

16th November 2010

QUICK NOTE # 136

RECOMMENDATION:

Speculative Buy

ASX	STB
Share price	\$1.13
Mkt cap. ¹	\$78.6m
Ordinary shares on issue ¹	69.55m
Options ²	32.95m

¹ Undiluted Source: IRESS
² Various dates & Strike prices

South Boulder Mines (STB)

Eritrea Colluli Potash deposit looks attractive

STB's ASX Release on 9th November 2010 confirmed its Colluli project as the world's shallowest potash deposit. Assay results from 3 diamond drill holes confirmed medium grade potassium chloride (KCL) intersections at widths as wide as 19.7m and high grade intersections around 3.5m thick. It's still early days for STB as work on the Colluli Project's pre-scoping study has only just begun, but there is little doubt that this potash deposit is world class and will eventually be mined.

Notwithstanding STB's gold and nickel assets we value STB's potash assets at \$1.44/sh, based on EV/Resource multiples for comparable potash companies. We maintain our Speculative Buy recommendation on STB.

Key Points:

- Potash mineralisation at depths as shallow as 60m means that the Colluli deposit can be mined as an open pit. Mining by O/P does not require the large capex of solution mining and can have a relatively low operating cost.
- The potential size and grade of the Colluli potash deposit looks very promising. Assay results have confirmed potash mineralisation over a 4.5km² area.
- The project is close to Eritrea's coast which is an important consideration for a bulk commodity that will be exported to foreign markets.
- Drilling is continuing in order to define the resource, which will be used as the basis for the scoping study (expected 2H2011). A JORC compliant resource is expected to be completed in early December.

Although we initially liked STB for its gold and nickel assets; now its Colluli potash deposit is getting our attention. We value STB's Potash deposit at \$1.44/sh (\$147.5m). Given STB is currently trading at \$1.13/sh, and STB's significant nickel and gold assets have not been included in our appraisal, we believe STB is undervalued.

12 MONTH PERFORMANCE



Source: IRESS

Troy Flannery

Senior Resource Analyst
+61 (8) 9263 5276
tflannery@djcarichael.com.au

Where is Eritrea, is it safe and who else mines there?

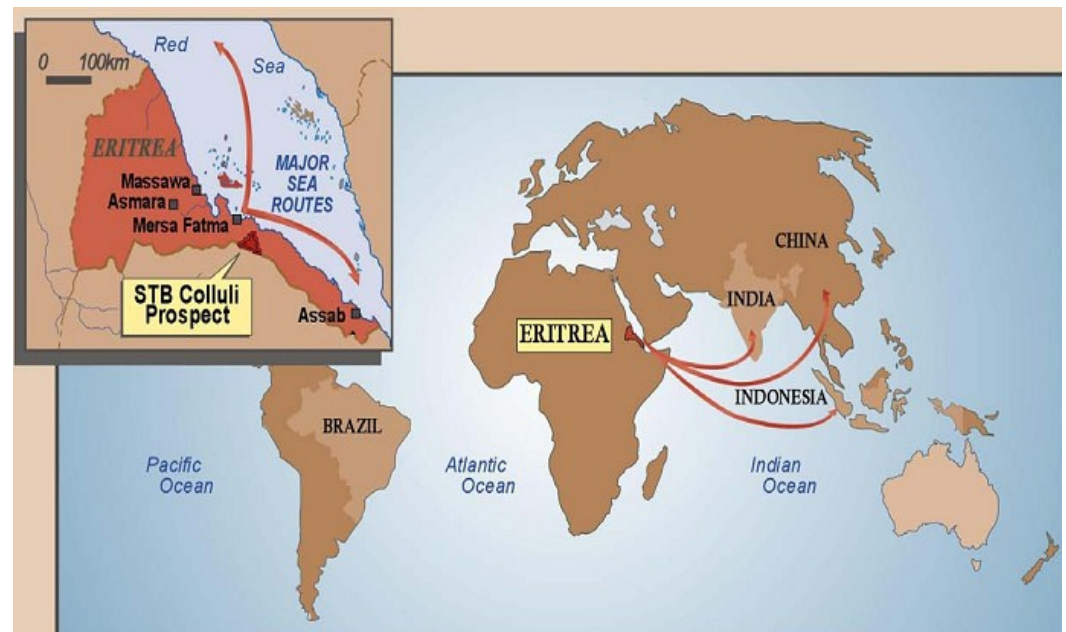


Figure 1 Map showing Eritrea and the Colluli Prospect

Source: STB

Eritrea is located in Eastern Africa. It borders the Red Sea and is between Djibouti and Sudan. The Colluli project is located approximately 70kms south of the shallow water port of Mersa Fatma and less than 200kms south east of the deep water port of Massawa.

