Allana Feasibility Study: One of best Greenfield Potash Plays in the World

Allana Potash (TSX: AAA) has issued an independent Feasibility Study (FS) for its Dallol project in Ethiopia's Danakhil region, having reserves of over 1.3 billion tons of potash and capable of producing 1 million tons/year at an average grade of 19.32% potassium chloride (KCl). The FS and the context in which the Project is proceeding make Allana one of the most promising greenfield potash projects in the world. Allana's Dallol project can be summarized as offering three general advantages:

- Allana has one of the lowest CAPEX and OPEX costs of any greenfield potash project
- Allana has some of the best economies of any of the emerging junior potash plays.
- Allana is operating in what might be one of the most advantageous mining jurisdictions in the world and certainly the best in Africa.

At USD 579 million, and port and transportation investments of USD 63 million, Allana has one of the lowest capital expenditures (CAPEX) costs of any new potash project (if not the lowest). It also has some of the lowest operating expenditures both in Production: USD 69.25/ton and FOB vessel transportation: USD 29.50/ton for a total production OPEX of USD 98.75/ton based on an annual production of 1 million tons/year of muriate of potash (MOP). While potash prices have not kept up with the record highs seen in 2008-2009, the recent Uralkali contract with India, whose government has decided not to subsidize potash, at USD 427/ton, suggests that the price floor for the foreseeable future will be above USD 400/ton. Recently, Germany's Potash producer, K+S suggested that potash was still being sold at some USD 465/ton in smaller Asian markets such as Indonesia (where potash demand is increasing) which buy lower volumes than India or China (the largest potash importers).

Project financing should be completed by mid-2013 in order to begin construction by the fall (or late) of 2013. Allana also has the potential to raise capacity to two or three million tons a year (MOP) and in addition have the ability to produce SOP. Today’s water announcement validates the ambitious production targets and schedule, bringing both further within reach.

Allana, set to become one of the first to market and largest potash producers in Africa, said has targeted initial production at Dallol to be about 1 million metric tons of MOP per year starting in late 2014 or early 2015 then reaching peak levels (full production) approximately a year to 16 months after later. The Dallol deposit has a strong record of historical exploration and features an extensive sylvinite mineralization at very shallow levels. The confirmed and plentiful availability of water confirms that the Dallol project is proceeding on schedule. The fact that the water resources that are both environmentally and commercially sustainable marks an important milestone in Allana’s timetable Allana will continue to focus the development of the shallow region, though it has already drilled in the deeper areas to establish the presence of potash there as well.

Allana has benefited from Ethiopian pro-investment policies, which have enabled the country to record one of the highest economic growth rates in the world (10%, expected to continue until 2015). In 2011/12, the agriculture sector grew by 4.9 %. Ethiopia has invested in infrastructure, promoting industry and doubling agricultural production. One of the most significant infrastructure improvements is the ‘Grand Renaissance’ power station, which upon completion, will generate 6,000 MW and will be the largest hydropower project in Africa, accounting for a fourfold increase in Ethiopia’s power generation capacity. The country is facing a growing demand for electricity close to 10 per cent per annum. With a production of hydropower potential estimated at 35,000 MW, Ethiopia aims to become a key player in energy production for the Africa itself.

The International Monetary Fund has included Ethiopia as one of the fastest growing economies in sub-Saharan Africa thanks to the valuable mining resources, such as potash, that it can produce. Agriculture has experienced a major revival in Africa, vastly increasing potash demand in the Continent. Nigeria, for instance, once solely preoccupied with oil production, has embarked on a vast scale agricultural expansion program, investing heavily in improving soil yields and studying ways to increase productivity. Moreover, the Ethiopian ‘Metal and Engineering Corporation’ (METEC), a government engineering company, is in advanced stages of completing eight fertilizer producing factories, five of which will be producing Diammonium Phosphate DAP and three for Urea and Ethiopia is targeting reaching production stage by the 2013/14 cropping season.

