year. Allana's potash mine will be the first potash production in East Africa.

The relatively recent breakup of the BPC potash cartel (which consisted of potash giants Belaruskali and Uralkali) resulting from Uralkali's decision to sever ties with Belaruskali, has turned the potash sector upside down. The move to dismantle

BPC represented 'the end of potash as we know it', according to many analysts. While some projects and potash producers now face even greater risks of failure than they did prior to Uralkali's July 30th announcement, others have even better chances of success – like Allana. Because the project is based in Ethiopia's Danakil region, it may well be the one best suited potash producers to benefit from the new potash market dynamics triggered by Uralkali's move. And the fact that Allana managed to overcome the downward pressure that Uralkali's move caused across the entire potash sector (from the majors to the juniors), with a relatively minor price drop in share price, in comparison to the rest of the sector, is testament to the confidence that investors have in the project.

Project economics – now, more than ever before – determine the viability of a potash junior. Being a low-cost, high-quality producer is key.

"Allana has a unique proposition, with our potash project in Dallol, Ethiopia," explains Abasov. "We have unique advantages. Despite the quite negative consequences of the Uralkali news, we've done quite well because people (investors) started looking deeper into actual fundamentals of the projects throughout the entire potash sector. Before there was a lot of speculative sentiment in the sector, depending on the location, depending on the potential size of the project and so forth. But after the Uralkali news, people realized that the margins will most likely be squeezed (at least in the short term), so one has to look at the projects that have strong fundamentals, strong economics. We can actually compete with our project, not only with almost all the greenfield potash operations, but also with some high-cost producers today."

Utilizing the proven solution mining production process, at USD\$98.75 per tonne (that's all in; total OPEX, loaded on

ship), Allana is one of the lowest-cost MOP producers in the world (the company also has SOP potential). Although it seems hard to believe, a lower potash price is not necessarily a bad thing – at all – for Allana. It may actually separate the men from the boys, so to speak, by weeding out the less-viable players from the playing field. Perhaps the best way to increase potash prices in the long term is to lower them in the short term. For example, the 25% average drop in potash share prices (in reaction to the Uralkali move to abandon BPC and its price-over-volume strategy) will help make potash more affordable for those many potential customers who have stayed away because of its high cost. Now potential potash users can afford the vital nutrient and appreciate the resultant enhanced yields and benefits and, therefore, generate more demand for potash. Africa is an ideal continent to deploy this strategy and for companies with favorable project economics, such as Allana, the prospects are so robust and promising. The company's Dallol Potash Project is in close proximity to key Asian and Pacific Rim markets and is, essentially, outside of BPC's (and Canpotex's) influence. In other words, Allana is suited to benefit from the new potash market dynamics triggered by the BPC collapse.

Abasov and company have raised over \$90 million in equity markets and has sufficient cash reserves to reach the construction stage. And the news keeps getting better. Just last month, Allana's debt financing process reached a new milestone as the company further de-risks the project. Allana [announced that formal mandate letters had been signed between the company and a lender group – in excess of 65% of total CAPEX financing](#) – consisting of large Development Finance Institutions and Export Credit Agencies from North America, Europe and Africa (the lender group has begun the formal loan assessment preparations and a due diligence review of the project). Negotiations are currently underway with additional strategic and off-take partners.

What makes Allana all the more impressive to me is its current key strategic investors that are committed to further participation (debt and equity) in the project. Those two world-renowned Allana shareholders – with a combined 17% equity stake – are Boston-based Liberty Metals & Mining Holdings LLC (a subsidiary of Liberty Mutual Holding Co.) and the International Finance group (a subsidiary of the World Bank).



Allana Potash Corp's Dallol Potash Project, in Ethiopia's Afar State.

Allana's Ethiopian mine is well situated geographically – the horn of Africa – to supply potash buyers in India and China (and all of the markets where potash demand is rising fastest such as Indonesia, Malaysia and Laos; all countries featuring potash intensive palm oil production) and to address the exploding demand for crop nutrients in the underserved African market (where potash consumption, now among the lowest in the world, is slated to increase fastest). With 900 million people currently, the African population is projected to reach 2.2 billion by 2050 (according to the World Bank). African demand for agricultural fertilizers is set grow exponentially over the next decade. Current African potassium chloride (KCl) usage is less than 1 million tonnes per year; however, the much-needed nutrient is grossly under applied. Agricultural

analysts and experts agree the present demand in Africa for potash should be 3 to 5 million tonnes per year, if the nutrient was applied as needed. And there is further upside potential for KCl usage in the Motherland as potash usage could reach 5 to 7 million tonnes per year by 2020 (which would equate to 9% of global demand).