Eritrea has a liberal economic policy with competitive tax regimes, full guarantees and protection of investments. The country has a stable government that supports foreign investment in mining and its administration is free from corruption. The Eritrean mining law is up to date, attractive and competitive, as it provides considerable benefits and incentives to investors.

But, investing in Eritrea is not without sovereign risk as there is an ongoing dispute over part of its border with Ethiopia. Ethiopia has not accepted the Eritrea-Ethiopia Boundary Commission's demarcation decision (it was accepted by Eritrea) implemented on 30 November 2007. Hence a temporary security zone still exists today. However, we note this is a few hundred kilometres to the west of the Colluli Prospect.

There are 16 international mining and exploration companies from operating in the country. Companies that have reached the development stage within Eritrea include: Bisha Mining, Sunridge Gold, Chalice Gold (CHN) (who has an agreement with Newmont in Eritrea), and NGEx/Sanu Resources. Other than STB some of the exploration companies in Eritrea include: Andiamo Exploration, Beijing Donia Resources, Eritrea-China Exploration, Eritrea Libya Mining, London Africa Ltd, and Sahar Minerals.

STB has secured highly prospective ground in the buried evaporate sequences of the Danakil Depression (a remnant of the Red Sea). The potash-bearing evaporate sequences formed when the Red Sea flooded the depression and the sea later evaporated when the basin was cut off due to volcanic activity.

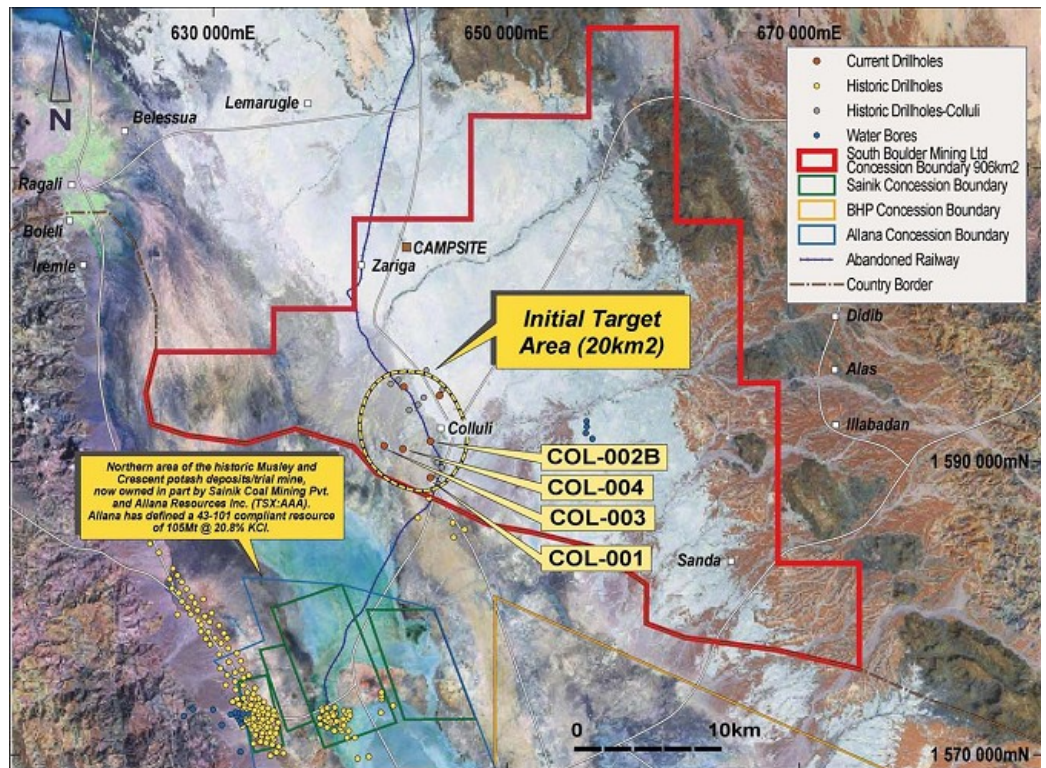


Figure 2 Colluli Potash Project showing current drill holes

Source: STB

Best results from three diamond holes drilled by STB recently include:

- 4.43m @ 27% KCl from 63.3m & 19.7m @ 16% KCl from 83.8m;
- 4.89m @ 20% KCl from 62.7m;
- 3.44m @ 44% KCl from 28.7m.

