

Company Research
North America

Update Report

Allana Resources Inc.

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Industry Overview

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Building Good Momentum; Stock poised for a strong build during 2009

RATING: SPECULATIVE BUY
12-MONTH TARGET: \$1.02

Stock Information		AAA.V	
Price Date	Last Price	52-Wk (H)	52-Wk (L)
July 13, 2009	\$0.15	\$0.27	\$0.08
	FY07A	FY08A	FY09E
Sales (\$M)	\$0.13	\$0.04	\$0
EBITDA / Sh (\$)	(\$0.03)	(\$0.04)	(\$0.00)
P/Sales	NMF	NMF	NMF
EPS (FD)	FY07A	FY08A	FY09E
Q1	(\$0.00)	(\$0.00)	(\$0.00)
Q2	(\$0.00)	(\$0.00)	(\$0.00)
Q3	(\$0.00)	(\$0.00)	(\$0.00)
Q4	(\$0.03)	(\$0.04)	(\$0.00)
Total	(\$0.03)	(\$0.03)	(\$0.00)
As at Jan 31, 2009			
Cash (\$M)	\$1.18 M	Sh O/S (M)	57.7 M
LT Debt (\$M)	\$0	M Cap.(\$M)	\$10.9 M
LT Debt/Total Cap.	0%	Div. / Share	\$0
BV per share (\$)	\$0.07	Div Yield	0%

HIGHLIGHTS

- Initial Reconnaissance Complete and 2009 Drilling program announced:** Allana Resources (AAA:TSX-VEN) recently concluded its initial reconnaissance program, which highlighted the potential that the Danakil Depression in Ethiopia holds. Upon conclusion of its reconnaissance program, Allana announced a further exploration program that includes 2,500 metres of diamond drilling, down hole seismic studies and 2-D seismic surface studies, all to be completed in 2009.
- Potential to become the lowest quartile cost producer of potash:** Allana's potash deposit at Dallol is near surface and amenable to solution or open pit mining. Both these methods require less capex. Possible use of solar evaporation and geothermal power, lower local wages and absence of known environmental and permitting issues can result in significantly lower operating cost.
- Funding secured:** Allana also secured C\$2.5-million funding through sale of Units (share and warrant) to help fund its 2009 drilling program. Its private placement announcement was very well received, which resulted in Allana increasing the size of its initial fund-raising to \$2.5 million from \$1.5 million.
- Strong Upside Potential:** Allana currently has NI 43-101 compliant resource estimates of 105.2 million tonnes with a composite grade of 20.8% KCl. The near surface nature of potash deposit makes its amenable to solution or open pit mining, both low capex methods. We therefore continue to rate Allana Resources a *SPECULATIVE BUY*, with a 12-month target price of \$1.02 per share (a 580% return).

All dollar amounts in Cdn\$, unless noted.



Company Snapshot:

Allana Resources Inc. (TSX-VEN: AAA) is a Canadian potash company focusing on the exploration and development of a previously explored Dallol potash property in the Danakil Depression, Ethiopia. The Danakil depression had small-scale potash production in the 1920's and was extensively explored in the 1960's with nearly 300 potash drill holes. The Company has a strong management with experience in potash industry and 43-101-compliant resources of over 100 million tonnes.



Executive Summary

In our Feb 26, 2009 initiation report, we mentioned that Allana Resources Inc. (TSX-VEN-AAA) is a Junior Canadian Exploration company currently focused on the exploration and development of a previously explored Dallol potash property in the evaporite basin of the Danakhil Depression, Ethiopia. Altogether, the company has NI 43-101-compliant resources of **105,200,000 tonnes with a composite grade of 20.8 % KCl**.

Significant progress made...

Since we published the initiation report, the company has made significant progress on many fronts including the raising of capital for the planned drilling program, strengthening its advisory board with high profile and experienced professionals, completing its initial reconnaissance exploration program on its Ethiopian Potash Project and planning a six-hole and 2,500-metre drilling program during the remainder of this year.

