

## Due Diligence and Valuation Report

Arrowhead Code: 25-01-07  
 Coverage initiated: 15 September 2010  
 This document: 13 October 2011  
 Fair share value bracket: AU\$5.36 to AU\$17.67<sup>i</sup>  
 Share price on date: AU\$2.37<sup>ii</sup>

### Analyst Team

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### Market Data

52-Week Range:	AU\$0.78 – AU\$6.25 <sup>iii</sup>
Average Daily Volume:	239,045 <sup>iv</sup>
Market Cap. on date:	AU\$206.46MM <sup>v</sup>

### Financial Forecast Data (in AU\$)

	'11E	'12E	'13E	'14E	'15E	16E	'17E
High profit/ (loss) MM	0.9	1.3	(14.5)	(55.3)	637.6	43.8	421.7
High EPS AU\$	1.3	1.7	(16.9)	(58.3)	613.9	42.1	406.0
Low profit/ (loss) MM	0.9	1.3	(14.5)	(55.1)	(102.3)	(48.3)	205.9
Low EPS AU\$	1.3	1.7	(16.9)	(58.1)	(98.5)	(46.5)	198.2

### Fiscal Year (FY)

1<sup>st</sup> July – 30<sup>th</sup> June

### Summary

South Boulder Mines Limited is an Australian-listed exploration and development company focusing on multiple gold, nickel and fertilizer prospects primarily located in Western Australia and Eritrea in North East of Africa. One of South Boulder's main areas of focus is on its Duketon Greenstone Belt projects which contain the exciting new Rosie Ni-Cu-PGE discovery. The company owns 100% of all gold prospects and participates in a farm-out Joint Venture with Independence Group NL (earning 70%) for nickel sulphide prospects within the same area. Maiden JORC-resource is expected to be released this quarter and the scoping study of the project is underway for the nickel project.

South Boulder Mines has a 100% interest in the Colluli Potash Project, world's shallowest potash deposit, located in the Danakil Depression region of Eritrea (Africa), approximately 200km south east of the Capital Asmara. The company's capex and opex are lowest in the industry owing to the proximity to the coast and port connecting Asian countries. In total 43 holes has been drilled till date in Area A and Area B and there was high



Company: SOUTH BOULDER MINES  
 Ticker: ASX:STB  
 Headquarters: West Perth, Australia  
 Managing Director: Mr. Lorry Hughes  
 Website: [www.southbouldermines.com.au](http://www.southbouldermines.com.au)

grade potash intersection from a recent shallow diamond drilling at the Colluli Area B discovery.

Further, South Boulder is conducting an engineering scoping study to ascertain the optimum potash processing capacity from 1-2mtpa. The company is expected to release its scoping study by the end of the current quarter. The recent JORC update reports a 130% increase to the Measured and Indicated resource. It has increased to 564.40Mt @ 18.60% KCl for 104.96Mt of contained potash. Currently, the Definitive feasibility study has commenced for production in 2016 or sooner. The completion of feasibility studies is expected by mid of 2013 and first the potash production by mid 2016. Arrowhead believes that this is a significant landmark which reduces the resource risk and improves the upside potential for the company.

In July 2011 the company established an ADR sponsor program to increase its exposure and visibility in key markets like US and Canada which have a strong understanding of the potash industry. The company remains highly leveraged and has a tight capital structure - thus, is well funded for further exploration and development successes. In September 2011, the company issued 4.15MM ordinary fully-paid shares at AU\$0.20 and 1MM ordinary fully-paid shares at AU\$0.75. The shares were issued pursuant to exercise of options.

Given due diligence and valuation estimations based on discounted cash flow method, Arrowhead believes that South Boulder Mines Limited fair share value lies in the AU\$5.36 to AU\$17.67 bracket.<sup>vi</sup> This valuation is based solely on the Duketon Nickel and Eritrean Potash project and does not take account of the potential value of the company's Terminator Gold prospect. We have also presented a comparable valuation based on Enterprise Value/resource and Enterprise Value /proposed capacity to ascertain the value the Nickel and Potash prospects respectively.

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## Company Presentation

Incorporated in 2001, South Boulder Mines Limited (ASX: STB) is involved in acquisition, exploration and development of quality resource projects in Western Australia and Eritrea. The company has outstanding projects in Nickel, Gold and Potash and is currently conducting resource confirmations and definition drilling ahead of the feasibility studies. The company has a 100% interest in the Colluli Potash Project located in the coastal Danakil Depression region of Eritrea (Africa) approximately 200km south east of the Capital Asmara. The company believes the project has the potential to host a world class potash deposit and is assessing this potential through drilling and scoping studies. South Boulder has a farm-out Joint Venture agreement with Independence Group NL allowing Independence Group to earn 70% of the nickel rights on selected South Boulder tenements within the Duketon Greenstone Belt by completing a Bankable Feasibility Study. The company has three primary nickel targets, The Bulge, The Bulge Regional and German Well. The company believes that The Bulge Rosie discovery is the best new greenfields discovery on the globe and the Duketon Nickel Project could contain a new nickel province. The Duketon Belt is located 120 kilometers north of Laverton in Western Australia and is considered highly prospective for gold, nickel sulphide and base metal mineralization. South Boulder's gold prospects are all located within the under-explored Duketon Greenstone Belt. The company also has various fertilizer projects in Western Australia including the Lake Disappointment Potash Project in the Gibson Desert and the Cardabia Phosphate Project in the Carnarvon Basin.

### Key projects:

**Potash and other fertilizers:** Colluli Potash Project located in the Danakil Depression region of Eritrea (Africa). It is the world's shallowest potash deposit located in proximity to ports connecting to Asian countries. Updated JORC and engineering scoping study is due this quarter. Scoping study is expected to demonstrate financials and technicals for one of the lowest cost potash mines in the industry.

**Nickel - Duketon Nickel Venture:** The project covers approximately 100 strike kilometers of ultramafic rich stratigraphy in the Duketon Greenstone Belt – considered highly prospective for Ni-Cu-PGE mineralization. The project is a JV with Independence Group and is developing the Rosie and C2 Ni-Cu-PGE deposits. Maiden JORC is due this quarter and scoping study underway.

**Gold - Duketon Gold Project:** The Duketon Greenstone Belt approx.1500 sq.km contains highly prospective geological sequences and mineralized structures.

### South Boulder Mines' corporate strategy

- Increase value to shareholders through acquisition, exploration and development of its quality resource projects in Western Australia and Eritrea.
- Expand the exploration target of potash to 1.25BT to 1.75BT @ 18-20% KCl and target to produce 1 to 2MMT per annum by 2016 from the facility by competing the scoping and feasibility studies in the next two years.
- Be a passive partner in the Duketon Nickel JV with Independence Group and earn the 30% Nickel interest once Bank Feasibility Study is completed by the partner and the production commences subsequently. South Boulder will also become a nickel sulphide explorer on a 100% basis on ground that is not in the Joint Venture.
- Continue to conduct targeted gold exploration programs on the Duketon Gold Project, such as exploring for extensions to the Terminator deposit and testing other high priority targets.
- Once key technical data is collected and a thorough assessment of the Colluli Potash Project is completed by South Boulder, options for separation of the potash asset into a dedicated potash entity will be evaluated. This may include an in specie distribution to South Boulder shareholders and a TSX or Hong Kong IPO listing or similar.

### Company's Asset Portfolio

- **Potash and other fertilizers – (100%)**  
South Boulder Mines Ltd has a 100% interest in the recently acquired Colluli Potash Project located in the Danakil Depression region of Eritrea (Africa) approximately 200km south east of the Capital

Asmara. Additionally South Boulder's 90-100% owned potash and phosphate fertilizer projects are located in Western Australia including the Lake Disappointment Potash Project in the Gibson Desert and the Cardabia Phosphate Project in the Carnarvon Basin. The Georgina Basin Phosphate Project is located in the Northern Territory. These projects are not currently the focus of exploration activity and are being divested.