Note: Potassium Chloride (KCl) typically converts to Potash (K_2O) at 60%; hence a KCl grade of 27% will equal 16.2% Potash. Potash grades above 20% are seen as high grades, while grades around 10% K_2O are more typical.

Drilling by STB indicates that it has two shallow potash seam beds overlying one another. Seam bed 1 is thinner but with a higher grade than the approximately 20m lower potash seam 2. STB's higher grade seam is around 14.5% K_2O , which would equate to an equivalent gold grade of 1.2g/t (based on 1300 USD/Oz & Potash at 350 USD/T). Although this isn't a high gold grade equivalent, STB is targeting a huge resource (initially 500 MT) and is proposing to mine at rate of 1.5Mtpa.

The Colluli project is unique because it contains good quality mineralisation at an order of magnitude shallower than most known deposits of this type. Mineralisation at depths of only 60m is 1000m above the average depth for many of the other Potash producing/exploration companies.

Potash mineralisation at depths as shallow as 60m means that the Colluli deposit can be mined as an open pit; which does not require the large capex of solution mining and can have a relatively low operating cost (especially compared to underground mining).

Another advantage STB has by being in Eritrea is the high evaporation rates given the arid climate and hot temperatures. This assists in separating the salt crystals from the potash crystals following the crushing and grinding process.



Figure 3 – Drill core from COL-001 showing potash zone at -65m

Source: STB

Information on Potash

Potash is a term used to describe potassium minerals. Potassium along with phosphorous and nitrogen is one of the three essential nutrients required by all plants and animals to grow and which have no substitutes. Potash production in 2008 was estimated to be 36 million tonnes of which 23 million tonnes was produced by Canada (11 million tonnes), Russia (6.9 million tonnes) and Belarus (5.1 million tonnes).

95% of all Potash produced is used as fertiliser and with the increasing global population which is expected to reach 9.0 billion by 2050, demand for potash is expected to grow at a rate of 2-3% per year requiring the development of at least one mine each year with a capacity of over 600,000 tonnes.

The majority of the worlds Potash reserves, at 8.3 billion tonnes, are made up of Sylvinite and Carnallite ores. Sylvinite which contains Sylvite (KCl), Salt (NaCl) and other insoluble's generally contains between 20-25% K_2O , K_2O is the commonly used standard to express the purity of potassium minerals with pure KCl having a K_2O content of 61.3%. Carnallite which contains Carnallite ($KMgCl_3$), Water (H_2O), Salt (NaCl) and other insolubles generally contains between 12-16% K_2O due to the presence of magnesium.

The majority of Potash resources are situated in the northern hemisphere with Canada, Russia, Belarus, China, Germany, Israel and Jordon containing 80% of the world's total resource. Apart from the resources contained within salt lakes such as the Dead Sea (Israel and Jordon) and the Great Salt Lake (Utah USA) the majority of the worlds Potash deposits are situated at depths of greater than 1,500 metres making these projects expensive to develop.

Company	Code	Share price (AUD)	Enterprise Value (\$m)	Resource / Target (MT)	EV / Resource (Target) (\$)
Potash Corp	POT (TSX)	140.86	31,548.1	1132	27.87
Potash One	KCL (TSX)	3.38	272.6	1104	0.25
Western Potash	WPX (TSX)	0.81	81.8	734	0.11
IC Potash	ICP (TSX)	0.69	37.4	399	0.09
Amazon Mining	AMZ (TSX)	3.45	94.0	105	0.90
Elemental Min	ELM	0.99	117.1	235	0.50
Reward Min	RWD	0.46	27.6	45	0.61
EV / Resource Average (excludes POT)					0.41

Figure 4 – Peer Comparables for listed Potash Companies

Source: DJC

Potash Corp’s EV/Resource value has not been used to calculate STB’s potential share price as POT is in production with established off take agreements and existing infrastructure, while the rest of the companies are explorers.

