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The **Big Australian** & the **Brazil Consortium**

By Richard (Rick) Mills

As a general rule, the most successful man in life is the man who has the best information

In the spring of 1869 a German Chemist named Charles Rasp immigrated to Australia for his health. Unable to find work in his chosen trade Charles learned to ride a horse and began wrangling sheep. One day, while out riding his horse at Broken Hill, he discovered mineralised rock. He took out a mining lease, punched holes in the ground and eventually found rich veins of silver. The Broken Hill Proprietary Company – BHP - was incorporated in 1885 while mining silver and lead at Broken Hill in western New South Wales.

Billiton was a mining company that got its start in September 1860 when the articles of association were approved by a meeting of shareholders in the Groot Keizerhof Hotel in The Hague, Netherlands. Shortly afterwards the company acquired the mineral rights to the tin-rich islands of Banka and Billiton off the eastern coast of Sumatra.

BHP Billiton - also known by the nickname "the Big Australian" - is the world's largest mining company. It was created in 2001 by the merger of Australia's Broken Hill Proprietary Company and Anglo-Dutch Billiton. Today BHP produces - oil, natural gas, bauxite, aluminum, copper, silver, lead, zinc, uranium, diamonds, coal, titanium, well, you get the idea, they're miners, they pull "stuff" out of the ground and sell it.

Last week BHP paid \$341 million, C\$8.35/share, to acquire Saskatoon's Athabasca Potash (TSX: API). This acquisition will give BHP Athabasca's Burr Project, which is located next to BHP's Jansen Project to which the company just committed \$240 million. BHP likes big stories, the unfolding potash story is one of the biggest and in this author's opinion it can only get bigger.

"We cannot rule out further acquisitions of potash juniors: With over half a billion dollars committed to potash within the past week, it's clear that BHP Billiton are favourable towards the commodity." Macquarie analyst Sam Catalano

Vale S.A. - formerly known as Companhia Vale do Rio Doce (CVRD) - of Brazil is the second largest mining company in the world. It was founded by the Brazilian Federal Government in

June 1942. The company was privatized in 1997 when the Brazil Consortium bought just over 40% of the Federal Government's stock.

Even though Vale has operations in the energy and logistics sectors both sectors combined contribute less than ten percent to Vales total revenues. Vale is a miner and controls the Brazilian iron ore industry owning all Brazilian iron ore exporters.

In recent years, in an attempt to diversify its operations, Vale has made a string of purchases getting into copper, kaolin, nickel and coal. In October 2006 Vale bought Canada's second largest mining company, Inco, for \$18.9 billion. Vale also produces manganese, ferroalloys, bauxite, potash (Sergipe mine in Brazil), alumina and aluminum.

Lately Vale S.A. has moved into the fertilizer business in a big way:

In January of 2009 Vale bought Rio Tinto's potash assets in Argentina and Saskatchewan Canada for \$850 million US.

In January 2010 Vale announced it will acquire all the shares of Bunge Participacoes e Investimentos S.A. (BPI). Vale will pay \$1.65 billion US for BPI - for its wholly owned phosphate mining operations in Brazil - and another \$ 2.15 billion US for its 42.3 percent in Fertilizantes Fosfatados S.A. (Fosfertil) - a leading Brazilian fertilizer company.

The U.N. calls the global food crisis a "silent tsunami" and faith in the ability of local and global commodity markets to fill 6.6 billion bellies, never mind the projected 2.7 billion more by 2050 (U.N. projections say the world's population will peak at 9.3 billion in 2050) has been shaken.

Most of this population growth will be seen in developing nations.

As income in these developing nations grow people will demand a more protein rich diet - which means more people eating more meat. This has an amplifying effect on the demand for fertilizer, because it takes about 10 kilograms of grain to produce one pound of meat. As meat consumption soars, more grain is needed to feed more livestock. 75 million more people per year are going to have to be fed and all this while our arable land base is shrinking and fresh water supplies in many areas of the world are under tremendous strain.

In order for a plant to grow and thrive, it needs a number of different chemical elements. Three of these are the macronutrients nitrogen, phosphorus and potassium (a.k.a. potash, the scarcest of the three). Potassium makes up 1 percent to 2 percent of any plant by weight and is essential to metabolism. The availability of nitrogen, phosphorus and potassium in the soil, in a readily available form, is the biggest limiter to plant growth.

The United Nations Food and Agriculture Organization (FAO) reported they think that the total world demand for agricultural products will be 60 percent higher in 2030 than it is today.

"This is a solid business and the big mining companies agree. If they can find a way to participate in it, they will." Mark Connelly, New York brokerage Sterne Agee.

As I've just shown you, the world's two biggest miners are moving into fertilizer in a big way. The reality is the potash story is just starting. Unlike other resource plays there is no cycle, demand is always going to be there and its rising year over year making potash an excellent play in what will be a long term agricultural commodities bull market.

Besides the developing, across the board, interest in potash - a rising tide lifts all ships - there are some pretty interesting stories developing around a few individual companies.

I believe a question we should be asking ourselves is: are there any potash juniors out there - that for whatever reason - seem to stand out from the crowd?

Here are three that might fit the bill...

Amazon Mining (AMZ – TSX.v)

AMZ is a mineral exploration and development company founded by Brazilians in 2005. The company is focused on the development of its Cerrado Verde project. Cerrado Verde is the source of a potash rich rock from which Amazon plans to produce a slow-release, non-chloride, multi-nutrient, fertilizer product.

The combination of acid soils and torrential rains in Brazil reduces the efficiency of traditional chloride based potassium because it dissolves too quickly.