Ethiopia’s own agricultural output has been increasing steadily and farmers harvested some 21.8 million tons of crops in 2012 – an increase over the 20.5 million tons of 2011, including maize, sorghum, wheat and oil seeds. Current productivity levels are below the international standards under which a country can claim food self sufficiency; however, Ethiopia is aiming to reach that target (250 kilos of crops per year per person). Agriculture is still the largest sector of the Ethiopian economy and fertilizer consumption is increasing, meaning that Allana will have direct access to this growing domestic market.

Ethiopia: from Famine to a leading Emerging Market in Three Decades

Allana Potash (Allana, TSX: AAA) is set to become the first and largest potash producers in Africa thanks to its ongoing project in Ethiopia's Danakhil Depression in the Afar Region. Allana has taken advantage of Ethiopia's policies to attract investment, which have enabled the country to record one of the highest economic growth rates in the world (10%, expected to continue until 2015). While many challenges remain, former Prime Minister Meles Zenawi, Ethiopia did much to shed his country's image as a famine stricken land, best remembered for inspiring the humanitarian aid concerts of the 1980's challenging famine to one eager to welcome foreign investors in all sectors. It is apt then that on the week marking the anniversary of the song "Do they know it's Christmas" (released on December 4, 1984) or 'We Are the World (January 1985), the famous songs that brought the world's attention to the plight of the Ethiopian famine crisis of 1983-1984 (generated by massive state control mistakes – policies completely reversed under Zenawi) Ethiopia is making a major regional move on the road to become the region's principal energy supplier thanks to the South Nile Hydroelectricity Development Project.

The new Prime Minister Hailemariam Desalegn has proposed the resumption of peace talks with its neighbor Eritrea with which a state of war persists after a bitter secession and border war that ended in 2000, assuming leadership of a much needed diplomatic breakthrough. Perhaps, the image of a poor, famine stricken country is what the many potential investors are finding hard to shed. Yet, that particular, 30 years old, image has gotten stale and could not be further from the present reality.

Ethiopia has made some radical changes in the past two decades under the leadership of Prime Minister Meles Zenawi and three months after his death, Ethiopia has not only survived the succession jitters, it is thriving under the leadership of his successor Hailemarian Desalegn. In his twenty years of rule, Zenawi turned Ethiopia, from one of the poorest countries in the world and the ‘poster child’ for famine and relief aid, to one of the fastest growing economies in the world. Ethiopia’s GDP has more than tripled during his rule. Today, Addis Abeba is a thriving world class city boasting Africa’s tallest building, the headquarters of the African Union, and some of Africa’s most market friendly policies and infrastructure.

Ethiopia’s national airline, ‘Ethiopian Airlines’, is not only one of the most advanced in Africa, it is one of the most advanced in the world, becoming only the second carrier to operate the latest from Boeing, the 787 Dreamliner. Ethiopia is rapidly establishing itself as East Africa’s main business hub, stealing that spotlight away from Kenya. Indeed, Kenya is wrought with intense political risk as the underlying issues behind the violence that erupted after the December 2007 elections have merely been buried under the proverbial carpet and could re-awaken as Kenyans return to the polls at the end of 2012. Kenya itself has been investing in Ethiopia. PM Desalegn has lifted restrictions on investment from foreign companies, including and especially from Kenya. Indeed, the new prime minister, who has been very active in securing trade deals with his neighbors has lifted restrictions and opened markets. As part of a Special Status Agreement with Kenya, Ethiopia is open to investment from Kenyan firms in the manufacturing sector. Ethiopia has also been pursuing membership in the World Trade Organization (WTO). Previous efforts were stifled by a reluctance to open the telecommunications and banking sectors; however, these are sectors which Desalegn has considered opening.