- **Nickel - Duketon Nickel Venture - (30%)**

The project covers approximately 100 strike kilometers of ultramafic rich stratigraphy in the Duketon Greenstone Belt – considered highly prospective for Ni-Cu- PGE mineralization. South Boulder signed a Joint Venture Agreement with Independence Group holding 70% of the nickel metal rights on tenements held by South Boulder within the Duketon Project by delivery of a Bankable Feasibility Study "BFS" within 5 years of the grant of the relevant tenement.

- **Gold - Duketon Gold Project (100%)**

The Duketon Greenstone Belt approx.1500 sq.km contains highly prospective geological sequences and mineralized structures. Numerous structures are known to contain significant gold mineralization and this is demonstrated by the approximately +4MM ounces of unmined gold resources currently defined to date within the belt. ASX listed Regis Resources (ASX:RRL) are currently developing the +100,000oz p.a Moolart Well Gold Mine and have recently announced the maiden JORC Resource for their new Garden Well Gold discovery. These deposits are located proximal to South Boulder's Gold Project.

For more detail on Assets, see the [Assets and Projects](#) section of this report.

### **Company's Portfolio and Company Premiums**

- The company is involved in acquisition, exploration and development of quality resource projects in Western Australia and Eritrea. The company has outstanding projects in Nickel, Gold and Potash and is currently conducting resource confirmation and definition drilling ahead of the feasibility studies at the Colluli Potash Project and at the Duketon Nickel Project.
- South Boulder Mines has 100% interest in the Colluli Potash Project located in the Danakil Depression region of Eritrea (Africa) approximately 200km south east of the Capital Asmara. The company believes the project has the potential to host a world class potash deposit and recent chemical analysis of drill core has confirmed the presence of world class shallow potash. Approximately 4.5km<sup>2</sup> of potash mineralization consisting of sylvinites, carnallite and kainitite has been defined to date from depths as shallow as 28.68m. The upper portion of the deposit and shallowest resource unit contains high grade sylvinites (KCl) of 130.39Mt @ 27.02% KCl for 35.23Mt of contained potash. The Project is located ~70kms from the coast and can utilize solar evaporation which will significantly reduce capital and operating costs compared to most potash projects globally. Updated JORC and engineering scoping study is due this quarter. Scoping study is expected to demonstrate financials and technicals for one of the lowest cost potash mines in the industry.
- The company published a maiden JORC/43-101 compliant Mineral Resource Estimate at the end of 2010 which confirmed the potential for a highly significant potash development at the Colluli Potash Project. The Measured, Indicated and Inferred resources located at <100m depth was about 548MMT @ 19% KCl including 119MMT @ 23% KCl (total contained potash of 102Mt). The JORC resource update in October 2011 reported a 130% increase to the Measured and Indicated resource at the Colluli Potash Project. The total JORC Compliant Mineral Resource Estimate was increased to 564.40Mt @ 18.60% KCl for 104.96Mt of contained potash
- South Boulder has a farm-out Joint Venture agreement with Independence Group NL allowing Independence Group to earn 70% of the nickel sulphide rights on South Boulder tenements within the Duketon Greenstone Belt by completing a Bankable Feasibility Study within 5 years of the grant of the relevant tenement. The company has been successful with the discovery of extensive sulphide nickel at the C2 and Rosie Prospects. Scoping Study activities and drilling is continuing to evaluate the construction of a mine with such intercepts as 5.20m @ 9.13% Ni, 1.09% Cu, 0.21% Co and 7.09g/t PGE's (2.20g/t Pt, 1.74g/t Pd, 0.82g/t Rh, 1.79g/t Ru); C2- 50m @ 0.92% including 37m @ 1.05% Ni.

- The company is currently focused on the exploration of assets in Western Australia and Eritrea which are in the initial resource estimation stage. Significant proven resources have been defined near the target zones by other companies. Allana Potash Corp currently has a 43-101 Compliant Inferred Resource of 105MMT (20.8% composite grade KCl) in Ethiopia near the Eritrean border. Regis Resources has a 1.5MM ounce Moolart Well Gold Project currently being developed in Duketon Belt.
- South Boulder Mines has three (90-100%) owned potash and phosphate fertilizer projects in Western Australia and The Northern Territory, the Lake Disappointment Potash Project (100%), the Cardabia Phosphate Project (100%) and the Georgina Basin Phosphate Project in the Northern Territory (90%).
- The Management and Governance team is composed of highly experienced geologists and accomplished and accomplished practitioners of mining project finance and regulatory issues.
- The company has had encouraging results from the initial drilling samples at its 100% owned Terminator Gold Prospect within the Duketon Gold Project in Western Australia.
- The company established a Sponsored ADR program in July 2011 to increase its exposure to markets in the US and Canada which have a strong understanding of the potash industry. The establishment of ADR program will create a broader secondary market for the company, thereby providing better access to investors to trade in the company's securities.
- The company has a tight capital structure with 87.1M shares on issue and is highly leveraged to development success.
- The company has strong cash position to internally fund to conduct the exploration capex requirements. It has approximately \$13.0M in liquid assets and option conversions of \$6.8m.

Arrowhead BID feels there is significant opportunity for price stability, to growth, in Potash and Nickel through the next 10 years, given foreseeable supply and demand factors. There are indications of a good future in terms of marketability and demand.

For details, see [Technologies and Markets](#) section on pages 5-10 of the report.

### **Company's Portfolio and Company Risks**

- South Boulder Mines' forecast for revenue and operating margins are significantly dependent upon prices of Potash, Nickel and Gold.
- Its complete portfolio is concentrated in the exploration and resource estimation stage, which induces a considerable project development and financial risk from 2011 to 2017 and most likely a couple more years after that.
- South Boulder Mines' stated capital expenditure (the feasibility and ultimate cost of the capital expenditure agenda) will have to be confirmed in the future with the given market conditions for financing.
- Exploration and operational risk as a long-term potential depends significantly on the company's ability to find economically feasible resources.
- Foreign exchange risks as expenses are incurred mainly in US dollars, Australian dollars, Euro and Eritrean Nakfa, while sales are priced in US dollars.
- Political and economic risks from changes in Eritrea's political and legal system might affect ownership or operation of company assets.

For a detailed risk assessment, please refer to the [Risk profile analysis](#) section.

### **Company's Corporate Strategy**

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## Key Trends

### Potash

- **Key Drivers of Potash:** The potash market is primarily driven by the rising population and the need for nutritious food as the per capita income increases in the emerging markets. As Potash plays an important role in improving yield, taste, and nutrient value of these key crops, the farmers in developing countries have started to address decades of unbalanced fertility practices, applying potash in greater quantities to catch up on years of under-application. After a temporary slowdown during the global economic downturn beginning at the end of 2008, potash consumption levels have begun to return to pre-crisis levels in most key markets. With long-term fundamentals firmly in place, the potash demand is expect to a return to near historical trend-line consumption of at least 55MMT in the near term.
- **Market Evolution for Potash:** During the commodity rally of 2003-2008, potash was one of the hottest commodities surging from \$200 a ton to a staggering \$1000 a ton in June of 2008. In 2009, the potash market suffered from low agricultural prices, obstinate farmers, and a deflationary environment due to large excess capacity within the industry. These factors have lowered the price of potash on world markets all the way down to around \$350 a ton. In 2010, more than 60% of world potash exports went to the markets of China, India, other Asian countries and Latin America. Though the consumption of potash has been most marked Asian countries, as they begin to address the need to increase crop yields through balanced soil nutrition, they are highly underinvested in potash production and are expected to invest in years to come<sup>vii</sup>.

