

The Market Looks Favourably on Early-Stage Pacific Advanced-Stage Western Potash

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Just the stuff to develop bigger and healthier crops, potash complements a world growing in population and appetite. Two contrasting companies pursuing the commodity are [Western Potash](#) (T.WPX), the most advanced junior in the space, and [Pacific Potash](#) (V.PP), with a very big but early-stage property optioned from Western. Those differences aside, both companies have seen a general upturn in share price over the last month.

Pacific's V.P. of corporate communications Mike Blady largely attributes his company's stock performance to a \$2.25-million financing announced in April. The money will fund exploration on the Amazonas project in the Brazilian potash basin of the same name, a region that's being compared in size and geology to Saskatchewan's prolific potash region.

With 796,000 hectares, Pacific holds a substantial chunk of property. Even so, it's been trimmed from its original size of over 1.5 million hectares. Last September the company dropped claims to the south that involved indigenous communities, protected forests or inaccessible terrain. Much of the remaining land had already been cleared. A 43-101 technical report followed in November.

Parts of the property might be remote but "there are several cities within our claim blocks, with 40,000 to 100,000 inhabitants," Blady explains. "There are roads in and around the cities but the majority of the property is accessible by boat through tributaries of the Amazon River," which he calls "the super-highway for commerce in most of Amazon state."

The location offers an even greater advantage—an already huge domestic potash market with a faster rate of increase than anywhere else on the planet.

"Brazil has a very large agricultural sector but almost zero domestic production," Blady points out. The country currently imports over 90% of its supply from places as distant as Canada, Russia and the Middle East, he says. Shipping costs add about \$175 to \$225 per tonne to the price, compared to an estimated \$40 to \$60 for shipping if a local mine were developed. Consequently "the government's very supportive of these projects. Brazil's trying to increase domestic production to 60% of demand by 2020. They're very interested in seeing this basin get developed, which is great for a company like us."

He adds, "In Brazil, agro-business is the fastest-growing industry and one of the government's largest cash generators. It's expected that Brazil will have the largest sustained growth in potash consumption over the next 50 to 100 years as it still has 20% of the world's remaining arable land. Brazil is the number one growth market for fertilizer and potash. It's growing even faster than China for potash consumption."

That potential attracted Asian capital to Pacific's recent \$2.25-million financing. A first tranche of \$1.25 million closed last month while another \$1 million from Sino-Canada Natural Resources Fund is being held in trust until May 31. That's the day shareholders decide whether to approve a change of control in which the fund would hold about 18.1% of Pacific's outstanding shares and nominate a co-chairman and director.

Sino-Canada plans to invest more than \$500 million over two years in Canadian natural resource companies.

"They bring to the table very deep pockets and a commitment to fund future exploration programs on this property and other acquisitions as long as we continue to be successful," Blady says. In addition the company might apply for exploration funds from the Brazilian Development Bank, which has increased its funding for agricultural and fertilizer products tenfold.

To complement the Brazilian project, Pacific has some Brazilian expertise in Andre Costa, the exploration geologist who helped discover Potash Brazil's deposit, Luis Silva, Pacific's country manager, and William Freire, "one of the best mining lawyers in Brazil."

The exploration team is currently compiling and reviewing the property's data prior to setting drill targets for a program to start in late September or October.

In Saskatchewan, meanwhile, Western Potash has distinguished itself as "the most advanced junior potash

development story," says Western VP of corporate development John Costigan. The company cleared its last hurdle with April's environmental assessment approval. "Even those of our peers who have environmental approval have contingent approvals only," Costigan emphasizes. "Nobody's quite where we are."

The approval followed December's feasibility study, which used a 10% discount rate to calculate a pre-tax net present value of \$3.6 billion and a 21% internal rate of return. After taxes the numbers show a \$2.44-billion NPV and an 18.6% IRR. With a \$2.91-billion initial capital cost, the operation would produce 2.8 million tonnes of potassium chloride a year over its 40-year life, based on proven reserves of 35.84 million tonnes and probable reserves of 101.44 million tonnes KCl. Payback would take 5.6 years.

A number of advantages brought Milestone this far. Among them is solution mining, in which water is pumped into underground caverns and then pumped out as potash-rich brine. With a construction phase that can be completed in three and a half years, the method offers much lower capex, says Costigan.

As for the water supply, it'll come from the city of Regina, which signed a 45-year agreement to supply the company with treated effluent.

And with Regina only 30 kilometres away, Milestone enjoys an enviable location. Roads, power lines and two railways run right through the property. "We have agreements in place ready to be executed for electricity, rail and the port," says Costigan.

While the company's stock has trended favourably over the last month, Western conducts talks with potential joint venture partners.

"Our contribution would be the project," Costigan explains. "Our partner would match that, depending on what the percentage is. If it's 60/40, they'd put 60% in, which would be more than the value of our project, and that would be the first equity contribution to the project. Then together we could raise the debt, which we'd repay from operations down the road."

Western already has mine-building expertise on board. Project director Richard Lock has also served as project director for the Resolution copper mine, now in pre-feasibility, and brought Rio Tinto's Diavik diamond mine into production. "Those are larger operations under much more difficult conditions," points out Costigan. "It's a slam dunk for Richard to build a potash solution mine in Saskatchewan." Additionally, "We've been in the Basin six years and we probably have better geological knowledge than anyone out there."

With Western Potash discussing a potential JV for a Saskatchewan mine and Pacific Potash preparing for early-stage Brazilian exploration, the two companies might be a study in contrasts. But, if all goes well, they could both play a part in helping feed generations to come.

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