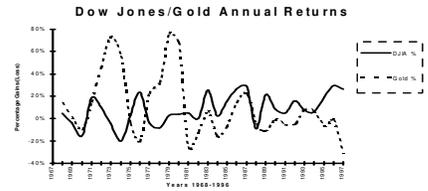




Gold

Energy & Tech Stocks



Weekly Hotline Message

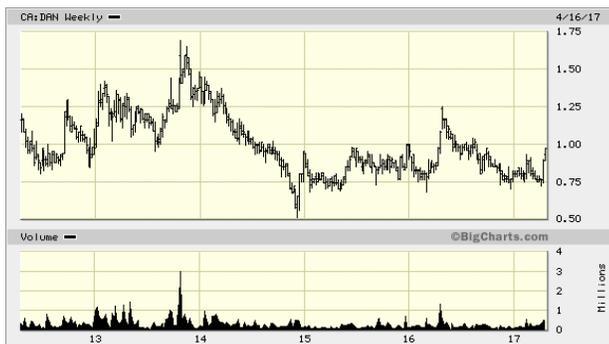
(Now in our 36th Year)

April 21, 2017

Update:

Arianne Phosphate Inc.

Last week I interviewed Brian Ostroff, the president and CEO of Arianne Phosphate, and you can listen to that interview here: <http://jaytaylormedia.com/media/AriannePhosphate20170421.mp3>.



\$1.9B

pre-tax NPV_{8%}

21%

pre-tax IRR

4.4

year capital payback period

- 590 Mt M&I reserves @ 7.1 % P₂O₅ (cut-off grade: 4.0 % P₂O₅)
- 472Mt P&P reserves @ 6.9% P₂O₅ (cut-off grade: 3.5 % P₂O₅)
- Premium market value for 3Mt/year of high-quality phosphate concentrate (38.6% P₂O₅)
- 26 years mine life with 1:1,14 strip ratio
- Total capital costs (CAPEX): - \$1.2B
- Cash operating cost (mine site): \$80/t
 ✓ Cash operating costs (FOB ship): \$94/t

The basic metrics from the company's 2013 bankable feasibility study is shown above right. It has a pretax 8% discounted NPV of \$1.9 billion, compared to the company's current market cap of less than C\$100 million. In other words, the market is pricing this company's shares at around 5% of an 8% discounted present value, not on the basis of a PEA but on the basis of bankable feasibility study. It should also be noted that since the 2013 bankable feasibility study has been completed, a number of operating cost reductions have been implemented into the company's plans that reduce the cost per tonne on board ship from \$94/tonne to \$79/tonne. Moreover, all necessary permits have been secured and a collaboration agreement with the First Nations signed.

At this point in time there is little left for management to do other than seek to monetize the project either by moving the project toward production on its own or attracting a competitive bid from any number of global fertilizer companies that have a need for this world-class asset. Some of the potential suitors for the Lac à Paul Phosphate Deposit are thought to be Agrium, Potash Corp., the Mosaic Company, or, any other number of large fertilizer companies given the economic advantages of vertical integration and their current need to purchase phosphate from other sources.

Short of a takeout from one of those major fertilizer companies or potentially from foreign buyers (India is the world's largest importer of phosphate), Arianne will need to push the project forward on its own. No doubt one reason Arianne's share price is not more reflective of the intrinsic value of its Lac à Paul Project is because its market cap of less than C\$100 million pales in comparison to the \$1.2 billion CAPEX that will be needed to get this gigantic project into production. However, following are some factors that should make it possible for Arianne to move forward on its own if there is not a major company buyer.

- **Lac à Paul is environmentally friendly.** In addition to the attractive economics, Lac Paul is one of a few phosphate mines in which the phosphate is hosted in igneous rock. About 90% of phosphate production

around the world comes from sedimentary rock, which brings with it a host environmentally damaging heavy metals, uranium, and cadmium. Serious issues of water contamination in several locations not only are threatened to be shut down, but bring with them huge environmental liabilities for those producers. In fact, all of the existing sources of phosphate in North American currently are from sedimentary sources.

- **Lac à Paul is located in politically stable, mining-friendly Quebec.** Seventy percent of global phosphate is produced in less stable regions of the world, like the Middle East and North Africa. The largest producer of phosphate is Morocco, which alone accounts for over 35% of the traded phosphate rock market, while Saudi Arabia is a rapidly growing player in the finished phosphate fertilizer market. Both countries have been politically stable until now. However, other traditional producers in this region have been less stable countries, like Syria, Tunisia, Egypt, and Algeria. China is a large producer of phosphate rock but considers it a strategic mineral and thus does not permit its export. Major importers of phosphate are the U.S. (3 million tons), Canada (1 million tons), India (8 million tons), Western Europe (8 million tons), Latin America (4 million tons), and Southeast Asia (5 million tons).

