

A Picture Is Worth 1,000 Words

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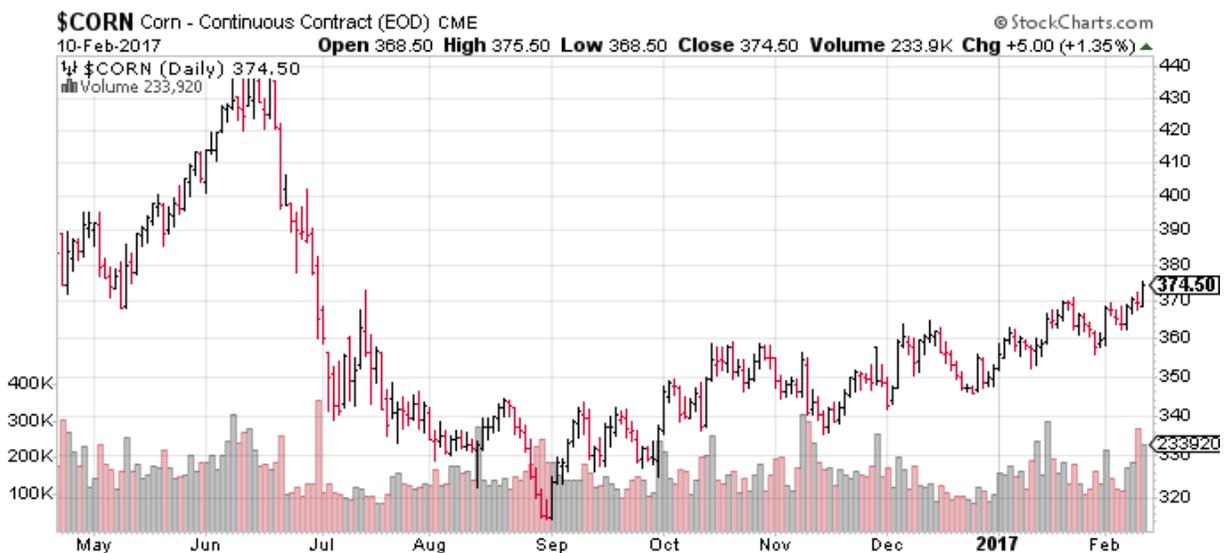
Fertilizer is not very sexy. Grains are not very sexy. This is particularly true when other sexy commodities like gold and copper have been on a tear higher, as have the underlying metals equities. But, while everyone is looking left, some investors may have started to look right. I have assembled a few charts below for you to look at over your morning coffee.

Over the last six to nine months, there have been quite a few transactions in the agriculture space. In fertilizers, we have seen the Chinese purchase Anglo American's fertilizer assets in South America, Yara picked up several assets globally including a large nitrogen asset in India, Agrium and Potash are looking to come together and, most recently, Mosaic's announced purchase of Vale's South American assets. Aside from this activity, we have seen very large deals in the seed space.

I have been saying for months, that the big guys (the corporate head-offices, the investment bankers, the large commercial banks and the mega private equity groups) have been really busy. They seem to be thinking that perhaps the next leg has begun? I believe you watch what people do, not what they say; well many billions of dollars later, I think we can see what they are doing. I have also wondered, aloud to some, how long will it be until all the activity filters down to investors and thus into Mr. Market? Perhaps it has begun?

GRAINS

Corn at levels not seen since last July



Wheat is emerging from a nice rounded bottom and threatening to take out last July's highs



Soybeans have been grinding higher since last September – like the other grains



EQUITIES

MOO is the Agriculture ETF; trading at 52 week high



Fert stocks all hit 52 week highs, backed off and now may be reigniting?





The last few years in the fertilizer space have been difficult. As difficult as they may have been for the majors, it has been near impossible for the juniors. Many projects have stagnated if not outright abandoned. At some point, the environment gets better and the investing crowd tries to position itself for the next up-cycle. They buy the majors (as the charts seem to be indicating), then they buy the juniors. The thing is, there aren't that many juniors left to buy. If you really want to do some homework, try breaking the juniors down into the three nutrients, potash, nitrogen and phosphate and see what you come up with. So, how many junior phosphate names are out there, and what have they done over the last few years to be ready for the next up-cycle?

Ariane Phosphate (TSX-V: DAN; OTC: DRRSF) has done a lot over the last few years. Most regions of the world today run a deficit in phosphate. North & South America, Western Europe and even parts of Asia all have to import phosphate and most of it comes from the Middle East and North Africa. Today,

Morocco is the world's largest exporter of phosphate followed by the likes of Saudi Arabia and Jordan. Tunisia and Syria also used to produce but civil unrest and military upheaval put an end to a lot of that production. So, while no one has cared, Arianne has drilled off the largest greenfield phosphate deposit capable of making one of the purest phosphate concentrates in the world. The project is in politically safe Quebec, Canada, it has gone through feasibility and they have received their permit. Up until now, Mr. Market hasn't noticed because he hasn't cared or even bothered looking.

My guess is that at some point, investors will realize that there is more to this commodity rally than just the hard commodities, there are the 'softs.' Gold is great but you can't eat it. Oil is great but you can't drink it. We have seen a bottom in the precious metals and they have been in an uptrend for a year. Base and industrial metals have really begun to move too. As a result of this, the TSX-V has had a big lift and, I think, caught a lot of investors flat-footed. So do you assume we are in early-days and chase what has lifted, or do you try a safer entry and look for the very few names that haven't yet – not necessarily because there is anything wrong with them, but because they are still under the radar. The answer probably is to do both. Historically speaking, commodity cycles usually last (on average) about three years. If this plays out, there is still a considerable move left.

This having been said, there is always a little comfort in buying a laggard. Although never a guarantee to be sure, at some point laggards get some attention and they play catch up – and they tend not to have the same downside. Many juniors in the 'sexy' commodities are up multi-fold. It has happened with many names in the last year, they wake up "just because" and, just like that, they are a whole lot higher.

We are not sure why, they just start to move. We get to our offices a week or month later and just like that, the name we have been watching is considerably higher. Is it recognition for what they have done in the past or is it anticipation for what may come in the future – does it even matter which?

I am the CEO of Arianne Phosphate so I am definitely biased. I do however watch the agricultural sector closely, particularly fertilizer. This note really started as a highlight to those who don't pay close attention to the agricultural sector (stocks and commodities). The sector seems to be doing better....and then some.

Will the laggards move and who will benefit? They say that they don't "ring the bell" at the bottom but, to me, these charts seem to be ringing the bell pretty loud.

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