

The opinions expressed in the below interview are those of the analyst and not of IC Potash Corp. IC Potash does not accept responsibility for the accuracy of any of the information contained in the report. For information provided by IC Potash with respect to its business and business prospects, as well as risks associated with an investment in IC Potash's stock, please see the Company's reports filed on SEDAR; copies of which are available at www.sedar.com.

IC Potash – Target of \$2.50 Before Production

Friday October 19, 2012, 3:07pm PDT

By Thomas Schuster - Exclusive to **Resource Investing News**

The Analyst's Corner include Analyst Interviews and Analyst Commentaries.

Analyst Interviews are paid content requested by advertising companies. We interview an analyst who has prepared coverage of the company and interview them for an understanding of their perspective on the company and the investment potential the company represents.

Analyst Commentaries are paid content requested by advertising companies. We review each request and proceed only when we believe there is the potential for added value to our audience. We work with Thomas Schuster to produce a commentary on the technical content of the news release so investors can better understand it. Mr. Schuster is paid for his time to produce these commentaries.

The information contained here is for information purposes only and is not to be construed as an offer or solicitation for the sale or purchase of securities.

John Chu is managing director of institutional equity research in the Agri-Industry for AltaCorp Capital. John has a long history of equity research at Mackie Research, Scotia Capital and HSBC Capital. John is a CFA with an Economics degree from Queens and an MBA from the Richard Ivey School at University of Western Ontario.

Potash Investing News: John, thank you for taking the time to speak with me this morning. You have been an analyst for over a decade and following agricultural stocks since early 2005. Can you give me a brief overview of how the industry has changed in that time?

John Chu: We've seen the agricultural sector really explode onto the scene in the last four or five years. I think investors are starting to believe in the long term secular theme that is agriculture right now. At the very heart of it is a simple investment theme. People need to eat. This is the one common theme that a lot of investors truly understand now.

So we're starting to see a lot more investments into this sector, whether it's from investors, governments or corporations, than we've ever seen before. In our opinion, no longer is it an old economy sector. We're seeing investors looking for new opportunities; companies that have some kind of competitive advantage whether it's cost or on the technology side, location or even a niche market which is why IC Potash is of interest.

PIN: As an aside, are sovereign wealth funds a big part of governments acting in this market? Is that something you have seen a lot of?

JC: We have. We're seeing the sovereign wealth funds looking to secure supply on some of the basic fronts including food and energy. And so we're seeing them get more involved in agriculture. We're seeing the pension funds getting more involved on this basis by way of farmland which was not really a big thing for them historically. We are seeing countries buying up farmland in various other countries and we're seeing the pension funds forming farmland funds to be able to invest in. And land is the basis of agriculture. We think there are greater opportunities beyond land. But it seems these

institutions are just sticking their toe into it right now. We expect to see a much bigger role for the sovereign wealth funds going forward once they get their first taste of it.

PIN: For IC Potash, you have a one year target of \$2.50, significantly higher than the \$0.80 range they are trading in and the 52 week high of \$1.26. What market conditions are holding the company back?

JC: I think right now what we're seeing is an overall general market malaise. When you have that happen you start to see a flight-to-quality strategy from investors, rotating out of the earlier stage companies into more established, profit-generating companies. We are seeing the entire junior fertilizer sector take a hit and ICP is not an exception to that. Obviously we will point out that ICP has actually outperformed a lot of its junior fertilizer peers given the quality we see in it in the junior fertilizer space.

To add to that we've also seen some market uncertainty in the potash sector. This year demand has been soft year to date and recently Mosaic gave a fairly weak near-term outlook for the potash sector as well. That has weighed on a lot of the junior potash companies including IC Potash.

PIN: ICP's Ochoa project is projected to produce potassium sulphate or SOP vs. the more common raw potash or MOP. How much does this contribute to ICP's chance of success?

JC: ICP going into the SOP market has been one of the underlying themes to our investment thesis. In the MOP market there has been a lot of new capacity that has been announced. And a lot of that is coming from the existing producers. When you take into consideration all of these new junior potash players in addition to large mining companies that have not been in potash before such as BHP and Rio Tinto, we think there is a risk of an oversupply situation mounting by as early as 2015 and given the number of junior potash players we just think it is creating confusion amongst the investors in terms of trying to understand which one of these juniors should we pick. There is 15-20 of them right now and it's pretty difficult to sift through all that noise and try to find the one investment that stands out. So on the SOP side we aren't seeing a lot of new capacity being announced by the existing producers. And with SOP being a niche market and a subset of the MOP market what we're finding is that it's growing just as fast as the MOP market if not faster. The other thing for us is talking to some of the MOP players — they don't seem to have much interest in getting into the SOP market. It is possible that they feel it is too small or too niche for them. And so for that we like the SOP market. And the other thing to note is the fact that SOP is ideal for fruits and vegetables which are high-value crops. And the data we are seeing over the years is that fruits and vegetables are consuming more of the overall potash market. And so the SOP market is improving within the overall potash market. So that is positive for the SOP players.

PIN: Going back to the sovereign wealth funds, are they looking at the SOP market as well or are they focusing on the MOP market?

