

# ICL and Allana form a strategic alliance to take advantage of growing potash demand in Asia and Africa

✘ Israel Chemicals ('ICL', TASE: ICL) and Allana Potash ('Allana', TSX: AAA | OTCQX: ALLRF) have established an alliance to develop Allana potash mine in the Danakhil region of Ethiopia. Under the deal, ICL has acquired USD\$ 23 million in shares and warrants of Allana Potash Corp or 16%. ICL is one of the world's leading mineral fertilizer producers. Should ICL exercise the warrants included in the 'units', the total investment would amount to some USD\$ 87 million or about 37% of the company. Moreover, ICL has also signed an offtake arrangement from the Danakhil project; Allana and ICL started negotiations for the deal last December. Allana is at an advanced stage in the project, having already completed the definitive feasibility study (FS) and secured the necessary mining license needed to start construction of the mine itself. As part of the agreement, ICL will offer Allana technical advice on the mine development as well as marketing assistance for the product.

The FS feasibility study suggests that Allana has the potential to produce about a million tons of high-grade potash a year. ICL is the world's sixth largest potash producer and it sold about five million tons of potash in 2013 and has mines in Spain and Great Britain as well. In turn, ICL – which was highly coveted by Potash Corp (NYSE: POT) in 2012 and 2013 as it sought strategic partnerships to gain better access to the emerging markets where potash demand has been most intense such as India, China and Indonesia. Had the ICL bid been successful, Potash Corp would have overtaken the Russian OAO Uralkali as the world's largest producer, giving it even more

market influence. Potash Corp had targeted ICL also because of its closer geographic position. Israel's proximity to the Suez Canal would have given Potash Corp a significant advantage in selling and delivering potash to markets in China, India and other Asian powers.

The Israeli government faced internal pressure to block the sale. Moreover, even as ICL's deal with Allana eases access to Asian markets, it opens the door to Africa, which is the continent where potash consumption will grow fastest as many countries start to pursue more effective agricultural policies. Sub-Saharan Africa was second only to South East Asia in the intensity of economic growth over the past decade. The Horn of Africa, from where Allana's potash will be shipped, is strategically located to serve India, China and more importantly, all of the markets where potash demand is rising fastest such as Indonesia, Malaysia and Laos – all countries featuring potash intensive palm oil production. More importantly, Allana is strategically located to serve the Africa, which is where potash consumption, now among the lowest in the world, will increase fastest. Ethiopia alone will guarantee significant sales for Allana. Indeed, Ethiopia, which is home to some 90 million inhabitants, has ambitious economic growth plans and agriculture is its highest priority given that some 85% of the people work in that sector.

Africa has continued to experience growth even as Europe and North America have struggled to recover from one of the worse recessions since the Great Depression. Resources, mining, oil and gas explorations have fueled Africa's growth, but agriculture has also emerged as an important factor. In the 1960's-70's, the use of mineral fertilizers grew considerably in Latin America while dropping in Africa. Not surprisingly, those decades (and until now) saw various famines in Africa, while food production increased in Latin America. Now, the International Fertilizer Industry Association suggests that African potash use could reach five million tons over the next

few years. It is now not even close to a million metric tons. While in Europe, the gross domestic product shrank by 11% in the last five years, it rose by 29 percent in Africa. Allana's FS suggests it is on track to reach production by early 2015, while all the other aspects of the project are also proceeding on target, including the relevant roads and the port in Djibouti. Allana has measured and indicated sylvinite resources in 2013 of 327.42 million tons of 28.31% KCl and inferred sylvinite resource of 90.76 million tons at 27.80% KCl. Once in production, Allana will offer ICL a more sustainable future. Indeed, ICL's potash plant on Dead Sea has faced growing criticism from environmentalists. The tourism sector is complaining of receding waters and the growing and spreading concerns could lead to ICL having to shut down the 'Dead Sea Works', given that it has been blamed for of the problem.

Allana's project in the Danakil offers some of the best economics in the industry with very low operational and capital investment costs (OPEX and CAPEX); in simple terms, Allana will be one of the cheapest potash mines to build and operate with operating costs expected to be USD\$ 100 per ton (to port). This is well below the peer group average, providing a healthy return even if potash prices remain at the current USD 300/ton (based on CANPOTEX's recent China contract). In addition, the FS noted that the CAPEX of around 642 million dollars would also be among the lowest in the industry, largely because the Danakil deposit is found at relatively shallow depths. While some projects and potash producers have faced greater risks of failure in the wake of the lower prices, caused by the collapsed of the CANPOTEX/Russian-Belarusian duopoly last summer, others like Allana have actually gained even better chances of success. Allana is one of these because its project based in Ethiopia's Danakil region may well be the one best suited to benefit from the new potash market dynamics. ICL's expertise and market access have merely confirmed Allana's value.