

Allana Potash Corporation

AAA-TSX

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Fertilizers

April 1, 2014
Company Comment

Strategic Alliance Fortified; Reiterate OP2

Recommendation

We continue to recommend value oriented investors accumulate AAA shares.

Analysis

Last week we had the opportunity to sit down with Allana Management and its new director, Yoram Cohen, who is also the General Manager of ICL Africa. In addition, yesterday Allana announced that it has received shareholder approval for the second ICL equity tranche, raising another \$14.4 mln in capital (see our Feb-13-14 *Comment*, "Allana Secures Strategic Alliance with ICL; Raising Target & Upgrading to OP2", price: \$0.51). This latest transaction, coupled with our interactions with Mr. Cohen, has further reinforced our positive view on the Danakhil project. Salient details are as follows:

- Danakhil Represents a Key Growth Initiative for ICL and a Highly Complementary Asset**—With limited existing capacity expansion opportunities in ICL's existing asset portfolio, Mr. Cohen highlighted three main reasons why the Danakhil project is so complementary to ICL's existing asset base: 1) ICL believes there is a significant amount of underappreciated potential in the African fertilizer market given the need for domestically produced food and increased financial investment on the continent recently. Supporting this point, ICL have already begun investing seed capital alongside the Ethiopian Agriculture Office to develop local potash demand and are also scouting potential West African phosphate projects; 2) Allana's proximity to India (one of ICL's most important markets) provides ICL with a key distribution advantage vs. its competitors; and, 3) ICL's solution mining expertise in dry, arid regions makes it a strong partner for Allana on the technical side.
- Tranche Two Approved; Capital Already Being Deployed**—With the second tranche of the ICL deal now approved, Allana will be able to develop some of the local infrastructure while it advances its financing strategy which will likely be comprised of a project finance and an equity raise. In essence, this will help the company shorten the timeline to construction while also demonstrating its commitment to the project to interested project finance banks and the local government. In addition, the capital injection will also permit ICL to appoint another member to Allana's board which will further strengthen the companies' strategic alliance.

Valuation

Our \$0.80 target price is based upon a 0.4x P/NAV target multiple applied to our \$1.36/share Danakhil NAV/share estimate, plus the company's expected healthy cash balance (see Exhibit 1), reflective of its development stage.

EPS	1Q Oct	2Q Jan	3Q Apr	4Q Jul	Full Year	Revenues (mln)	NAV
2013A	C\$(0.01)	C\$(0.01)	C\$(0.01)	C\$(0.01)	C\$(0.03)	C\$0	
Old 2014E	0.00	0.00	0.00	0.00	(0.03)	0	C\$1.61
New 2014E	0.00	0.00	0.00	0.00	(0.03)	0	C\$1.61
Old 2015E	NA	NA	NA	NA	NA	NA	NA
New 2015E	NA	NA	NA	NA	(0.03)	0	NA

Source: Raymond James Ltd., Thomson One

Outperform 2 C\$0.80 target price

Current Price (Mar-31-14)	C\$0.44
Total Return to Target	84%
52-Week Range	C\$0.65 - C\$0.27
Suitability	Venture Risk

Market Data

Market Capitalization (mln)	C\$118
Current Net Debt (mln)	-C\$15
Enterprise Value (mln)	C\$102
10 Day Avg Daily Volume (000s)	637
Dividend/Yield	C\$0.00/0.0%

Key Financial Metrics

	2013A	2014E	2015E
P/E	NA	NA	NA
P/NAV		0.32x	NA
CFPS			
Old	C\$(0.05)	C\$(0.05)	NA
New	C\$(0.05)	C\$(0.05)	C\$(0.03)
Capex (mln)			
Old	C\$0.00	C\$(264.60)	NA
New	C\$0.00	C\$(264.60)	C\$(330.00)
Production (000s MT)			
Old	0	0	NA
New	0	0	0
Shares Outstanding (mln, basic)			270.9
Cash on Hand (mrq, mln)			\$15.40
Total M&I+Inf. Resource, Sylvinit (mln MT)			620.50

Company Description

Allana is a potash-focused junior development/exploration company. The company's flagship property is located in the Danakhil Depression of Ethiopia, with an additional property in Argentina.