### Nickel

- **Key Drivers of Nickel:** Demand for nickel is predominantly driven by stainless steel production, which accounts for around two-thirds of total nickel consumption, and is correlated with the general state of the global economy. Projected nickel supplies appear to be more than adequate, in view of large idle capacity and a stream of new projects due to start production this year and the next few years.
- **Market Evolution for Nickel:** Since 2000, the price of Nickel has shown considerable volatility. Until 2003, the price of Nickel remained below US\$10,000/T. The price, however, breached US\$14,000/T in 2005 and then escalated dramatically through 2006 before peaking at an average of US\$52,179/T in May 2007. Nickel prices then declined until the end of 2008, when the average cash price in December hit a low of US\$9,678/T. The fall in nickel prices was largely due to a collapse in demand and an increase in LME nickel inventories. Owing to the global economic recovery, nickel prices, in early 2009, began to once again climb and by August 2009 the price for a tonne of refined nickel had once again touched US\$20,000/T. Since then, the price has hovered between US\$15,000/T and US\$27,000/T. Nickel is expected to be in oversupply in the year 2011 due to china's weak demand, and increased capacity by nickel producers in early 2011 negated to some extent by the demand in Japan, due to post-earthquake reconstruction and recovery of its auto industry.

For more details, refer to the [Technologies and Markets](#) section

## News

- **Significant increase in measured and indicated resource:** On October 4, 2011 the company reported a 130% increase to the Measured and Indicated resource at the Colluli Potash Project. The JORC Compliant Mineral Resource Estimate has increased to 564.40Mt @ 18.60% KCI for 104.96Mt of contained potash.
- **South Boulder Mines Ltd not to pay FY 2011 dividend:** On September 28, 2011 the company announced that no dividends were paid or declared during the year ended June 30, 2011. Also, no recommendation for payment of dividends has been made.
- **Exercises Options Into New Ordinary Shares:** On September 18, 2011 the company announced that it has issued 4,150,000 ordinary fully-paid shares at AUD 0.20 and 1,000,000 ordinary fully-paid shares at AUD 0.75. The shares were issued pursuant to exercise of options.
- **High grade potash returned from Colluli area:** On September 07, 2011 the company confirmed high grade potash intersection from a recent shallow diamond drilling at the Colluli Area B discovery. The first "partial hole assays" returned from upper mineralised zones in 9 holes have confirmed Area B as a significant addition to the Colluli Potash Project. Highlights include:
  - Hole Col-023 - 2.04m of sylvinitite @ 27.63% KCI from 33.63m.
  - Hole Col-026 - 2.96m of sylvinitite @ 29.85% KCI from 86.06m.
  - Hole Col-027 - 1.72m of sylvinitite @ 39.69% KCI from 50.28.
  - Hole Col-037 - 5.58m of sylvinitite @ 31.47% KCI from 65.59m.The results continue to support the current project Exploration Target of #1.25 – 1.75 billion tonnes @ 18-20% KCI.
- **Key feasibility appointment for the Colluli project:** On August 24, 2011 the company appointed Dayle Kenny (BE Mining, MBA, MAusIMM) as its key feasibility officer for Colluli project. He has over 30 years mining and feasibility study experience from a variety of senior management mining feasibility studies to exploit shallow mineral resources and his strong technical and financial analysis skills.
- **South Boulders announced change of registered office:** On July 29, 2011 the company announced change of its registered office. The registered office of the company is now at Ground Floor, 20 Kings Park Road, West Perth WA 6005.
- **South Boulder intends to issue American Depository Receipt:** On July 18, 2011 the company announced the establishment of Sponsored American Depository Receipt (ADR) Program. The ADR's will be traded via licensed U.S. brokers in the ordinary course of trading at the Over the counter market in the U.S. and Canada.
- **South Boulder announced Colluli potash project update:** On June 20, 2011 the company announced an update on the exploration drilling and independent feasibility study activities at Colluli potash project. The company informed that the study activities continue to define a world class potash project in Eritrea.
- **South Boulders announced recommencement of drilling at Colluli project:** on May 11, 2011 the company reported that drilling resumed at the Colluli Potash Project. Drilling continued to intersect shallow potash at the new prospect which is currently named Area B.
- **Drilling continues to intersect nickel sulphides at Duketon nickel project:** On April 8, 2011 the company reported that along with the JV partner Independence Group NL further NI-Cu-PGE assays have been returned from the Rosie prospect including a high grade Palladium interval.
- **South Boulders announces new potash discoveries:** On March 28, 2011 the company announced that it has discovered new highly significant potash resources, located 10km northwest along the Colluli potash resource. The preliminary geological logging has indicated that the sylvinitite (KCI) mineralization appears to be very similar to the high grade intervals at Colluli deposit.

- **Drilling recommences at the Colluli Potash Project:** On February 17, 2011 the company announced that diamond drilling has resumed at the Colluli Potash Project situated in Eritrea. The drilling is part of an expanded 5000m exploration program designed to further define and extend known resources. The company has also stated that that approximately 1,407m of diamond drilling has been completed at Colluli in 17 holes, till date.
- **South Boulder Mines maiden JORC Resource of 102MMT potash at Colluli:** On January 19, 2011, the company announced the establishment of the highly anticipated maiden JORC for the Colluli Potash deposit in Eritrea, and did not disappoint the company's shareholders. It has further increased the recently increased exploration target by 18-20% KCI to 750MMT-1.25BT. This maiden resource represents the first stage of a mining engineering study into the optimum production capacity from open pit mining. The company also added that production will be relatively straight forward, as potash is contained within potash minerals, which can be processed using standard techniques.
- **South Boulder Mines increases exploration target at Colluli:** On January 4, 2011, the company increased the exploration target to 500-750MMT of potash ores from 300-500MMT for South Boulder Mines after continued drilling success at the Colluli Potash Project in Eritrea. The exploration target is from the surface to 100 meters depth. Diamond drilling at Colluli has defined a 9km square area, with extensive mineralization intersected, with the company adding it considers open in all directions.
- **Sprott Asset Management increases stake in South Boulder Mines:** On December 17, 2010, the company announced that Sprott Asset Management has further purchased further 3.5MM of its shares at AU\$2 per share, increasing its holding to 18.5% from 15.1%. Sprott has been a strong supporter of South Boulder, increasing its stake in both August and June last year.

## Listing Information

South Boulder Mines was listed on the ASX Exchange, with ticker STB in October 2003. It is also listed in Frankfurt and Berlin with ticker codes of SO3-Fra and SO3-Ber.

## Contacts

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## Major Shareholders <sup>viii</sup>

Equity Holder	No. of Shares Held (MM)	Percentage Holding
Sprott Asset Management	13.69	15.72
Cornelius Liam Raymo	8.00	9.19
Alpha Boxer Ltd	2.27	2.61
Kongming Investment	2.10	2.42
Lando Pty Ltd	1.45	1.66
Arotinco Resources	1.32	1.52

## **Management and Governance<sup>ix</sup>**

The Management and Governance team is composed of highly experienced geologists and accomplished practitioners of mining project finance and regulatory issues.

### **Terry Grammer**

#### **Executive Chairman**

Mr Terry Grammer is a geologist with a history of exploration success over his +35 year career. He is credited with the discovery of the Cosmos Nickel mine W.A. for which he received the joint prospector of the year award in 2000. Mr Grammer was also a founding member of Western Areas NL which is focused on mining and developing the Forrestania Nickel Project in W.A.

### **David “Lorry” Hughes**

#### **Managing Director & CEO**

Mr Lorry Hughes BSc. MAusIMM, is a geologist with over 20 years industry experience and has been Managing Director of the company since May 2008. Mr Hughes has held management positions on exploration and operational mining projects for Energy Metals Ltd, CSA Australia and Energy Resources Australia. His industry experience was gained from various gold mines and exploration prospects in the NE goldfields of Western Australia while working for Plutonic/Homestake, Aberfoyle and Mt Grace. Additionally he has been involved on overseas exploration and mining projects in Malaysia, Indonesia and Africa.