Potash Companies

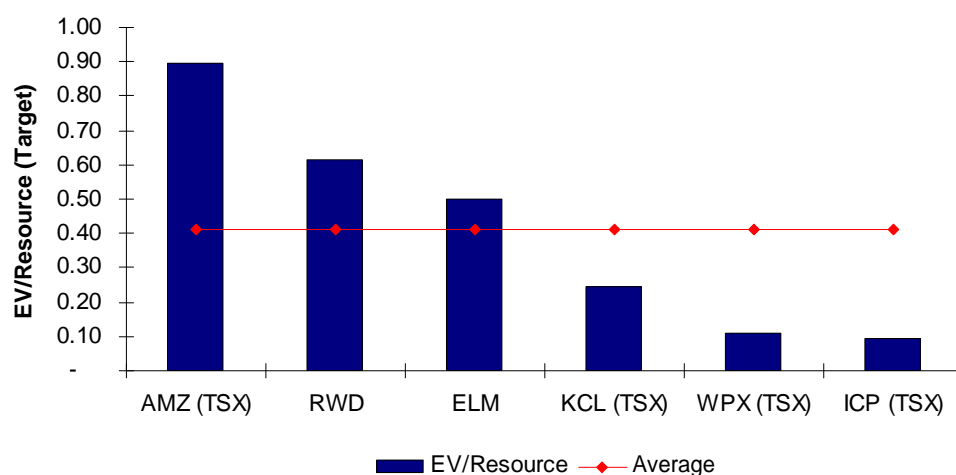


Figure 5 – Peer Comparables for listed Potash Companies

Source: DJC

The above graph shows the average EV/Resource for the peer potash companies is \$0.41. We then applied this multiple to STB’s maiden target resource to give an Enterprise Value of \$147.5m for its 90% stake (Eritrea government has 10%) of the Colluli project. We believe we have been conservative by using the average EV/Resource as STB most comparable peer is Elemental Minerals (ELM) that has an EV/Resource of \$0.50, in the Republic of Congo.

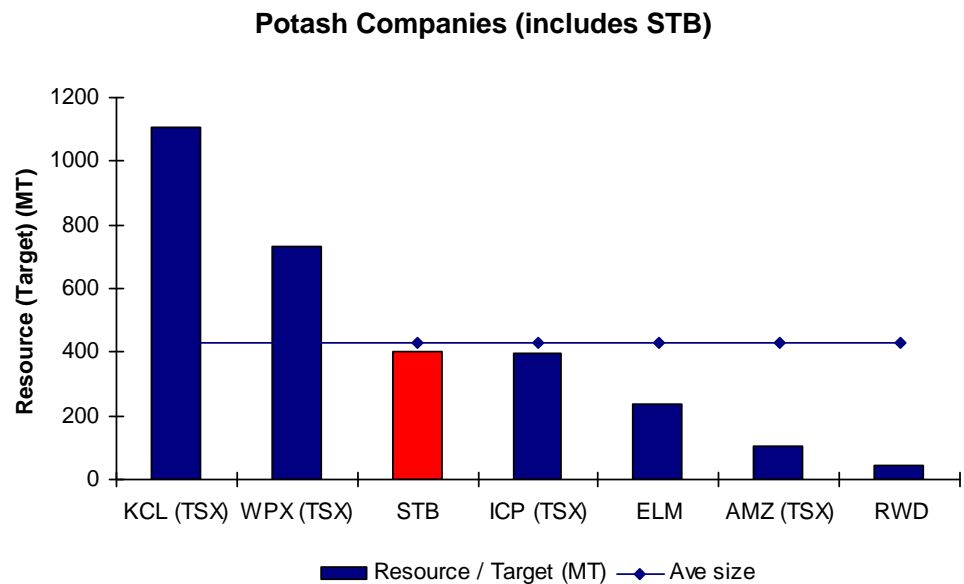


Figure 6 – Peer Comparables for listed Potash Companies

Source: DJC

STB's resource is expected to be significantly larger than its maiden target of 400mt, but as can be seen in the above graph STB's target resource is marginally below the average value of 432mt.

The immediate work program for the Colluli project is to continue to drill and define resources that will be used as the basis for the scoping study. A JORC/43-101 compliant resource is expected to be completed in early December with an update expected in the 1Q2011. Large diameter drilling for geotechnical and metallurgical studies is planned in January 2011.