JC: I think they are probably focusing on the MOP market at first because of the size of it. At some point we do believe, especially with places like China shifting their production focus to fruits and vegetables, high-value crops, they are going to start to realize that SOP is something that will affect the yields and the production numbers. SOP can also be used for leafy types of products. And so tobacco would be another one, China being a big tobacco-consuming country. And that's also another benefit. But right now the sovereign wealth funds are focused on the bigger investments like farmland and potash. But at some point we do expect them to start looking at the SOP market as well.

PIN: Is the situation in Syria impacting SOP prices?

JC: It may have a modest impact but we do think that the MOP market is probably going to drive prices more than anything because it is such a big component of the cost structure because of how SOP is being produced now. And in reality, for us given the long-term perspective we have on ICP with their going into production, we think the Syrian situation is too short term in nature to have much of an impact.

PIN: In April of 2012, ICP received an investment and off-take agreement from Yara International ASA of Norway. What constraints will this relationship remove for the company?

JC: There are probably two that come to mind for us. One is on the credibility front. That can be broken into two or three components. One being polyhalite as a SOP-bearing mineral. Polyhalite is a well-known potash bearing mineral, but it is relatively new to investors. So this adds credibility to polyhalite as a valid potash-bearing mineral. Second, this reduces the production risk of converting polyhalite into SOP. This has been a concern for investors in the past. Yara has done a lot of work to ensure the production process viability. And the third thing from the credibility standpoint would be giving more credibility to the management team in terms of their ability to manage this project and bring it to production. And in terms of the partnership perspective, one thing people tend to forget is that these companies are going to need to find an end market. You cannot have a build-it-and-they-will-come mentality. So what this partnership does with Yara taking a 30% off-take on all the product ICP will produce, and with the potential to increase that to 50%, it drastically improves the sales and volume visibility for the company and that will help secure future partnerships and other off-take agreements. Number two, we think it will help them bring in some bank financing as having that sales visibility will help reduce the risk from the lenders' point of view. And I guess the last angle here is the cash infusion that Yara brought. Cash is king for these early-stage companies. ICP has about \$50 million on hand right now, so that should easily last them through 2013, so they are definitely well funded to get the feasibility study done.

PIN: In New Mexico, where the Ochoa project is located, there is what is called the "Secretary's Potash Area" or SPA. What is this and what does it mean for ICP?

JC: The SPA is an area in southeast New Mexico that is 400,000 acres of potash, oil and natural gas. Four months ago the government announced that it is looking to promote co-development of those resources. What they are trying to do is encourage dialogue between those three industries and the governing body which is the Bureau of Land Management or BLM. So in our opinion this is going to help improve the necessary dialogue that ICP needs to have with the governing bodies to move this project forward. This is showing the government's desire to support and advance potash, oil and natural gas projects in the region. So that can only help ICP in their efforts to move the project forward.

PIN: What can investors expect from the upcoming bankable feasibility study?

JC: The BFS is going to finalize the overall details of what has been discussed in the pre-feasibility study and some of the other technical studies they have released. This is more of a formality to help with the bank financing. This is something that the banks surely require. But also this will help finalize cost estimates, the production process and the route they are going to take with that and the final update they have been making along the way. From the investor point of view, this is the last de-risking stage, prior to moving forward into the production stage. This study will allow the project to move forward to the construction and production stages.

PIN: You're not expecting a change to the resource?

JC: You might see a tweak to that as well, but right now I wouldn't expect to see major changes to any of the fronts from the cost or the production metrics. You might see an increase in the resource side, but the size is big enough already that it wouldn't have much of a material impact from a valuation perspective, but nonetheless that would be considered positive.

PIN: I guess a change in the resource at this point would extend the mine life which is already very long so that wouldn't have a big impact on net present value.

JC: Right and if I were to add 10 years to my DCF (discounted cash flow) as an example it really doesn't add a lot. Off the top of my head it might add 10 or 20 cents to the numbers right now. What they could do if they continue to increase the resource size, it could allow ICP to, at some point, to say rather than having a really long mine life, why don't we increase the actual production we are doing now. So for example increasing capacity by 50% that would give them a lot more leverage in the valuation than extending the mine life.

PIN: I suppose even if they don't put the bigger resource into the BFS, it would give them that flexibility.

JC: Exactly. So if Yara finds that they want more, and some of the other joint venture partners that might sign up want more, this gives them the opportunity to double production and still have a 40 to 50-year mine life.

PIN: What do you see as milestones between here and production in 2016 that will be catalysts to move towards the target price?

JC: There will be some test results that should come out, one on the water flow and the other on salt concentration. That will be as it relates to the production process. We'll see the commencement of the mine design process fairly soon. And then the other thing that could be key, is with the Yara transaction earlier this year, we think that could open the door to other potential joint venture agreements and/or other off-take agreements being signed. This should add more credibility to the story.

PIN: For investors who want to read your reports on IC Potash, what is the best way for them to contact you?

JC: Email is best: jchu@altacorpcapital.com

PIN: Thanks very much for your time John.

[Click here to see the IC Potash \(TSX:ICP, OTCQX:ICPTF\) profile on Potash Investing News](#)

Source: <http://resourceinvestingnews.com/44549-ic-potash-target-of-250-before-production.html>