### **Liam Cornelius**

#### **Executive Director**

Liam graduated from Curtin University of Technology with a B.App.Sc in Geology. Liam has been involved in the exploration industry within Australia and Africa, for more than 20 years. Whilst specializing in gold he has experience with a wide range of commodities including nickel, copper, platinum and uranium. As a founding member of South Boulder Mines Ltd, Liam has played a key role in outlining areas of interest for the Company. In addition to project generation and providing guidance to the board on future directions, his responsibilities have included public relations and fund raising.

### **Dennis Wilkins**

#### **Company Secretary**

Dennis is the principal of DWCorporate, a specialist provider of corporate services to the resources sector. Dennis is a qualified accountant (B.Bus) who has been a director, company secretary, or acted in a corporate consulting capacity, to listed resource companies for over 20 years. Dennis was Finance Director and company Secretary for Lynas Corporation Limited, for a period of five years. He also spent five years working for a leading merchant bank in the United Kingdom, together with resource postings to Indonesia, South Africa and New Zealand in managerial roles.

### **Ercosplan**

#### **Potash Consultant**

Ercosplan is Potash consultant to South Boulder Mines Inc. He has more than 50 years experience in planning and execution of projects in the potash and mineral salt industry.

### **Dr. Chris Gilchrist**

#### **Feasibility Manager**

Chris Gilchrist is the feasibility manager to South Boulder Mines Inc. He has over 30 years experience in Potash mineral sands, diamonds and 20 years on African projects, processing, power, rail, port and market expertise in potash.

## Assets and Projects<sup>x</sup>

### Overview

- **Potash:** Colluli Potash Project located in the Danakil Depression region of Eritrea (Africa). Updated JORC and scoping study expected this quarter.
- **Nickel - Duketon Nickel Venture:** The project covers approximately 100 strike kilometers of ultramafic rich stratigraphy in the Duketon Greenstone Belt – considered highly prospective for Ni-Cu- PGE mineralization. South Boulder's interest in the JV is diluted to 30% on Bankable Feasibility Study.
- **Gold - Duketon Gold Project:** The Duketon Greenstone Belt approx.1500 sq.km contains highly prospective geological sequences and mineralized structures. South Boulder owns 100% of the **gold** and base metal rights over the Duketon Nickel JV tenure and the surrounding tenure.

### Colluli Potash Mining project in Eritrea

**South Boulder Mines Interest:** 100%

### Location

Located in the Danakil Depression region Eritrea approximately 200km south east of the Capital Asmara. Located on edge of major shipping route to Asia thus enabling a number of attractive processing and transport routes for the project.

### Regional geology

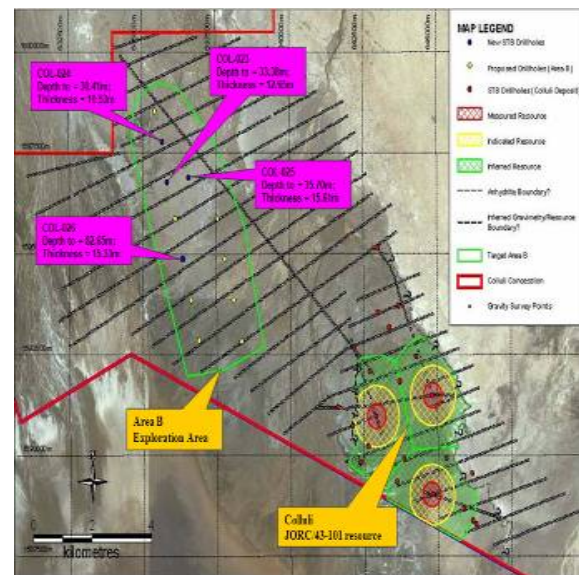
The Project consists of buried evaporate deposits in which two shallow potash bearing horizons were identified from historic diamond drilling conducted in 1968 by the former Ethiopian Potash company (EPC). The Danakil Depression or Afar Depression is a product of a tectonic triple junction (the Afar Triple Junction), where the spreading ridges that form the Red Sea and the Gulf of Aden emerge on land and meet the East African Rift. The central meeting place for these three pieces of Earth's crust is around Lake Abbe. The Afar Depression is one of two places on Earth where a mid-ocean ridge can be studied on land, the other being Iceland.

## Prospect geology and mineralization

The Danakil Depression has ancient history of artisanal salt production with modern exploration and exploitation dating back to the early 1900's. The most intensive period of exploration and trial underground mining occurred between 1958– 1968 at the Musley and Crescent deposits, located approximately 15km south west of Colluli at Dallol, Ethiopia. Since 1968 there has been no exploration drilling at the Colluli Potash Project.

The project is located ~70km south of the shallow water port of Mersa Fatma and less than 200km south east of the deep water port of Massawa.

South Boulder has undertaken detailed data compilation and has conducted diamond drilling, to confirm the historic potash mineralization and to collect samples for preliminary metallurgical test work. Historic work defined two potash layers containing sylvinitic and the carnallite.



In January 2011 South Boulder announced the completion of initial JORC and 43-101 compliant Measured, Indicated and Inferred Mineral Resource Estimate located at < 100m depth for the Colluli Potash Deposit. The total Measured, Indicated and Inferred resource comprises sylvinitic, carnallite and kainite ores of 547.62Mt @ 18.58% KCl with a higher grade portion of sylvinitic and carnallite ores of 119.21Mt @ 23.14% KCl which has a total in-ground value of ~ US\$40.5bn using US\$ 400/t KCl. In October 2011, the updated JORC reported a 130%

increase to the Measured and Indicated resource. The total JORC Compliant Mineral Resource Estimate has increased to 564.40Mt @ 18.60% KCI for 104.96Mt of contained potash. Further it expects to increase the exploration target to 1.25B T – 1.75BT @ 18-20% KCI. The increase in resource confidence will strengthen the definitive feasibility study and potential ore reserve calculations.

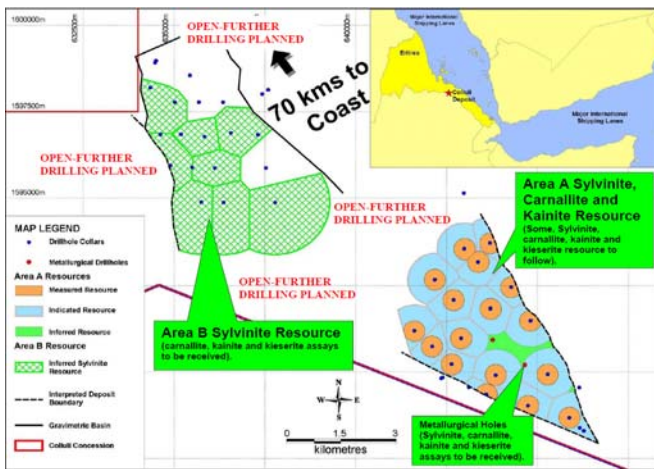


Figure 1: Colluli Project JORC Compliant Mineral Resource Estimate Plan.

As per the drilling results confirmed by South Boulder, 22 shallow diamond holes has been drilled at Colluli, defining mineralization over and ~ area of 10km<sup>2</sup>. Of these only 3 holes (Col-001, 002 and 004) with assay results, have been used to calculate the initial resource tonnage and grade. Further near term resource expansion is expected upon compilation of outstanding drilling results completed from within the current resource areas. The resource is open in many directions and drilling will continue in adjacent areas to test for additional potash and resource interpretations. In the gravimetric, surface mapping and drilling results, a number

of structures have been interpreted to constrain the shallow resource.