Promising property with strong potential...

Allana's potash property is located in one of the largest evaporite basins in the world. The location of the property enables several advantages including proximity to sea ports with spare capacity to ship potash and the availability of sufficient quantities of water.

Potential to become the low cost producer...

Allana's potash property has shallower depth that lends to solution and/or open pit mining, which results in lower capex and opex costs. Additionally, it is ideally located for and has the right climate to enable solar evaporation to evaporate water from brines in order to collect potash (potassium chloride) and salt (sodium chloride) crystals once the production starts. Solar evaporation is significantly cheaper compared with the conventional methods that burn either coal or gas to achieve similar results.

Allana stacks up well against other juniors...

We believe that Allana is advantageously positioned compared with other junior potash players located in the better known Saskatchewan potash belt owing to the factors mentioned above and also because of the faster permitting and licensing process for mining in Ethiopia.

Potential for strategic partnerships...

We believe that the management is actively pursuing strategic partnership options to develop the potash property and has received strong interest from some large mining groups. The company can enter into a partnership under an operational joint venture with a larger miner or can tie up with financial backers to secure financing for the project. A company like Allana, which has assembled a large exploration asset base for potash with high known resource base, should be attractive to large miners. We believe that the company should attract more potential parties for such possibilities.

Don't discount the risks...

We believe that the company has strong potential but also recognize that there are several risks that need to be managed. The biggest concern is geo-political since the project is in Ethiopia, a relatively poor and underdeveloped country, with a history of external strife with its neighbour Eritrea, once a part of Ethiopia before it separated. Infrastructure, although good by developing country standards, still lags the standards expected in more advanced places such as Saskatchewan potash belt. The company also faces the challenge of raising more capital as the project progresses and must always find and retain good talent to accomplish the stated objectives.

Conclusion...

Based on our research and discussion with the management, we are comfortable with our analysis that the company is focused on confirming and expanding its current resource estimate using the planned drilling program this year and is looking to move quickly towards a production feasibility stage. We also believe that the company is in discussion with various strategic partners to secure a strategic relationship that can assist Allana in bringing its potash asset to production.

We will monitor Allana's progress closely during the remainder of the year to confirm the signs of progress related to its drilling plan and discussion with various strategic partners.

At this stage, we continue to stand behind our valuation of the company, as stated in our initiation report (available at www.ubikaresearch.com), and reiterate our 12-month target of \$1.02 for its share price.

Dallol Potash – property with strong upside potential

Allana is currently focused on the exploration and development of a previously explored Dallol potash property in the evaporite basin of Danakhil Depression, Ethiopia. *The Danakhil Depression is one of the largest evaporite basins in the world, with known potash resources, and is reported to be attracting a lot of interest from major mining companies, including BHP Billiton.*

The Danakhil Depression did have small-scale potash production in the 1920s and was extensively explored in the 1960s, with nearly 300 drill holes completed by the Ralph M. Parsons Company. Altogether, the company has NI 43-101-compliant resources of **105,200,000 tonnes, with a composite grade of 20.8 % KCl.**

One of the largest evaporite basins....

Allana's Dallol potash property is in the evaporite basin of Danakhil Depression, which holds significant potential as seen from the historical data and the current interest in the region. The evaporite basin was once connected to the Red Sea. To give some perspective, the Danakhil Evaporate Basin has similar geology to and is twice the size of the world class Urals Basin in Russia. The area was extensively explored in the past and is attracting extensive interest lately from some major mining companies, including BHP Billiton. Ethiopia was a major producer of potash from the 14th Century until the 20th century. Allana controls a 150 sq. km, land-package staked in the Danakhil Depression, with historic drill holes that intersected at least 45 metres of potash mineralization.

The potash deposit found in the Dallol Depression in Musely and Crescent localities near the Ethiopian-Eritrean border is estimated at 160 million metric tons. But the proven reserve is 130 million metric tons.

Investment Potential: How does Allana stack up?