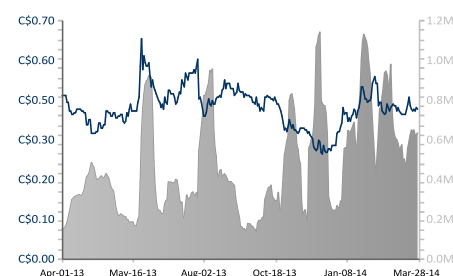


Exhibit 1: Key DCF Assumptions and Valuation

Key DCF Assumptions				Asset	NAV	NAV/Share	P/NAV	Value
General	DFS	RJL	Delta (Δ) RJL vs. DFS					
KCI Price FOB Djibouti (US\$)	\$430	\$425	-\$5.00	Danakhil Project	\$ 658.0	\$ 1.36	0.4	\$ 0.55
Discount Rate (%):	10.0%	10.0%	0%	4Q13 Cash Balance	\$ 15.0	\$ 0.03	1.0	\$ 0.03
Mine Attributes				Proceeds from ICL (1)	\$ 84.0	\$ 0.17	1.0	\$ 0.17
Construction Start (Year):	2013	2014	1.0	IFC & Liberty Equity (1,2)	\$ 22.2	\$ 0.05	1.0	\$ 0.05
Production Start (Year):	2015	2017	2.0	Total	\$ 779.2	\$ 1.61	0.5	\$ 0.80
Mine Life (Yrs):	25.0	30.0	5.0	Target Price				\$ 0.80
Production Capacity (mln MT/yr):	1.0	1.0	0.0	Note 1) Assume all warrants are exercised				
Cost Variables				Note 2) Assume IFC and Liberty exercise their pre-emptive rights				
Total CapEx (US\$ bln):	\$642	\$660	\$18.00	Note 3) Share count assumes all warrants in tranches 1 and 2 exercised				
Production OpEx (US\$/MT):	\$69.25	\$87.50	\$18.25					
Transportation & Port OpEx (US\$/MT):	\$29.50	\$13.00	-\$16.50					
Royalties (%):	4.0%	4.0%	0%					
Tax Rate (%):	35.0%	30.0%	-5%					
Outputs								
NPV (US\$ mln)	\$1,320	\$658	-\$662					
IRR (%)	33%	20%	-13%					