Mineralisation Types	Tones (MMT)	Grade (% KCI)	Potash (MMT)
Sylvinitic Measured	6.24	23.10	1.44
Sylvinitic Indicated	32.28	23.12	7.46
Sylvinitic Inferred	64.86	23.21	15.06
Upper Carnallite Measured	0.99	22.87	0.23
Upper Carnallite Indicated	5.10	22.87	1.17
Upper Carnallite Inferred	9.74	22.87	2.23
Total Sylvinitic & U.Carnallite	119.21	23.14	27.58

This maiden resource represents the first stage of a mining engineering study into the optimum production capacity from open pit mining. The study will investigate a range of production scenarios from 2MT – 10MT p.a.

The current potash resource is located from between 22.20m to 64.80m below surface confirming Colluli as the worlds' shallowest buried potash deposit. Further, the recent updated JORC shows the upper portion of the deposit and shallowest resource unit contains high grade sylvinitic (KCI) of 130.39Mt @ 27.02% KCI for 35.23Mt of contained potash (Measured, Indicated and Inferred resource at Area A and Inferred resource at Area B). All potash is contained within potash minerals that can be processed using standard techniques

Resource Category	Tones (MMT)	Grade (% KCI)	Potash (MMT)
Inferred	87.37	24.96	21.81
Indicated	343.33	17.38	59.68
Measured	133.70	17.55	23.47
Resources	564.40	18.60	104.96

The potential to utilize solar evaporation and open-cut mining techniques make the project very attractive to South Boulder. These factors coupled with the relatively shallow nature of the mineralization could lead to relatively cheap capital and operating costs if a deposit is defined.

South Boulder originally applied for the license in May 2008 as part of an open tender process and won the right to negotiate terms for an

exploration license agreement in June 2009. The minimum expenditure requirements of the license includes USD \$500,000 in the first year and on application for a mining license, the Eritrean government is entitled to a 10% free-carried interest. The government, after delivery of a Bankable Feasibility Study (BFS), has the right to purchase an additional 30% equity participation interest in any mining project and a 3.5% royalty on salts & corporate tax rate of 38%. Ownership structure paves the way for a long term secure and reliable mining partnership.

At Musley to the immediate south of Colluli in Ethiopia, an historic resource, which is not JORC compliant (Mengitsu and Fentaw, 2000) was defined from the historic work conducted by the Ralph M. Parsons company from 1958-68.

The resource is now partly owned by Sainik Coal Mining Pvt. and Allana Resources Inc. (TSX.V: AAA). Allana has defined a 43-101 compliant resource utilizing historic holes that comprises 105Mt @ 20.8% KCl. South Boulder is of the opinion that at the current stage of exploration, the Musley deposit is the most analogous deposit to the mineralization identified at Colluli to date and therefore provides South Boulder with a realistic exploration target elsewhere within the Project.

The company expects to define a potential target of 1 MT - 2MT per annum operation with a capital cost of US\$500M-US\$750M and mine life exceeding 20 years

Musley Deposit studies suggest that it is amenable to open-cut mining and the mineralogy can support the production of both SOP and MOP.

Recently the company announced another exploration achievement. In March 2011, the company disclosed a highly significant potash discovery, located approximately 10km north-west along the initial Colluli potash resource strike. The new prospect is yet to be named and is referred to as Area B. It is anticipated that if chemical assays from Area B confirm field observation similar to that of Area A, the economics of entire project will be enhanced. The company continues to drill diamond hole and shallow potash has been intersected is all the diamond holes drilled at this area The mineralization occurs over 5km<sup>2</sup> and is open in

all directions. In September the company informed that the diamond drill hole Col-023, 026, 027, and 037 was drilled to intersect the following mineralization:

Hole - Col-023:

- 2.04m of sylvinitite @ 27.63% KCl from 33.63m

Hole - Col-026:

- 2.96m of sylvinitite @ 29.85% KCl from 86.06m

Hole - Col-027:

- 1.72m of sylvinitite @ 39.69% KCl from 50.28

Hole - Col-037:

- 5.58m of sylvinitite @ 31.47% KCl from 65.59m

The company is encouraged by the significance of the new discovery due to a numbers of key factors such as shallow and consistent sylvinitite mineralization located in the same vicinity of the current resource which bodes well for future efficient mining operations. During the quarter ended June 2011 several chemical assay results from diamond holes drilled within and adjacent to the Colluli Mineral Resources Estimate were returned. Also assays from holes 018, 021B are due to be received soon.

The company is planning completion of its 5,000m of diamond drilling at the Colluli deposit of which approximately more than 2,000m has been completed till date. This program is expected to add substantially to the current resource inventory and will provide many options for mining plans. Drilling is occurring concurrently with engineering scoping and feasibility activities. Activities commenced or completed till date includes: -

- Collection of environmental and climate data Scoping study and board site visit.
- Determination of initial pit design parameters.
- Design of the hydro geological assessment program and model parameters for surface and groundwater.
- Potash transport route, port facility location study.
- Metallurgical processing route test work
- Environmental, social impact and archaeological survey planning
- Marketing study for MOP and SOP sroduction/sales.

South Boulder believes the project has the potential to host a world class potash deposit and is committed to assessing this potential. South Boulder has set up a local branch office in Asmara including the recruitment of local administration and geological staff in order to support exploration. The updated JORC released in October 2011 increased the Measured and Indicated resource by 130% to to 564.40Mt @ 18.60% KCl for 104.96Mt of contained potash. This resource update will be the basis of the current engineering scoping study into low cost production of 1-2Mt p.a. potash from open pit mining by 2016 or sooner. The scoping study results are expected to be released by end of 2011. Further, Definitive feasibility study had commenced for production in last quarter.

Activity	Timing
Initial Resource and prefeasibility	In Progress – mid 2011
Definition drilling	Completed
43-101 compliant resource	Completed in December 2010
Scoping Study	To be released by this quarter.
Feasibility study	Complete mid 2013.
Metallurgy, hydrology, geotechnical studies	Completed drilling metallurgical and geotechnical holes for the feasibility study.
Planned start of development	In 2013-15 years from completion of studies.
First Potash Production	Mid-2016

The Exploration and development activities will be currently focused on, metallurgical sampling and testwork, mining engineering design, hydrogeological and environmental assessment and project approvals to support the definitive feasibility study.

**Duketon Nickel JV in Australia**

**South Boulder interest:** Diluting to 30% on BFS

**Location**

The Joint Venture area covers approximately 100 strike kilometers of ultramafic rich stratigraphy in the Duketon Greenstone Belt.



**Regional Geology**

Situated between the Windarra nickel discovery and the Collurabbie discovery, it is considered highly prospective for nickel, copper and platinum group elements.

**Prospect geology and mineralization**

In 2004, South Boulder signed a farm-out Joint Venture agreement with Independence Group NL. The agreement allows Independence to earn 70% of the nickel rights on South Boulder tenements within the Duketon Greenstone Belt by completing a Bankable Feasibility Study within five years.

The Duketon Nickel Joint Venture (DNJV) covers ultramafic rich stratigraphy in the Duketon Greenstone Belt which is considered highly prospective for N-Cu-PGE disseminated and massive sulphide mineralization.

South Boulder has three primary nickel target areas, The Bulge, The Bulge Regional and German Well. Nickel sulphide mineralization within the Duketon Greenstone Belt is highlighted by the recent Collurabbie discovery by Falcon Minerals Ltd and BHP Billiton Ltd to the north of the Duketon Project; and by the recently revived Windarra nickel mine to the south.

Most attention has been directed towards the new discoveries of the Bulge C2 and the Bulge Rosie Prospects. Massive, stringer, matrix and disseminated nickel sulphides with associated copper, cobalt and significant platinum group elements (PGE's) have been intersected in drilling.

South Boulder owns 100% of the gold and base metal rights over the Duketon Nickel JV tenure and the surrounding tenure.