Allana is a junior Canadian exploration company focused on potash exploration in Ethiopia. Most junior potash players from Canada are targeting the most well-known potash belt in the Saskatchewan province of Canada. Allana has taken a different route by focusing on relatively less known but potentially one of the largest evaporite basins in the world. Although exploration projects in relatively underdeveloped countries like Ethiopia usually entail higher social-political risks, Allana's property has important advantages over many potash assets in the world, especially the potash resources in Saskatchewan.

Advantageous location and geography...

Allana's property is very shallow, with depths of 50-200 metres for the known resources compared with 1,000 to 1,500 metres for Saskatchewan solution mines. Even at the deepest levels, potash beds at Allana's Dallol potash property are available at a depth of approximately 650 metres. Potash beds that exist at such lesser depths are more accessible and face lower chances of encountering pressurized water-bearing rocks (aquifers) during mining. Deeper mines are particularly sensitive and problems of flooding typically exist in these difficult-to-penetrate water-bearing zones.

Potential to become the lowest quartile potash producer...

Allana's properties are potentially amenable to both open pit and solution mining, which results in quicker time to production. The capital expenditure requirement for solution mining is significantly less than that required for conventional mining. Surface reconnaissance suggests these contain a unique near-surface potash deposit that may allow Allana to potentially become a lowest quartile cost potash producer because of shallow depth and geothermal potential for meeting the energy requirement, and use of solar evaporation for evaporating brines. Energy is a major input required by potash plants and energy costs can run as high as 40% of total operational cost. Minimizing energy cost is critical for junior potash players and Allana has an advantage in this regard. Hot and arid conditions allow for the use of solar and geothermal energy, as well as solar evaporation, if solution mining is used, which can reduce the operating expenses.

The local cost conditions may also allow for lower capex if solution mining is used. The possibility of using local personnel and drilling units that are cheaper can give Allana a big advantage over sites in Saskatchewan, Canada, or Russia.

These benefits have attracted potential partners for joint venture and other strategic partnerships. Allana is currently in discussions with multiple organizations in mining and fertilizer sectors that are interested in Allana's Ethiopian assets.

Use of Solar Evaporation can significantly reduce cost...

In addition to the benefits afforded by solution mining, Allana's property may also be amenable to the use of solar evaporation ponds that will significantly reduce both capital cost of a processing plant and operating costs as it will diminish the need for natural gas or coal to evaporate brines. Allana's potash property is ideally suited for solar evaporation of brines owing to hot, arid conditions.

Energy cost typically consists of between 30% and 40% of total production cost. If solar evaporation is not used, coal or gas is burnt to achieve the desired evaporation. It takes between 1.25 to 1.5 tonnes of coal to produce 1 tonne of potash. A mine that produces 1,000 tonnes of potash a day can consume more than 500,000 tonnes of coal every year at an annual cost of over US\$30 million at the prevailing price for thermal coal.¹

Solar Evaporation Process Explained: Solar evaporation is probably the most ancient of production methods, being used for thousands of years. Its use is only practical in hot and arid climates, where the evaporation rate exceeds the precipitation rate, either annually or for extended periods, and ideally where there are steady prevailing winds.

Essentially the process consists of pumping water from the nearby available sources through injection wells into the potash mine. The water dissolves the potash from layers buried below the surface. The mineral-laden water (brine) is then brought to the surface. As the brine becomes saturated with potash, it is transferred through a series of smaller evaporation ponds into harvest ponds. When the ripened brine finally reaches the harvest ponds, the ore (a combination of salt and potash) is extracted from the solution on the pond floor. As the specific

¹ Source: Ubika Research, company reports.

gravity of the evaporating brine increases, it is possible, by moving it from basin to basin, to effect fractional crystallization and thus remove most of the impurities. When they have been practically all removed, the brine is allowed to evaporate completely.

Infrastructure in place and proximity to the port with spare capacity...