Ethiopia is a rising (and rising and rising), stable economic powerhouse in both Africa and the world. In fact, Ethiopia is among the 10 fastest growing economies in the world. According to *The Economist* magazine, Ethiopia ranks third globally (right behind China and India) with a projected annual average GDP growth rate of 8.1%. From starvation to industrialization in two decades, Ethiopia – the leading country in all of Africa for economic growth – is booming. The country is geopolitically stable and environmentally benign. Agricultural modernization is being fast tracked and massive investments in infrastructure, rail, roads, power, and port facilities now taking place. There is a rapid shift underway in Ethiopia advancing the country from a subsistence agricultural economy to an export-oriented agricultural/industrial economy. Ethiopian Diammonium phosphate and monoammonium phosphate (DAP and MAP) plant capacity is growing amid a significant resurgence in agricultural investments.

Ethiopia alone will guarantee sales for Allana. Allana, which supports and participates in the Agricultural Transformation Agency initiatives in Ethiopia, forecasts that the company could potentially supply Ethiopia with 250,000 to 500,000 tonnes per year and the rest of Africa with 500,000 to 1 million tonnes per year of potash by 2020. There is room for growth because most agricultural production revolves around a vast number of small rural areas with operations smaller than one hectare. Now, there are 12.5 million hectares of arable land in Ethiopia but the potential is 50 million hectares. The country has already sought international cooperation to help improve land productivity and make fallow land available for

farmers. There is no more effective way to achieve this process than through a greater use of potash. In addition, over the past decade the Ethiopian government has enacted policies to attract investment, helping it register one of the highest economic growth rates in the world.

As Abasov explains, *“Allana’s project is right in the sweet spot because it has great economics, it is food-related and it is in a country that needs a lot of development.”*

Ty Facts:

- Africa is often called the “Motherland” because it is the birthplace of the human race; human life, as we know it, began in Africa.
- The oldest remains of modern humans (homo sapiens) were found in East Africa; between 200,000 and 160,000 years ago.
- The oldest fossils of a modern human were found in Ethiopia.
- Ethiopia’s population is 90 million.
- Ethiopia has ambitious economic growth plans and agriculture is its highest priority, given that some 85% of the people work in that sector.
- Ethiopia adopted new laws for the mining sector, exempting companies from custom duties and accelerated depreciation among other incentives. The government has also embarked on a series of infrastructure development projects aimed to attract foreign investors.
- BNP Paribas is Allana’s project advisor and debt arranger.
- Allana is unique because it has found a large, high-grade potash deposit that is near surface and faces fewer challenges than the traditional greenfield projects.
- Allana Potash issued a Mineral Resource Update in June, an Environmental & Social Impact Assessment (ESIA) which was approved by the Ethiopian government in May.

- Feasibility Study complete; Allana Potash's Feasibility Study was completed in February and supports a low-cost CAPEX and OPEX.
- Allana has received Debt LOIs for over 65% of total CAPEX.
- A truly world-class potash resource; total Measured and Indicated (M+I) mineral resources of 2.45 billion tonnes from all four potash horizons with an average grade of 17.9% KCl for a total of 438 million tonnes of contained KCl.
- An additional Inferred mineral resource of 1.12 billion tonnes from all four potash horizons with an average grade of 15.9% KCl for a total of 178 million tonnes of contained KCl.
- Total M+I Sylvinite mineral resource of 327.4 million tonnes with an average grade of 28.3% KCl for a total of 92.8 million tonnes of contained KCl.
- Total Inferred Sylvinite mineral resource of 90.8 million tonnes with an average grade of 27.8% KCl for a total of 25.2 million tonnes of contained KCl.
- 25-year mine life, annual production of 1 million tonnes of MOP (muriate of potash).
- Allana is utilizing a low-cost and proven mining method; solution mining and solar evaporation process pilot tested proven; shallow depth (100 to 300 meters), in a hot climate (+40 degrees Celcius).
- All required infrastructure is in place or under construction (roads, rail, port, power) and will be completed by the time Allana's operation is in production.
- \$130 million market cap (TSXV: AAA share price of 0.47 at time of writing; 276.5 million shares outstanding).
- 52-week TSXV: AAA high/low: 0.65/0.35
- Low CAPEX of \$642 million total (includes production, transportation, port, contingency, EPCM, etc.).
- Low OPEX of \$98.75 per tonne FOB total (including production, transportation and port, etc.).

- Solution mining production process: utilizing proven extraction and production. The mine will flush water-soluble underground potash deposits with brine. The resulting liquid solution would be pumped to evaporation ponds on the surface.
- Allana Potash is debt free.
- The company is in the final stages of its debt and equity financing process.
- Allana Potash is entering the pre-construction stage and plans to start construction of the mine by the end of this year.