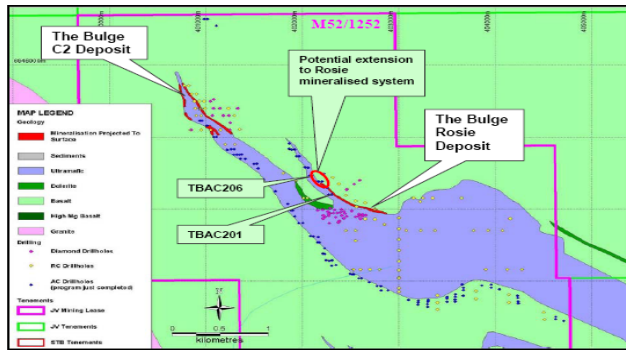
South Boulder owns 100% of the gold and base metal rights over the Duketon Nickel JV tenure

and the surrounding tenure as per the map attached.

### The Bulge Rosie and C2 Prospects

The prospect is within E38/1537, approximately 100km northwest of Laverton. The Duketon JV partners have confirmed the nickel prospectivity of the belt by the discovery of an extensive area of massive, matrix, stringer and disseminated magmatic Ni-(Cu-PGE) within the Bulge ultramafic.

Since March 2009 drilling intensive programs were conducted at The Bulge culminating in the discovery of the Rosie and C2 Deposit. In Q2 2011, the exploration drilling and scoping study work done as planned to evaluate the potential for an open pit mine at the C2 and an underground mine at the Rosie Ni-Cu-PGE Prospects.



The Q2 drilling results include diamond hole TBDD112 which intersected downhole intervals of 5.24m @ 3.6% Ni, 0.4% Cu, 49.5g/t 6PGE's from 135.7m, diamond hole TBAC201 intersected a downhole interval of 32m@0.9% Ni, 0.10% Cu and 4.8g/t 6PGE's from 138.61m.

The drilling has continued to intersect highly encouraging massive sulphides as we as significant zones of brecciated, stringer and disseminated sulphides. In addition, scoping study activities and drilling is continuing to evaluate the construction of a mine with such intercepts as 5.20m @ 9.13% Ni, 1.09% Cu, 0.21% Co and 7.09g/t PGE's (2.20g/t Pt, 1.74g/t Pd, 0.82g/t Rh, 1.79g/t Ru); C2- 50m @ 0.92% including 37m @ 1.05% Ni.

Initial resource diamond and RC drilling was completed and JORC code compliant Inferred mineral resource estimate is expected in this quarter. Further, the scoping study is underway.

The results for the initial holes were as follows;

- Hole TBDD099 (Hole A) intersected downhole intervals of; 5.58m @ 1.54% Ni, 0.44% Cu, 0.04% Co and 2.32g/t 6PGE's from 470.42m
- Hole TBDD099W1 (Hole B) intersected downhole intervals of; 5.00m @ 2.04% Ni, 0.61% Cu, 0.06% Co and 1.09g/t 6PGE's from 550.00m
- Hole TBDD099W2 (Hole C) intersected downhole intervals of; 4.03m @ 1.21% Ni, 0.52% Cu, 0.04% Co and 3.63g/t 6PGE's from 609.87m
- Hole TBDD100W1 (Hole D) intersected downhole intervals of; 6.53m @ 2.87% Ni, 0.57% Cu, 0.08% Co and 6.00g/t 6PGE's from 588.47m.
- Hole TBDD107 intersected a downhole interval of 3.73m@5.012% Ni, 0.50% Cu and 4.00g/t 6PGE's from 509.25m.
- Hole TBDD100W2 intersected a downhole interval of 4.01m@1.32%Ni, 0.25%Cu, 0.09% Co and 4.73g/t 6PGE's from 646.2m.
- Hole TBDD112 intersected downhole intervals of 5.24m @ 3.6% Ni, 0.4% Cu, 49.5g/t 6PGE's from 135.7m
- Hole TBAC201 intersected a downhole interval of 32m@0.9% Ni, 0.10% Cu and 4.8g/t 6PGE's from 138.61m

The mineralisation intercepted was predominantly disseminated and breccia style with minor massive sulphide encountered in TBDD099W1. The style of mineralisation is suggestive of remobilized sulphides possibly flanking a mineralized channel position. Down hole TEM logging was able to be completed and modeled from all holes and indicate that the strongest mineralisation in the immediate area is located between TBDD099W1 and TBDD098

The massive nickel sulphide mineralisation intersected in hole TBDD098 has an ultramafic hanging-wall and sediment-free basaltic footwall, and is interpreted to represent a classic Komatiitic lava channel. However, the high copper, cobalt and platinoid assays are atypical of known lava channel nickel sulphides in Western Australia.

The mineralisation discovered thus far at Rosie was not detectable using conventional surface TEM techniques however IGO proprietary DHTM (downhole) methods have proven to be a highly effective tool in targeting massive



Anomaly B is a high priority target which will be drilled as soon as access issues are resolved and a suitable drill rig sourced.

### Current drilling program

In Nov 2010, South Boulder Mines, together with JV partner Independence Group NL (ASX: IGO), announced that drilling at the Rosie Ni-Cu-PGE Prospect has intersected further highly encouraging massive sulphides as well as significant zones of brecciated, stringer and disseminated sulphides.

On 6<sup>th</sup> December, 2010, the company announced results at its wedge hole TBDD099W1.Hole TBDD099W1 (Hole B) intersected down-hole intervals of;

- 5.00m @ 2.04% Ni, 0.61% Cu, 0.06% Co and 1.09g/t 6PGE's from 550.00m including;
- 3.83m @ 2.48% Ni, 0.75% Cu, 0.07% Co and 1.21g/t 6PGE's from 551.17m and a higher grade interval of;
- 1.20m @ 4.73% Ni, 1.10% Cu, 0.15% Co and 2.99/t 6PGE's from 552.52m.

On 8<sup>th</sup> April 2011, the company announced results at its wedge hole TBDD100W1. Hole TBDD100W1 intersected down-hole intervals of;

- 6.53m @ 2.87% Ni, 0.57% Cu, 0.08% Co and 6.00g/t 6PGE's from 588.47m including.
- 3.77m@4.17%Ni, 0.67% Cu, 1.12% Co and 9.51g/t 6PGE's from 589.23m including;
- A sulphide intercept of 0.81m @ 9.76% Ni, 1.15% Cu, 0.17% Co and 7.77g/t 6PGE's from 589.23m including;
- 0.40m @2.26% Ni, 0.61% CU, 0.29% Co and 45.93g/t 6PGE's from 509.84m includes 44.8g/t Pd.

The lower mineralization zone appears to be consistent over a strike length of at least 250m and is open in most directions. In general nickel grades at Rosie consistently appear to have higher grades at depth.

The current drilling program if effective is a precursor of a larger drilling and scoping study into the economic parameters of a mining project comprising an underground mine at Rosie and an adjacent open pit mine at C2.

- Scoping study activities completed to date include.

- Completion of a flora survey as part of an Environmental Baseline Study.
- POW approvals for resource drilling at Rosie and C2.
- Exploration base camp approvals;
- Water extraction license.
- Engagement of Aboriginal Heritage consultants and preparation for an Aboriginal heritage survey to commence in October.

In addition to this, preliminary mineralogical studies to aid future metallurgical test work were completed and demonstrated favorable metallurgical parameters.

### Duketon Gold Project in Australia

#### South Boulder interest in Project:100%

**Location:** The Duketon Gold Project comprises ~1,500km<sup>2</sup> of exploration applications and licenses in the Archaean Duketon Greenstone Belt. The Project is located ~80kms north of Laverton in Western Australia. The project is prospective for gold and base metals.

The recent Terminator and Thompsons Bore discoveries lie between the Rosie nickel discovery and another nickel discovery (C2) to the north.

#### Regional Prospectively

From the early 90's the majority of the Duketon Project was held by Normandy Mining Limited and Newmont Mining Corporation. Although wide spaced reconnaissance exploration was sporadically conducted, the vast majority of the project remains under shallow cover and vastly under explored. The Duketon Belt contains highly prospective geological sequences and mineralized structures.

