

Encanto Potash launches a first-ever mining mega-project

by David Forest

SASKATCHEWAN seems like a very unsurprising palace to mine. The province is rated as the world's second-best mining jurisdiction, having a long and steady production history. But junior developer Encanto Potash [EPO-TSXV] is proving there are a few surprises to be had for Saskatchewan projects.

Encanto's target commodity – potash – is an age-old story in the province. Saskatchewan is the world's most-endowed spot for the fertilizer, holding 46% of global reserves. Here's where the first twist in the Encanto story comes in. The majority of Saskatchewan's vast potash reserves are held by major companies like PotashCorp, Mosaic, and Agrium. In fact, Encanto is one of only two junior companies holding self-controlled, advanced projects here.

The company pulled off that feat using an unusual strategy: partnering with First Nations to identify large new potash reserves that had been “off the map” for major miners. Encanto struck up a joint venture with the Muskowekwan band, giving the company access to 64,000 acres belonging to that group. At the time, this was an out-of-the-box strategy. No major mine had ever been built on First Nations land across Canada.

But Encanto set out to change that. Drilling and seismic surveys soon showed substantial potash reserves underlying the Muskowekwan lands—nearly 162 million tonnes. To put that in perspective, the currently-identified reserves on Encanto's project are enough to feed a mining operation at a healthy rate of 2.8 million tonnes per year for a staggering 58 years.

A pre-feasibility study completed by the company on a conceptual mining operation here shows just how big the project is.

Independent auditors pegged the net present value of this long-life operation at \$2.84 billion, with an Internal Rate of Return of 18%.

That massive scale, however, presented a challenge for Encanto: high costs for constructing a mega-mine. As the company's Corporate Development Director Gary Deathe points out, “In our case, it's a bit less than \$3 billion capital costs for the planned 2.8 billion tonnes per year mine. You can see why that's a challenge for a pre-revenue junior, although we're looking at alternative methods of production to greatly reduce our project capital costs per tonne.”

Encanto's management had another unusual strategy in mind to deal with the project's big finance needs. In Deathe's words, the company set out to find a “massive offtake deal with a buyer who matters.”

The only problem with a major offtake deal, the kind that gives lenders the certainty needed to underwrite large project finance costs, was that it had never been pulled off by a junior developer in the potash space. These transactions are usually the realm of major mining companies with huge marketing departments.

Undaunted, Encanto began reaching out to potash users. Not just in the West, but also in the world's largest potash markets, including global number-two buyer India. Going far-afield paid off. In April 2016, Encanto finalized a memorandum of understanding with India's largest international trading company, MMTC. That company agreed to buy 2 million tonnes of potash production yearly from Encanto's operation, representing over 70% of the annual output contemplated under the pre-feasibility study.

The deal was a major achievement. “It's the largest offtake ever signed by a junior potash developer and the largest ever signed by India,” notes Deathe.

But India's interest in Encanto's potash didn't stop there. This past January, the company signed up yet another offtake deal with Indian buyers – in this case, the National Federation of Farmers' Procurement, Processing and Retailing Cooperatives of India. The group is one of the largest procurers of fertilizer for India's farmers. In fact, it asked for even more production than Encanto's previous deal with MMTC: a full 5 million tonnes yearly, in addition to the MMTC 2 million-tonne annual agreement.

Both of Encanto's India supply contracts carry a long life of 20 years. At that term, 5 million tonnes in annual offtake is worth greater than CDN \$1.5 billion per year in revenues.

That's the last piece Encanto needed to bring its unprecedented new potash project to life. “We now feel that we have the offtake agreements necessary to finance this massive mine,” says Deathe.

The next steps will be interesting – the last four potash juniors in Saskatchewan to reach advanced project stages have all been bought out by major mining companies, or sold a control stake to a foreign entity. Given all of the unique features Encanto holds, interest in this junior could be very strong from established firms and new entrants alike. ■