"The low concentration, slow release fertilizer is a perfect combination for Brazilian soils. Verdete is the best alternative source of Potash for Brazil." Professor, Institute of Mining Engineering department of UBC & Amazon's Technical Advisor

One in three workers in Brazil is employed in Agriculture. Brazil has the world's 10th largest GDP, 24% of which comes from agriculture - yet Brazil only produces 10% of its current potash needs. Brazilian soils are generally poor in potash. Their leading exports - sugar cane, soy beans, coffee and corn - all require potash rich environments. The Brazilian government would love to see potash produced locally, so the Cerrado Verde project is being fast-tracked at the highest levels of government.

"If they can demonstrate that this source is more efficient in terms of providing nutrients that the plants need and can absorb and that the cost is reasonably constrained, this company with a current market cap of \$50 million or \$60 million will become the linchpin for a multi-billion dollar agricultural industry. A company like this will end up being absorbed at a much higher price than its current \$2 trading range." John Kaiser, Kaiserbottomfish.com

Brazil is a country that wants and needs potash - Amazon is definitely going to attract attention and capital.

Encanto Potash (EPO - TSX.v)

The Muskowekwan Prospect in Saskatchewan, Canada, is EPO's main focus. The company has acquired historical data from 6 oil and gas wells which almost completely surround the Muskowekwan Project (The wells range from as far as 15.6 km away to as close as 11.4 km away from the Muskowekwan property boundary).

The grades and thicknesses of the potash beds in these historical oil wells were estimated in an engineering report prepared by Chapman Petroleum Engineering of Calgary.

"Based on the report, estimates of the Patience Lake Member has average thickness and potash grade in the four drill holes of 13.7 feet of 32% KCl *(20% K₂O); 11.9 feet of 30% KCl (19% K₂O) in the Belle Plaine Member; and 8 feet of 29% KCl (18% K₂O) in the Esterhazy Member. Assays are based on a 23.7% KCl (15% K₂O) cut off." From Encanto's website

EPO's first drill hole into its 43,000 acre Muskowekwan potash property returned values of 25.2% K₂O (39.9% KCl) over 3.6 metres in the Patience Lake potash bed, and 25.5% K₂O (40.4% KCl) over 2.4 metres in the Belle Plaine potash bed.

The total thickness of the Patience Lake and Belle Plaine potash beds is 6 meters having an average grade of 25% K(2)O. As a comparison the recently purchased Burr Project of Athabasca Potash averaged 5.14 m of 21.04% K(2)O and 4.79 m of 23.39% K(2)O on their upper Patience Lake and Lower Patience Lake potash beds respectively.

"These results on Muskowekwan have added greatly to our belief that it has the potential to establish a substantial and economic potash resource. The Muskowekwan First Nations and Encanto management are very excited about these grades. This is a fantastic start to 2010." states CEO James Walchuck.

This was taken directly from Potash Corp's 2008 annual report: "In 2008, our conventional potash operations (excluding Esterhazy) mined 23.119 million tonnes of ore at an average grade of 22.88% potassium oxide ("K₂O"). The potash ore....lies about 1,000 metres below the surface....the potash beds of approximately 2.4 to 5.1 metres."

Results from a 3-D seismic will be released in March and a 43-101 compliant resource calculation is scheduled for September of this year.

Encanto is backed by Endeavor Financial (EDV: TSX), a merchant bank that specializes in the natural resource sector.

Western Potash (WPX - TSX.v)

WPX was formed when the opportunity arose to acquire key prospective ground adjacent to known potash deposits. In July 2007 a private consortium obtained the potash rights on 555

square kilometres - adjacent to BHP Billiton's Lease and Agrium's Exploration permits - and within 13km of Saskatchewan Potash Corps's Rocanville Potash mine.

Western Potash has just announced a preliminary resource calculation done by independent U.S. engineering firm, Agapito Associates, for its emerging possible solution mineable Milestone potash project.

The Milestone project currently has 34 million tonnes of indicated potash with 245 million tonnes of inferred potash. The next step will be to upgrade the resource to the measured and indicated category leading to a preliminary economic assessment of the deposit.

“Our board is extremely satisfied with the initial results of the resource calculation, considering that it only reflects the first 4 wells drilled at Milestone. We anticipate that the resource in the indicated and measured categories will be enhanced by the additional 5 wells that have now been completed. This resource calculation is only the beginning. The Company will now fundamentally change from a pure exploration company to one that is poised to begin the development of Saskatchewan's newest green-field discovered Potash mineral resource in decades.” Patricio Varas, president of Western Potash

Vale is developing a solution potash mine, the Regina Potash Property, next door to Western Potash's Milestone Project.

The Milestone project is also closely located to Mosaic's Belle Plaine mine. This is the largest solution potash mine in the world and has been in operation for over 40 years.

Conclusion

When mixed with phosphate and nitrogen potash makes it possible for fertilizers to boost crop yields by as much as 60% (USGS). Potash Corp (TSX: POT) claims that each dollar spent on fertilizer returns \$3 worth of improved crop yields, POT also says that for every \$100 added to the price of a tonne of potash only three cents is added to the price of a bushel of corn - potash is a high margin product and there is no commercial substitute.

“Companies involved solely in exploration of potash are likely take-out candidates, either by diversified mining companies seeking a way into the potash industry or by countries looking to lock-in supply.” Jacob Bout, fertilizers analyst for CIBC World Markets, Global Potash Supply – A Focus on Saskatchewan Exploration

I think potash is a story Charles Rasp would like. Is it on your radar screen?

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Richard is host of aheadoftheherd.com and invests in the junior resource sector. His articles have been published on over 200 websites including: Wall Street Journal, SafeHaven, Market Oracle, USAToday, National Post, Stockhouse, Casey Research, 24hgold, Vancouver Sun, SilverBearCafe, 321Gold, Kitco, Gold-Eagle, The Gold/Energy Reports, Calgary Herald and Financial Sense.

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