Allana's potash property is surrounded by relatively good infrastructure. The property is about 600 km from the largest trading port, Djibouti. Another port that can be accessed over time is Mersa Fatma Port, which is only 92 km away. This port is currently not accessible as there is no proper road or rail line going to the port. The port at Djibouti has spare capacity to ship potash and can be accessed using the current road network. This is a big advantage since shipping potash to the fastest and largest markets of China and India is greatly facilitated as a result.

Junior potash players in the Saskatchewan area would likely face the challenge of managing through the lack of port capacity. Three existing large and established potash producers have monopolized the marketing & distribution of potash in Saskatchewan. Specifically, Canpotex, the world's largest exporter of potash and an international marketing and sales agent, is wholly owned by Potash Corp., Agrium and Mosaic. Due to the very limited demand for potash in local Canadian markets, it will be necessary for junior potash firms to have access to offshore markets like India and China where demand for potash is significant and that will require them to access spare port facility, which is extremely hard to get. Junior explorers in the Saskatchewan area have yet to build relationships to access marketing and distribution and doing so could take a long time and may involve considerable cost.

No known environmental issues...

Environmental concerns are important when planning for potash projects. These issues include water contamination, air emissions and waste generation, and the cost of controlling/mitigating these pollutants continues to rise. The costs related to managing environmental issues are increasing as awareness about the harmful effects of potash mining heightens.

Environmental standards are very high in developed countries like Canada. Environmental laws require that exploration firms must ensure they have the resources and processes in place with which to comply with provincial environmental regulations. An environmental assessment is typically required during the development of a potash mine and can take long time to complete.

At this moment, Allana does not face any known environmental issue at its potash property. The property is located in a completely barren desert and salt plain. There is no local flora or fauna or any other vegetation that can negatively get impacted owing to emissions from a potash plant.

Faster permitting and licensing process for mining...

The country has a relatively stable democratic government that is friendly to foreign investment and is keen to attract exploration companies. The licensing and permit process in Ethiopia is relatively easier and faster. Sainik Coal Mining Pvt. Ltd., an

Indian company that has potash property adjacent to Allana's property, received a licence that enables it to mine the potash deposit on a large-scale. This is despite the fact that Sainik has not even started its exploration program. Based on our discussion with the management, we believe that Allana will have no difficulty in obtaining necessary licence and permits to mine potash when it is ready for production.

Easy availability of water...

Water is a key requirement for potash plants as large amounts of water are required during the refining process. Typically, the water required is sourced from nearby surface and ground water supplies. Because of the large quantities of water required, it is important for junior firms to situate their operations close to freshwater supplies and to be able to dispose off water. Allana's potash property has access to abundant fresh water. There are over 10 water wells on the property that were drilled during the exploration program carried out by Parsons from late 1950s to 1960s. These existing water wells were tested and can pump up to 700 gallons of water per minute. The company also claims that there are additional fresh water sources at Regali River and Lake Afdera. Based on the technical report, the company has not yet completed a thorough analysis of neighbouring freshwater supplies and further investigation would be required to substantiate these assumptions.

Cheaper access to resources and personnel...

The number of personnel employed in the Saskatchewan potash industry is growing fast, which is putting a tremendous strain on the availability of required technical resources. There are seven to 10 junior explorers expecting to establish operations in Western Canada with an annual production of 2 million tonnes/year per project. This requires an additional 3,000 to 4,000 incremental new employees in Saskatchewan over the next four to five years. The labour market is already tight in Western Canada owing to the prolonged commodity cycle and still attractive oil sands projects. Even the larger potash players like Potash Corp experience high labour turnover. Juniors in the Saskatchewan potash industry will face this additional hurdle of finding qualified employees, which will only come at a higher expense.

In comparison, Allana has access to the cheaper local resources within Ethiopia and can also access technical resources from nearby regions such as the Middle East. Although the local technical resource pool is not as deep, Ethiopia has relatively high literacy compared with its neighbouring countries and the local resources are very economical and can be trained initially by expatriate staff.

Potential for strategic partnerships...