Both environmental and political considerations would seem to render the Lac à Paul a likely project for any of the above three North American fertilizer producers who are not totally integrated with respect to their phosphate production. But those factors also play into the likely ability of Arianne to move forward on its own should one of the big players not be willing to pay the \$1.9 billion the project is worth. As the company's CEO, Brian Ostroff, told me in my interview with him which you can listen to here <http://jaytaylormedia.com/media/AriannePhosphate20170421.mp3> it would be foolish to sit back and wait for one of the major fertilizer companies to take Arianne out. Better move forward on your own so that Arianne has more options open to it in order to optimize shareholder value. And indeed from the start of this year through the present, here are some of the moves the company has made that bolster my confidence that management means business in that regard:

- **January 25, 2017 – Shipping discussion underway with Rio Tinto.** Rio Tinto's ships enter the Saguenay River and its Quebec port facilities with raw materials like bauxite and alumina, and then return empty. Discussions center around using Rio Tinto's emptied ships to ship Arianne's phosphate concentrate via the river and out to the Atlantic Ocean. That would reduce the number of ships using the river and would create less port activity while providing Rio Tinto with a payload as it exits the river to the Atlantic Ocean and various ports.
- **February 16, 2017 – Arianne Phosphate Inc. signed a memorandum of understanding (MOU) with Constructions Proco Inc.** to provide structural and architectural engineering, steel fabrication, and construction of the mill process, utilities buildings, and on-site stock pile storage. Constructions Proco is a recognized leader in Canada for the construction of major industrial and mining facilities.
- **February 23, 2017 – An agreement with Hydro Quebec** in which Arianne has secured an additional 14-megawatt power deal with Hydro Quebec, which provides a power bloc of 129 megawatts. Approximately 42 megawatts of the 129 megawatts will be used for the electric dryer to dry the apatite concentrate. The innovative technology integrated into the dryer will prevent the equivalent of 86,000 metric tonnes per year of carbon dioxide emissions and will have a positive impact on the project's economics.
- **March 2, 2017 – Arianne signs a memorandum of understanding with ABB** (ASEA Brown Boveri), a Swedish-Swiss multinational corporation, to act as a key technical supplier to the Lac Paul Project. ABB is one of the largest engineering companies as well as one of the largest conglomerates in the world. ABB has operations in around 100 countries, with approximately 132,000 employees at the end of 2016. This Zurich-based Fortune 500 company is a global leader in power and automation technologies for the mining industry. Of equal importance, the agreement with ABB provides for ABB to assist Arianne with possible financing strategies and has already introduced the Lac à Paul Project to the Swiss Export Credit Agency. In fact, Brian stated in the press release that "the work involved in this contract represents a significant portion of our projected capital expenditures."
- **April 3, 2017 – Arianne announced that it has hired SNC-Lavalin JV as its project manager.** This highly regarded Montreal-based project engineering firm is well known not only in the mining industry but

also in the oil and gas industries as well as power and general infrastructure work. SNC-Lavalin seems like the perfect fit to work with to coordinate the cutting edge technical specialties of ABB and the construction work of Proco Inc.

- **April 11, 2017 – Arianne announced a memorandum of understanding with FLSmidth as key Lac à Paul supplier** of equipment and engineering for the future plant, in collaboration with various key suppliers involved in the project. This Denmark-based company had some Euro \$2.6 billion in revenues last year and is well known internationally in the mining industry for its construction and engineering services. As with the other engineering firms noted above, FLSmidth offers assistance in sourcing necessary financing to build the Lac a Paul Phosphate Mine.

In talking to Brian this past week, he noted that historically, once the market realizes that a single project company like Arianne has definitive project financing in place they generally sell at 1 times first year EBITDA. For Arianne that means a market cap of around C\$300 million, or more than triple the company's current market cap. However, that would be far less than the 8% discounted NPV, which would still be less than 16%. Brian Ostroff's hedge fund became involved as a major investor in Arianne five years ago before it was fully permitted, before the metallurgy was known, and before a solid picture of its economics were known. The project has been largely de-risked, yet it is selling at a small fraction of its NPV.

Now if phosphate were an asset not needed by humanity you might say "so what." But in fact phosphate is one of three major fertilizer components that are essential to crop yield and feeding the world's population, which is why China considers phosphate rock to be a strategic mineral. Moreover, with its igneous Lac à Paul Deposit, Arianne has one of the few world-class environmentally-friendly deposits and it is the world's largest green field phosphate deposits. The fertilizer industry had been in a depression over the past several years, but now with phosphate prices starting to rise and large fertilizer companies starting to believe the bottom is in, merger and acquisition activity has picked up over the past year or two. It all boils down to this: 2017 is shaping up to be Arianne's year. I can't promise you this stock will explode off the launch pad this week as Camino Minerals did last week. But I'm believing that these shares are destined for a significant move—by that I'm suggesting a double, triple, or more before the end of 2017. No guarantees in this business. But that's the way I see it and why I made sure I had a few of these shares in my portfolio.

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