STB's other assets

STB's Duketon Gold asset: 100% owned project in underexplored greenstone belt (1,500km²). The near surface "Terminator" prospect includes 60m at 1.3g/t from 2 metres below surface. Also there is mineralisation defined over 400m of strike, which is open in all directions.

STB's Duketon Nickel asset (30% STB & 70% IGO): The Duketon Nickel JV has had recent success at The Rosie and C2 Nickel sulphide prospects where drilling has defined intercepts of 5.20m @ 9.13% Ni, 1.09% Cu, 0.21% Co and 7.09g/t PGE's at Rosie and 50m @ 0.92% Ni including 37m @ 1.05% Ni at C2. The deposits are located approximately 120km NNW of Laverton, W.A in the Duketon Greenstone Belt. The deposits are approximately 2km apart and the mineralisation at both prospects is considered open in most directions. A Mining Lease application has been lodged with the Department of Mines and Energy. The Mining Lease application comprises a total of 19.13km².

Valuation

It's still early days for STB as work on the Colluli Project's pre-scoping study has only just begun, but there is little doubt that this potash deposit is world class and will be mined.

Notwithstanding STB's gold and nickel assets we value STB's potash assets at \$1.44/sh, based on EV/Resource multiples for comparable potash companies. As a result, we maintain our Speculative Buy recommendation on STB.

Disclosure Disclaimer

RCAN0907

This Research report, accurately expresses the personal view of the Author.

DJ Carmichael Pty Limited, its directors and employees advise that they may hold securities, may have an interest in and/or earn brokerage and other benefits or advantages, either directly or indirectly from client transactions in companies mentioned in this report.

Associates DJC is a subsidiary of WHI Australia Pty Ltd ACN 114 921 247 (WHIA), which is owned 37.28% by a public company listed on the London Stock Exchange named WH Ireland Group plc (WHIG) and 62.72% by our previous and new shareholders. WHIA receives benefits from the financial services we provide in WHIA's capacity as a shareholder who holds shares in us, along with all of our other shareholders

In accordance with Section 949A of the Corporations Act 2001 D J Carmichael Pty Limited advise this email contains general financial advice only. In preparing this document D J Carmichael Pty Limited did not take into account the investment objectives, financial situation and particular needs ('financial circumstances') of any particular person. Accordingly, before acting on any advice contained in this document, you should assess whether the advice is appropriate in light of your own financial circumstances or contact your D J Carmichael Pty Limited adviser. D J Carmichael Pty Limited, its Directors employees and advisers may earn brokerage or commission from any transactions undertaken on your behalf as a result of acting upon this information. D J Carmichael Pty Limited, its directors and employees advise that they may hold securities, may have an interest in and/or earn brokerage and other benefits or advantages, either directly or indirectly, from client transactions. D J Carmichael Pty Limited believe that the advice herein is accurate however no warranty of accuracy or reliability is given in relation to any advice or information contained in this publication and no responsibility for any loss or damage whatsoever arising in any way for any representation, act or omission, whether express or implied (including responsibility to any persons by reason of negligence), is accepted by DJ Carmichael Pty Limited or any officer, agent or employee of D J Carmichael Pty Limited. This message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If you are not the intended recipient or employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication and its attachments is strictly prohibited.

The Author of this report made contact with the **South Boulder Mines** for assistance with verification of facts, admittance to business sites, access to industry/company information. No inducements have been offered or accepted by the company.

The recommendation made in this report is valid for four weeks from the stated date of issue. If in the event another report has been constructed and released on **South Boulder Mines**, the new recommendation supersedes this and therefore the recommendation in this report will become null and void.

Recommendation Definitions

SPECULATIVE BUY – 10% or more outperformance – high risk

BUY – 10% or more outperformance

HOLD – 10% underperformance to 10% over performance

SELL – 10% or more underperformance

Period: During the forthcoming 12 months, at any time during that period and not necessarily just at the end of those 12 months.

Stocks included in this report have their expected performance measured relative to the ASX All Ordinaries index. DJ Carmichael Pty Limited's recommendation is made on the basis of absolute performance. Recommendations are adjusted accordingly as and when the index changes.

To elect not to receive any further direct marketing communications from us, please reply to this email and type 'opt out ' in the subject line. Please allow two weeks for request to be processed.

© 2010 No part of this report may be reproduced or distributed in any manner without permission of DJ Carmichael Pty Limited.