Management is actively pursuing strategic partnership options to develop the potash property and has received strong interest from some large mining groups. There are various options for the company to explore including an operational joint venture with a larger mining group or a strategic partnership with financial backers, which provides the necessary funding for the potash project with Allana leading the operation. The demand for potash in large developing countries such as China and

India is huge. Large mining companies from these countries are scouring the planet for mining assets worldwide and are looking for potential junior exploration companies for accessing mining deposits. A company like Allana, which has assembled a large exploration asset base for potash, should be attractive to such large miners. We believe that the company is actively pursuing these partnership options and should attract more potential parties for such possibilities.

Initial Reconnaissance complete

Since we initiated our coverage on Allana Resources Inc. (TSX-V: AAA) on Feb. 26, 2009, the company has continued to make good progress in its exploration program. Allana recently completed its initial reconnaissance exploration program on its Ethiopian Potash Project (which was focused on structural mapping of the salt domes in the west side and in the centre of the basin) and on the sampling of geothermal hot springs to determine the chemistry of the brines.

According to Allana, the data suggest that Dallol salt domes likely have an intrusive source at depth that may be generating the hydrothermal system and causing doming of the overlying salt layers. It believes that possible potash layers may have been dragged closer to the surface with the dome – an interpretation that requires drilling to confirm.

On the west side, the mappings have shown that the stratigraphy on the flank is more complex. ERCOSPLAN, which conducted the reconnaissance studies along with Allana, suggested conducting additional geophysical studies to determine the effect of the faults on potash mineralization.

The brine samples from the geothermal hot springs indicate it is rich in NaCl, with subordinate KCl and MgCl₂. The lack of MgSO₄ is encouraging in that it suggests that the presence of KCl and MgCl₂ content of the brines is not due to partial dissolution of the potash horizon.

Clearly, more exploration is required to further define the presence of potash in the Dallol basin. Encouraged by these results, Allana has announced plans to conduct approximately 2,500 metres of diamond drilling, down hole seismic studies and 2-D seismic surface studies, to be completed in 2009.

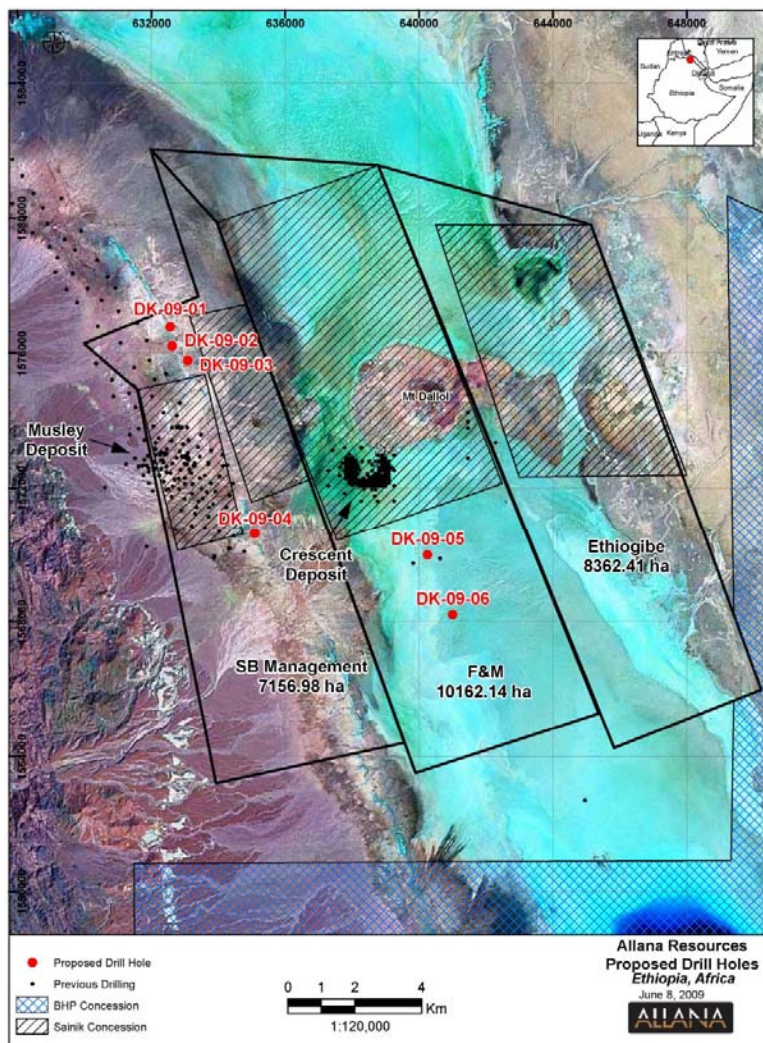
These are positive steps that the company plans to undertake in light of optimistic results.