Already in 2008, the IMF observed that Ethiopia's economy has grown faster than any other non-oil exporting country in sub-Saharan Africa. Even as Ethiopia is supporting economic diversification and commodities such as gold, coffee and agricultural products – and soon potash, it is also accelerating the exploration and production of oil and gas resources. The country plans to establish a government entity to help manage private and foreign investors for the development of these resources. Currently, Africa Oil Corporation and EAX have formed a joint venture blocks located in southern Ethiopia in the Ogaden Basin in an area close to the border with Somalia (now experiencing its most stable rule in the past twenty years) and Djibouti. Tullow Oil and Texas-based Marathon Oil are among the companies involved. Brazil's oil giant, Petrobras, is also planning to invest in Ethiopia in 2013.

Ethiopia has also committed to pursuing the Millennium Development Goals, attracting even more foreign direct investment, developing infrastructure, promoting industry and doubling agricultural production. As a potash producer, Allana will likely play an important role in enabling Ethiopia to reach its goal of doubling food production. Farmers there will start to adopt more advanced agricultural techniques, requiring the use of potash based fertilizers. Allana will also export potash in view of a sustained demand for mineral fertilizers worldwide. African demand itself is expected to grow over the next decade and Allana has already targeted production at Dallol to begin before the end of 2014, starting at a capacity of 1 million metric tons of muriate of potash (MOP) per year. Allana estimates that Africa could use as much as one to two million tons of potash a year, and tripling that amount (six/seven million tons) into the next decade.

Allana has announced the discovery of high sylvinite (potash ore) mineralization in over sixty holes around the Musley deposit at its Dallol project. A consortium of bank lenders has provided ‘soft’ commitments for USD$ 650 million for the project debt requirement. Thanks to commitments on the equity side by Liberty Metals & Mining Holdings (a wholly owned subsidiary of Liberty Mutual Group from Boston) and the International Finance Corporation (IFC, a member of the World Bank group), the Company should have little difficulty in raising the total project funds (USD 800 million). Allana should conclude all project financing by mid-2013 in order to begin construction by the fall (or late) of 2013. Initial production of about 1 million tons per year is expected to start in 2015 (or by the end of 2014), reaching peak levels (full production) approximately a year to 16 months later. Allana also has the potential to raise capacity to two or three million tons a year (MOP) and in addition have the ability to produce SOP. Allana will ship its potash through the Republic of Djibouti, where a new port is being built in Tadjoura.

Allana will have its own terminal with unloading and storage facilities at the new port. The potash will be delivered to the port by truck along a new highway linking the Dallol project with the port, which is already under construction. Finally, it should be noted that Ethiopia is home to the second largest population in Africa and represents a huge potential consumer market with over 80 million consumers; while most of the people live in rural areas, living from agriculture, Ethiopia is growing, and it cannot be ignored as a veritable emerging market. The Ethiopian Government has noted in its five-year plan of economic development 2011-2015 to address the structural weaknesses of the sector and increase productivity through a strong involvement of foreign investors, which will benefit from significant tax incentives. The plan, passed by the Ethiopian Parliament, provides for a consistent growth of the agricultural sector (also needing potash), which should remain the engine of development, while also promoting industrial growth within a framework of import substitution. The country, in fact, has great potential in agro-industry, textiles, leather and energy.

Today, there are shops in Addis Abeba and they are full of goods, full of food and clothing, none of it having been donated and all of it subjected to market forces of demand and supply. The image of famine and humanitarian aid are long gone and, more importantly, the policies that generated the problems in the first place are also faded memories. Ethiopia stopped being the ‘poster child’ for famine long ago; it is now a major food producer and exported over USD$ 100 million in fruits and vegetables in the last half of 2011 alone. The time has come to forget the events of the past and see Ethiopia for what it has become: nothing less than one of the most promising economies in Africa and, indeed, in the entire developing world itself. Ethiopia’s image characterization of a weeping and weak hungry child should be a distant memory – a reminder of the damage of misguided policies that no longer have any room in modern Ethiopia.