

Gold Newsletter

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NEW RECOMMENDATIONS

ENCANTO POTASH CORP.

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My first new recommendation in this issue is also my first-ever recommendation in the potash arena. Before you turn the page on what may seem like an altogether ridiculous idea, let me explain why I've been looking for a potash play for some time.

First, the fundamentals behind potash are powerful. The world's population is growing by 75 million people per year. Those ever-hungry mouths will lead to 60% higher demand for food crops by 2030, according to the United Nations Food and Agriculture Organization. Because we're not creating much in the way of new farmland, arable land per person is declining, which places a huge emphasis on maximizing production from existing farmland. The best way to crank up food production? Fertilizer. And that's where potash comes in.

Potash is the term used to describe a mix of compounds containing potassium, which is a key ingredient in fertilizer. If you're a farmer growing corn, soybeans, sugar or rice, then potash is like gold. Potash increases crop yields, and it helps plants develop strong root systems, retain water and build resistance to disease and insects.

Asia, North America and Latin America are the largest potash-consuming regions, while Canada, Russia and Belarus are home to the largest potash producers, accounting for just over two-thirds of world pro-

duction capacity and more than 80% of estimated reserves.

Becoming a potash producer is no easy trick. Economic deposits are scarce, development costs are sky-high and lead times run to seven years or more. Potash is, however, a high margin product with no commercial substitute. Potash prices are closely linked to supply and demand fundamentals.

Prices hit an all-time high of around C\$1,000 per tonne in 2008 on the back of strong grain prices and the rush to biofuels. But potash prices and sales tanked in 2009 amid the financial crisis, which also led to a sharp drop in food-crop prices. Farmers, however, didn't believe that potash prices fell nearly enough. So, last year, farmers told potash producers to get stuffed. They refused to buy "over-priced" fertilizer and cut-back on fertilizer usage. The strategy worked, as prices fell further in 2009.

For potash producers, however, those weak prices and lower demand will likely be seen as an annoying blip in an otherwise robust market. Potash prices have risen lately, as farmers started buying fertilizers again on the strength of higher prices for many fertilizer-intensive crops. In the first three weeks of January, Potash Corp sold more potash in North America than it did in the first eight months of 2009. Prices of potash, meanwhile, have edged up to US\$425-US\$450 per tonne, and may be recovering faster than expected, as potash inventories have fallen below their five-year average for the first time since 2008.

Many analysts see 2010 as a transition year for potash, with even stronger market conditions expected in 2011. Two major producers, Mosaic Co. and Potash Corp., esti-

mate that global potash production will climb more than 60% this year to 50 million tonnes.

The improving fundamentals of potash haven't been lost on the big players and wannabe big players. Merger and acquisition activity has been red hot lately. For example, BHP Billington recently agreed to buy Athabasca Potash, while Brazilian group Vale, the world's second largest mining company, agreed to buy the South American fertilizer assets of Bunge, a U.S. commodity supply-chain company, for US\$3.8 billion.

Takeovers like these are what could propel Encanto to much higher levels. Encanto has one of the best developing potash deposits in the market, but has yet to catch the market's eye. I believe that it's a great long-term play on potash, one that I've personally owned for some time, but now find is ready for recommendation.

Encanto's principal holdings are located in the potash capital of the world — Saskatchewan — where the company recently acquired the rights to four potash properties that cover more than 72,000 hectares. It previously reached agreement with seven First Nations peoples to assist them in developing potash resources that cover an aggregate area of over 76,000 hectares. These latter properties have the best near-term potential.

Late last year, Encanto completed a reconnaissance-drilling and seismic program at the Ochapowace and Muskowekwan properties. The first hole at Muskowekwan returned values of 39.9% potash (KCl) over 3.6 meters in the Patience Lake potash bed, and 40.4% KCl over 2.4 meters in the Belle Plaine potash bed. Drilling in the lower Esterhazy

Member returned values of 19.6% KCl over 5.3 meters. The company also tested old oil wells surrounding the Muskowekwan property to estimate in-situ potash grades and thicknesses, and encountered similar grades and thicknesses. Results at Ochapowace weren't as positive, but the project remains highly prospective.

The mineralization at Muskowekwan is consistent with other Saskatchewan potash mines. For example, Potash Corp. mines underground deposits with average grades in the order of 22% KCl, although those production horizons are deeper than those encountered at Muskowekwan. Nevertheless, Encanto's early results at Muskowekwan are in the money.

Grade is more important than tonnage because of the nature of these deposits in Saskatchewan. They're naturally big, so the tonnage tends to take care of itself. Encanto plans to run an extensive 3D-seismic survey, a proven prospecting method for potash, within the next few weeks. Those results will be used to map out a Phase II drilling program that should be completed this summer. All going well, we could see the first potash resource calculation this fall.

Ordinarily, the prospect of Encanto turning a property into a producing potash mine would be remote. But the company has exceptionally good DNA. It was established through efforts of Endeavour Financial and Frank Guistra, two powerhouses in the mining industry. Guistra has been especially astute at picking emerging opportunities in commodities. Indeed, potash is one of the few commodities where the price has yet to recover. It appears to be at an inflexion point...so this may be the perfect time to get into a pure-fertilizer play.

A resource estimate at Encanto's Muskowekwan property will put it on a very short list of potential potash properties that are available for development or acquisition. There are a couple of big producers left, namely Agrium Inc. and Potash Corp., but the takeout of Athabasca leaves just three Canadian-listed junior potash companies for investors to choose from: Potash One, Western Potash and Encanto.

Encanto is off to a good start. The next milestone will be the interpretation of the 3D seismic next month. So, there won't be a shortage of news flow, as the company works toward a resource estimate this fall. It's a buy near current levels.

Encanto Potash Corp.

Recent Share Price:.....C\$0.17
Shares Outstanding:.....166.6 million
Market Cap:C\$28.3 million
Shares Outstanding
Fully Diluted:198.4 million
Market Cap
Fully Diluted:C\$33.7 million

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