Funding Program Successfully Complete

The above mentioned drilling plan will be well funded by the recent equity-raise, which company had no problem in completing. In fact, it extended its initial plan of raising C\$1.5 million to C\$2.5 million because of additional demand of its private placement program. Under this program, Allana sold approx 18.5 million Units at \$0.135 per Unit, where each Unit consists of one common share and a share warrant that entitles the holder to one common share at \$0.20 per share after two years.

2009 Drilling Plan

The company is looking at an active drilling season during the remainder of the year. The proposed drilling plan during the summer months consists of six holes that are spread out on both the north and the south sides of the property. In total, the company is planning to drill approximately 2,500 metres.



As shown on the drill map, the company will drill four holes on the north side and two holes on the south side of the property.

Drilling during summer months is difficult because of extremely hot temperatures and also the lack of necessary infrastructure on site that can enable drilling during the hot summer months. July and August are the hottest months and most difficult for drilling. Allana is preparing to build an all-weather camp which will allow work to be completed year round. The rainy season does not impact the region much as most of the rain is concentrated in the highland and not in the basin.

The company is in discussion with the Ethiopian Geological Survey to hire two drills for the proposed drill program. If the company is able to successfully engage with

this group, the drilling program can be initiated as early as mid-July. Otherwise, the company will look to establish a working camp on the site and will plan for a fall drilling program.

Our discussions with the management found that the major objectives of the drilling program will be to increase the confidence of the inferred resource, i.e. move it to indicated or measured category and also to expand the resource estimate in the centre part of the basin.

The company plans to evaluate the drilling results and based on the interpretation of the results and of a seismic survey, and the availability of the financing, it plans to continue drilling additional holes during 2009 and beyond. Its goal is to move to the feasibility stage as quickly as possible.

Positive news gains momentum – Strong Technical Advisory Board in place

High demand and successful conclusion of the expanded funding program clearly speaks well about the anticipation surrounding Allana's prospect.

Allana recently announced employing the services of an Investment Relations (IR) firm that would help the company continue to provide quality communication to its expanding base of followers among the Institutional and retail investor community.

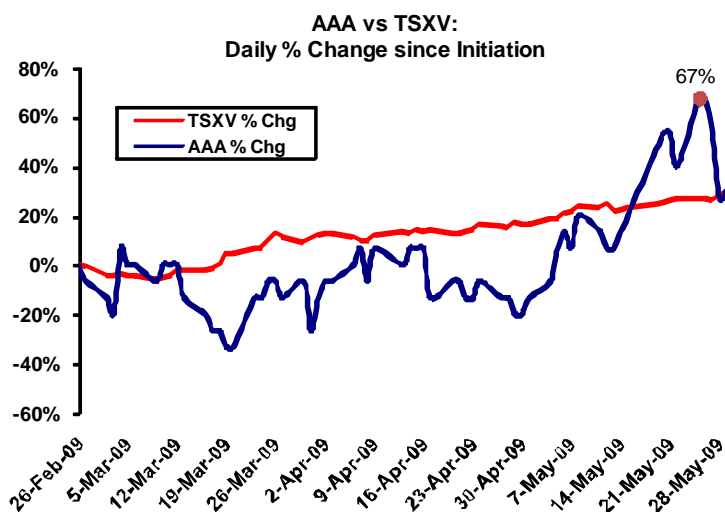
The company fully understands the importance of having strong technical expertise at its disposal. It has made a concerted and successful effort to attract some very well known professionals to its technical advisors board.