Numerous structures are known to contain significant gold mineralization and this is demonstrated by the approximately +4M ounces of un-mined gold resources currently defined to date within the belt. In addition the +1.5M ounce Moolart Well Gold Project is currently being developed by Regis Resources NL "Regis" (ASX: RRL). Once operational this will be the only mining operation in the Duketon Belt.

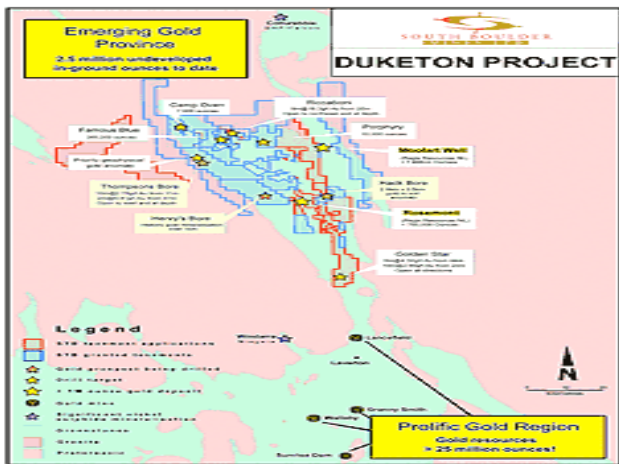
Additionally Regis has recently announced a maiden JORC compliant resource for the new Garden Well Gold Deposit at 1.2M ounces. South

Boulder has exploration licenses along strike from this new discovery. Recent drilling by Regis has returned RC intersections including 73m @ 3.61g/t, 50m @ 2.36g/t and 18m @ 6.28g/t. Terminator Gold Prospect within the Duketon Gold Project in Western Australia.

The recent development in the belt announced by Regis and A1 Minerals are under consideration and will likely have a very positive impact on the future of the Duketon Belt.

**The Terminator Prospect**

The Terminator Prospect was discovered during a geochemical aircore drilling program on E38/1537 during September 2009. The Prospect is located ~1.4km south of the Bulge C2 Nickel Deposit.



Early stage aircore results included TBAC013 – 10m @ 1.16g/t from 1m; TBAC014 – 31m @ 1.07g/t from 1m including 8m @ 2.68g/t from 1m), TBAC019 – 41m @ 0.61g/t from 1m; TBAC024 – 60m @ 1.3g/t from 2m including (10m @ 4.25g/t from 3m), TBAC025 – 8m @ 8.38g/t from 72m.

Follow-up RC drilling returned an individual highest grade assay of 1m @ 28.60g/t from 155m depth in RC hole STBTRC001. The high grade intercept was within a broader intercept of 12m @ 4.31g/t from 154m and also within 5m @ 9.60g/t from 154m.

Seven RC holes were completed and it was determined that all holes except STBTRC001 appear to have missed the main lode. The mineralization appears structurally complex and may involve a significant change of interpreted

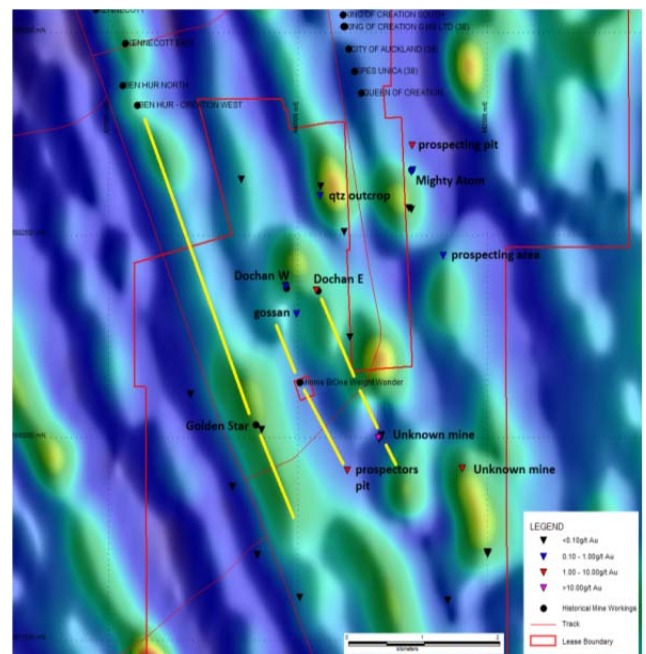
strike direction. These concepts will be test with further drilling once a full interpretation and compilation of regional datasets is undertaken.

South Boulder has stated that all holes hit very broad intercepts of low grade gold mineralization and the broadly anomalous gold signature continues to provide encouragement for the Terminator Gold Project to host a significant gold deposit.

The mineralization identified from aircore drilling is currently well defined over ~400m of strike and is open in all directions. The Terminator Prospect occurs within a broader anomalous zone over 3kms which has to date only been very lightly tested by a handful of reconnaissance drill holes.

**Current Progress**

Numerous highly prospective targets exist within the company’s extensive tenure. The company advises that over the next 12 months significant Close spaced magnetic surveys will be conducted prior to end of Dec 2010 that cover large areas to the north of Terminator and to the West of the Moolart Well Mine to help facility target generation and geochemical drill planning. Exploration The Mistake South Prospect is located ~10kms south along strike from the Garden Well Prospect and immediately south of the Eristoun/Mistake deposits.



The Mistake South Prospect is located ~10kms south along strike from the Garden Well Prospect and immediately south of the Eristoun/Mistake deposits.

**The Terminator Prospect**

Reconnaissance work has located historical workings and drill hole locations of the Golden Star and Dochan deposits in E38/1535. Preliminary 3-D modeling of these deposits has shown that the deposits are open along strike and at depth. Data compilation of an extensive RAB drilling database with untested anomalous results is underway.

Historical RC drill intercepts at Golden Star include 20m @ 5.26g/t, 14m @ 2.46g/t and 6m @ 4.32g/t Au. Historical RAB intercepts at Dochan include 8m @ 2.24g/t, 4m @ 2.92g/t and 1m @ 22.88g/t Au.

During the quarter ended March 2011, work was focused on targeting extensions to known mineralization and gaining a better understanding of the structural complexities of the deposit. A low level airborne geophysical survey was flown over E38/1511 comprising 986 line km. The survey was flown by UTS Aeroquest Airborne and recorded magnetic, radiometric and digital terrain data. It is intended to conduct further RC drilling at Terminator and the Terminator extended area in a combined Duketon Regional Gold exploration program. Details of timing and approvals of the program are currently being finalized.

**Other Exploration Projects in Western Australia**

**Fertilizer: Cardabia (Western Australia – Non Core)**

South Boulder’s 100% owned Cardabia Phosphate Project is located approximately 200 kilometers north-north east of Carnarvon, Western Australia. The Project comprises three contiguous exploration license applications E08/1850, E08/1855, E08/1856 covering around 1,642 square kilometers of prospective phosphate bearing stratigraphy within the northern Carnarvon Basin. A review of available data has outlined excellent results by previous explorers with grades of up to 49% Phosphate, and numerous grades within the 25% - 30% Phosphate range from +5 millimeter samples

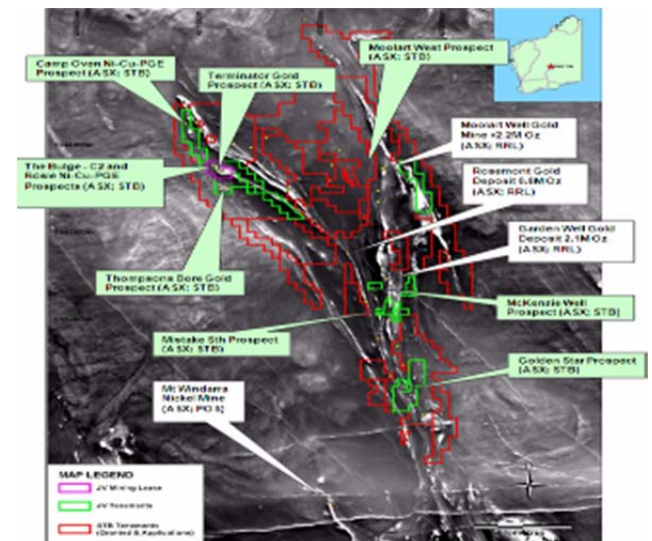
fraction obtained from drilling. The project area contains extensive phosphate-rich nodules from surface hosted within Late Cretaceous contact zones between the Gearle Siltstone - Toolonga Calcilutite and Toolonga Calcilutite - Korojon Calcarenite. South Boulder’s immediate exploration target will be to locate depressions along the White Peaks Syncline which is considered favorable for the economic accumulations of phosphate nodules.

