

BPC breakup emphasizes the value of project economics

Potash and Phosphate Week in Review: The InvestorIntel Potash membership index fell 10.63% for the week ending on 9 August 2013, dropped 4.62%. That drop would have been far more dramatic had it not been for Allana Potash (TSXV: AAA | OTCQX: ALLRF), which gained +15.71% in the US and +8.43% in Canada. Agua Resources (ASX: AGR), meanwhile, gained 14.58%; however, Agua has been focusing on its Tres Estradas phosphate project in Brazil. Phosphate prices, while down from their highs of a few years ago, have been under less pressure than those for potash lately. Moreover, the ASX listed Agua has benefited from an overall improvement in Australian mining shares, which have been rising in response to higher metal prices.

The potash sector's drop has continued to suffer from the effect of OAO Uralkali's decision to abandon the Russian/Belarusian BPC pricing organization. Uralkali's move has caused a jolt that no one had expected but common sense should eventually return to the potash market even if panic is still having its effect. After all, consider what would happen if Saudi Arabia decided to abandon OPEC from day to day. BPC and its North American competitor Canpotex effectively acted as the potash equivalent of OPEC, together wielding nearly absolute control of production and prices. Moreover, the potash majors' attempts to recover were thwarted by an unfavorable grain market, which has forced down the prices of wheat, corn and seeds, lowering farmers' incomes prospects and, therefore, increasing the risk of lower potash sales. Prior to the BPC breakup, the potash sector was already feeling pressure from a (temporary) drop in demand for fertilizers (especially from India, struggling with a weaker currency) and high stock levels in China and North America.

Uralkali itself, meanwhile, is feeling some pressure as noted

in an article last week; it will have to manage both its own potash marketing while trying to vastly expand sales to compensate for the fall in prices, which according to the CEO Vladislav Baumgartner will in a short time by at least 25%, from the current USD\$ 400/ ton to USD\$ 300/ton for the second half of 2013. Whether or not such predictions actually materialize is another matter entirely. Uralkali is not waiting for the market to take over and it may be considering a number of strategies ranging from a complete takeover of its former BPC partner Belaruskali to possibly even joining Canpotex. The current situation is not all that good for Uralkali itself. Indeed, despite the drop in potash prices, Germany's K+S decided to go ahead with its Greenfield Liberty potash project in Saskatchewan last week despite the fact that the company lost about a quarter of its value last week and risks being ejected from the DAX index.

In this context the key for potash investors is not to give in to the BPC panic while considering some of the benefits that a more open potash market will have for projects with the right conditions. The potash juniors still at exploration stage will not suffer any revenue drops but they may have more difficulty finding financing to continue. However, for those projects that are well financed already and that have already reached the Feasibility Study (FS) phase, demonstrating the viability of their cost structure, there should be few obstacles. One of the main 'positives' resulting from the BPC breakup, is that it has emphasized the importance and value of project economics. Last week, Allana Potash stood out because it has very favorable project economics, given that its FS showed a projected production cost of less than USD\$ 100/ton for potash on ship.

IC Potash ('ICP', TSX: ICP | OTCQX: ICPTF), meanwhile, is slated to become one of the lowest cost producers of Sulfate of Potash (SOP), a usually more expensive variety of potash that is especially desirable for fruit crops. ICP's shares

were under much pressure last week, falling some 26%, reflecting the risk perception related to its North American presence. In fact, the market should re-evaluate the Uralkali risk perception for ICP as it has all the cards needed to succeed. EPM Mining (TSXV: EPK), Magna Resources (CNSX: MNA) and Potash Minerals Ltd. (ASX: POK) should also benefit from the market's increased awareness of the 'project economics' factor, because they are all focused on developing resources in areas with ample water availability and low energy, solar evaporation and solution mining techniques.