The company announced on May 4, 2009, that Richard J. Lacroix, P. Eng., has been appointed to the company's Advisory Board. Mr. Lacroix, now retired, is the former Sr. Vice-President, Technical Services, for Potash Corporation of Saskatchewan and spent almost 30 years with Potash Corp. Mr. Lacroix, who joined Potash Corp. in 1977 as Project Manager of the company's Rocanville expansion, has had a long and prominent career in the potash business with Potash Corp. Mr. Lacroix also served as a board member for Canpotex and as Chairman for Canpotex Bulk Terminals Ltd. He brings critical experience in the areas of potash sales, marketing and logistics as well as potash project development.

Mark D. Stauffer, PhD and P.Ag., also joined Allana's Advisory Board. Dr. Stauffer, who is the former President of the Potash and Phosphate Institute of Canada ("PPIC"), and former Senior Vice President of International Programs, at the Potash and Phosphate Institute ("PPI", now the International Plant Nutrition Institute), brings on board significant experience in agriculture development and the fertilizer business. He has worked in both the public and private sectors in research, education and chemical production and sales. Dr. Stauffer currently serves on the board of Migao Corporation, a China-based specialty potash producer listed on the Toronto Stock Exchange.

The company also added Stephen P. Halabura, BSc, MSc, P. Geo, F.E.C. (Hon) to the company's Technical Advisory Board. Mr. Halabura has over 20 years of potash experience and is currently the President and CEO of North Rim Exploration Ltd. (North Rim).

Mr. Halabura has been the President, CEO and founder of North Rim since its inception in 1984. He is also a member of Potash One Inc.'s Solution Mining Leadership Team. A leading expert on solution mining, Mr. Halabura has authored a number of papers concerning the resource geology of Saskatchewan and is the lead author of the well-known paper entitled "An Overview of the Geology of Solution Mining of Potash in Saskatchewan." The company believes that Mr. Halabura's association further strengthens Allana's technical capabilities as it initiates the exploration program. Mr. Halabura is one of the top potash experts in both Saskatchewan and the world. He is quite familiar with Allana's potash asset in Ethiopia, and his solution mining expertise will be essential to the successful development of Allana's project."



Since our initiation of research coverage on Allana on Feb. 26, 2009, the stock gained significantly from \$0.15 to a high of \$0.27 (a gain of 80%). It has since fallen lately as stock markets overall have corrected significantly recently, and closed at \$0.15 on July 13th.

Conclusion

We continue to be very positive about Allana's prospects. The Danakhil Depression, holds a lot of potential, as has been seen from its past. Early indicators from the reconnaissance studies have provided the expected information and the findings certainly warrant further exploration to confirm the potential. With the funding now available for its 2009 drilling program, we expect the drilling to commence shortly and gain momentum during 2009. *During the course of the next 12 months, we expect conservatively that the exploration program would be able to at least double the resource estimates.* We reiterate our Speculative Buy recommendation and our \$1.02 target on Allana stock (a 580% return from the stock price level at initiation).

Risk Factors to Our Valuation

Allana Resources Inc. is exposed to most of the normal risks faced by early-stage exploration companies in general. Some of these risks could be mitigated by management experience and through access to financial sources.

Future Production: As with other mining ventures, there is always the possibility of future drilling results not matching the anticipated estimates.

Unknown Environmental Risk: Unanticipated environmental hazards may exist on the properties in which Allana holds interests.

Commodity Price Risk: Volatility in potash prices will impact the value of the metal in the ground and therefore the fair value of the company.