Source: Raymond James Ltd., Allana Potash Corporation

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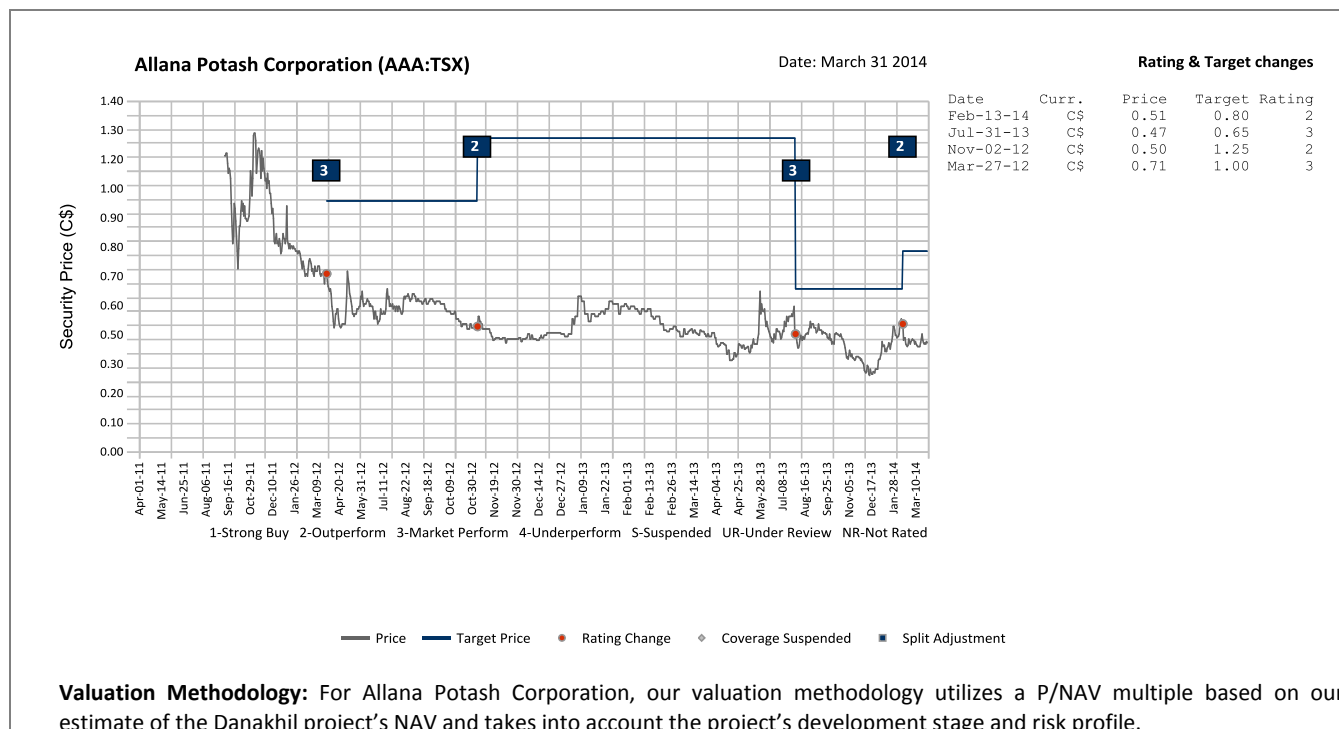
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Allana Potash Corporation

General Mining Company Risks—Mining operations have exposure to a number of operational and technical risks including: environmental risks, personnel accidents, production processing problems, unexpected geological anomalies, flooding, fires, earthquakes, equipment failures and consultant errors.

Financing Risks—The size of the Danakhil Potash Deposit's upfront capital requirement presents risks regarding the company's ability to access the required capital. We acknowledge the likelihood of Allana accessing this capital on a stand-alone basis is quite limited; therefore, the ability for Allana to continue involving its strategic partners and involve additional partners to assist in project financing presents a significant company risk.

Labour & Infrastructure Risk—There is a shortage of both labour and skilled human resources within the vicinity of the Danakhil Potash Deposit. As such, significant reliance will most likely be placed on expatriate labour and resources. As well, the undeveloped infrastructure in the area makes certain non-ideal options necessary (such as transport by truck). If infrastructure is not improved, there is the risk that this project will be unattractive to potential partners and limit the company's ability to attract capital.

Potash Price Risk—Our NAV estimate and target price are highly leveraged to potash price forecasts. Any major deviation from our forecasts could result in materially different company performance.

Permitting Risk—Our outlook and model on Allana is based on the assumption that all the necessary permitting can be acquired in due course without significant delays. Although Ethiopia is making major strides in enacting business-friendly policies, the mining sector is in its infancy and as such, there is the risk of delays related to permitting/legal matters.

Political Instability; Conflict—Although Ethiopia boasts a multi-party democracy, with the current government elected into power in 2010, the country has a history of political instability. Furthermore, the country has a history of conflict with some of its neighbours, particularly Eritrea. Any political instability or renewed conflict would have a negative impact on Allana's ability to operate in the region, as well as its share price.

Reliance on Djibouti—Given Ethiopia's sour relations with Eritrea, and the land-locked nature of the country, Allana's project relies on export from a port in neighbouring Djibouti. Despite being highly dependent on trade with Ethiopia, there is the risk that Djibouti could impose a transit tax on potash shipments. This would alter our forecasts. Furthermore, if relations were to sour between the two countries, there is the risk that transit could be cut off.

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