Capital Raising: Despite the successful recent capital raise, Allana will need additional capital for its expenditure program planned for 2009 and beyond. A tight capital market can make it very challenging to find new sources of financing.

Geopolitical and Regulatory Risk: Allana's main property is in Ethiopia, Africa. Although generally stable and calm at the moment, the region has been known to face social and geopolitical risks.

Personnel Risk: Finding experienced and well trained personnel in Ethiopia to work on the drilling programs could be specially challenging and time-consuming.

Appendix: Ethiopia– Country Assessment and Risks

Overview

Ethiopia, formally known as the Federal Democratic Republic of Ethiopia, is the oldest independent country in Africa. It is one of the largest African countries with a population of approximately 83 million. The country has a relatively stable democratic government that is friendly to foreign investment and is keen to attract exploration companies.

The country experienced strong double-digit growth from 2002 to 2007. The economy contracted in 2008, affected by severe drought that undermined farm production and the supply and delivery of energy. The macro-economic environment in Ethiopia is relatively stable. Government commitment to the private sector, stable exchange rates, relatively safe and secure working and living environments have also contributed to the favourable investment climate. As well, all major economic sectors have been liberalized and remittance from invested capital is permitted out of the country.

Government guarantees, as stated in Ethiopia's Investment Code (1991), are provided to foreign investors, and add an extra level of security in addition to providing constitutional protection from expropriation. Ethiopia is a member of the Multilateral Investment Guarantee Agency (MIGA) and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

The country provides one-stop professional services for foreign investment through the Ethiopian Investment Agency (EIA).

Infrastructure conditions, by developing countries standards, are good in Ethiopia, with three international and 18 domestic airports providing flight services to over 45 cities on four continents and domestic flights to 26 destinations. The country has an expanding road network and international highways linking Ethiopia with bordering countries. Travellers may also connect to regional cities via a 500-mile rail service, which links Addis Ababa to the port of Djibouti.

Tax incentives are also provided to foreign investors. All imported investment capital goods (plant machinery, construction materials, etc.) are 100% exempted from customs duty charges, including spare parts worth up to 15% of the imported investment capital goods.

Risks

Despite these advantages and a relatively stable and business friendly government, the country still faces many unique challenges and risks. Ethiopia has a history of facing severe drought conditions. Although relatively progressive, the country is still extremely poor and lacks many important characteristics to form a strong economic base.

The country has a long standing dispute with its neighbouring country, Eritrea. (The two were originally one nation.) The country has also been contending with the insurrection of a jumble of armed groups, linked by ethnic and religious affinities, particularly in Ogaden, in the eastern part of the country. The still unsettled border-demarcation issue with Eritrea could lead to renewed hostilities and add to the socio-political risks in the region.

These risks must be weighed by a prospective foreign investors and any company planning to engage in the exploration activities in the country so that it can plan properly to counter any contingencies.

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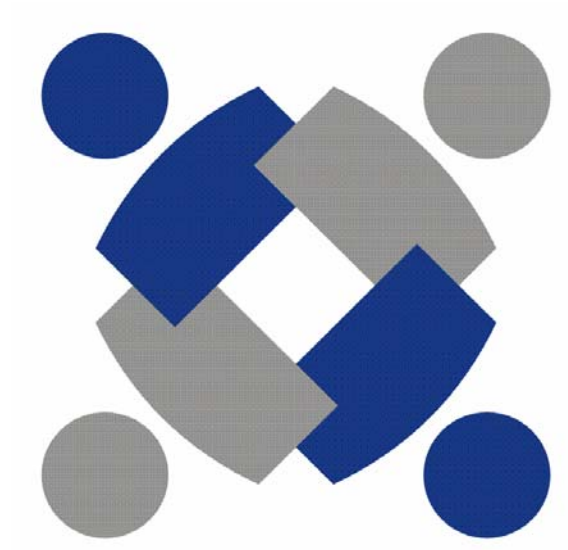
Note: Ubika Research has NOT visited various mining sites to do any independent physical assessment

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