**Fertilizer: The Four Lakes Potash Project (Western Australia – Non Core)**

The 100% owned “Four Lakes” project consists of Lake Disappointment, Lake Burnside, Gwenneth Lakes and Lake Tobin. The first two lakes are located in the “Little Sandy Desert” north of Lake Carnegie; the latter two are located deep within in the Great Sandy Desert of Western Australia. The projects are remote and require considerable logistics to support field based exploration. Access to main roads and ports will be via the Canning Stock Route to Wiluna/Esperance or via the Telfer road to Port Hedland.

The project areas contain target lacustrine systems covering in excess of 80 square kilometers of prospective drainage prospective for brine entrained potash and surficial uranium deposits. The Lake Disappointment Project is also prospective for Telfer style gold and copper mineralization.

**Fertilizer: Southern Georgina Phosphate Project (Northern Territory – Non Core)**



STB has 90% of the phosphate, base metal and uranium rights for 3 tenements (EL26380, EL25982, and EL25983) in the Northern Territory comprising ~3,000km<sup>2</sup>. Additionally South Boulder holds 10% of the manganese rights. Tenement expenditure is being met by Auvex Resources Pty Ltd.

The tenements are located in Cambrian sedimentary sequences in the Southern part of the Georgina Basin. This basin contains Australia

largest phosphate deposits. The prospective sequences are predominantly Cambrian age (498-492 Ma). Most historic work in the area concentrated on diamonds and Pb-Zn mineralization. However a number of stream sediments were assayed for phosphate, the maximum assay being 456 ppm P<sub>2</sub>O<sub>5</sub>. The highest available rock chip is 1396 P<sub>2</sub>O<sub>5</sub> ppm. Both these occurrences occur in the Cambrian sandstone and shales. Little other work has been undertaken for phosphate.

**South Boulder holds a number of shares and options in other ASX and TSX listed companies:<sup>xi</sup>**

Company Name	Stock Exchange	No of fully paid Shares	20c/25c Options	Option Expiry Date
Montezuma Mining company Ltd	ASX	5,012,500		
Buxton Resources Limited	ASX	1,610,000	750,000	30/06/2012
Avonlea Minerals Limited	ASX	400,000		
Uranex NL	ASX	800,000		
Continental Nickel	TSX	121,200		
Auvex Resources Ltd (25c)	Private	500,000	1,000,000	
Mineral Resources Limited	ASX	31,700		
Lithex Resources Limited	ASX	1,016,000		

## Technologies and Markets

### Potash

The term "potash" refers to a group of potassium (K) bearing minerals and chemicals. The chemical symbol, K, comes from the Latin kalium which in turn, is derived from the Arabic word for alkali. Potassium is the seventh most abundant element in the Earth's crust, and is the third major plant and crop nutrient after nitrogen and phosphate.<sup>xii</sup>

### Chemistry and Properties

Potash plays a critical role in the regulation of plant physiological functions: It strengthens cell walls, aids in water retention, improves disease resistance and boost nitrogen and phosphate absorption. Enhancing these functions results in improved plant quality and increased yields.<sup>xiii</sup>



### Potash Sources and Production

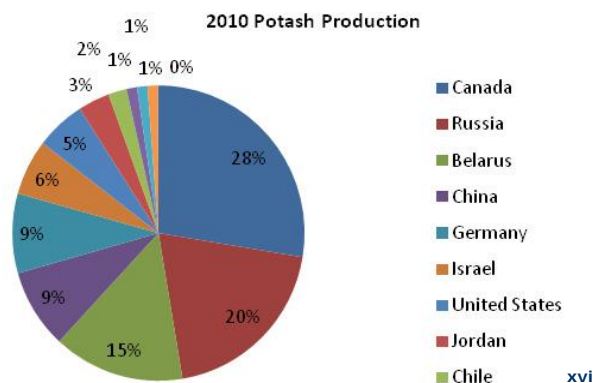
**Sources:** Potash fertilizers contain about 20 to 62% K<sub>2</sub>O (Potash). They consist of potassium in combination with chloride, sulfate, nitrate, and other elements. The common source for potash fertilizer include Muriate of potash (MOP), or potassium chloride (KCl); Sulfate of potash (SOP), or potassium sulfate (K<sub>2</sub>SO<sub>4</sub>); Sulfate of potash magnesia, or potassium-magnesium sulfate (K<sub>2</sub>SO<sub>4</sub>·2MgSO<sub>4</sub>); Saltpeter, or potassium nitrate (KNO<sub>3</sub>)

MOP is the most common potassium source used in agriculture, accounting for about 95% of all potash fertilizers used worldwide. Its nutrient composition is approximately 50% of Potassium and 46% of Chloride.<sup>xiv</sup> Most potash is extracted by conventional underground mining methods. Solution mining is used when underground deposits are irregular and very deep. The other main production method involves the evaporation of brines in shallow salt

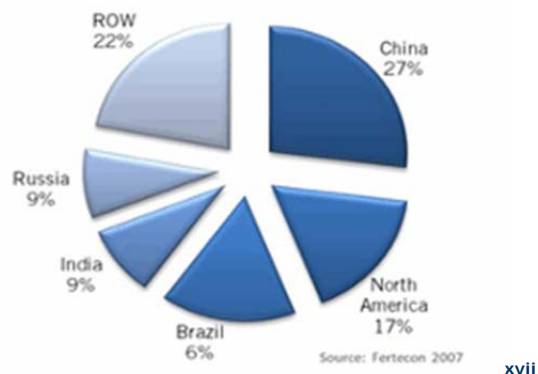
lakes, followed by the harvesting of potassium minerals. Presently, more than 90% of the world underground potash comes from conventional whereas the total 70% of rock salt production is done by solution mining.

**Production:** Potash production is limited to only 12 countries around the world. The vast majority of global production comes from 3 producing nations: Canada, Russia and Belarus. Canada is the world's largest producer with the province of Saskatchewan hosting the country's epicenter of global potash production. The current potash market is estimated at 50MMT annually and is projected to grow at a rate of 3-4%. Canada is the leading producer accounting for 35% followed by Russia 19%, Belarus 16%, Israel 10%, Germany 8% and Rest of the world 12%.<sup>xv</sup>

### Major Potash Producers



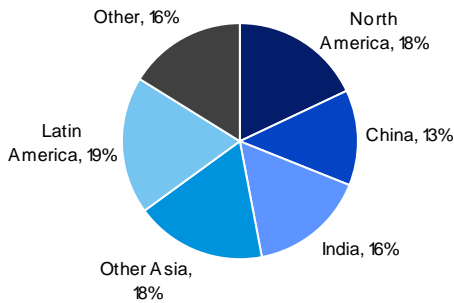
### Major Potash Consumers



**Potash Market: Demand, Supply and Outlook**

**Market:** Potash is strategic for food production and security for every country. Generally, food markets remain immune to any deterioration due to macroeconomic factors as tight fundamentals continue to provide support price levels.

In 2010, more than 60% of world potash exports went to the markets of China, India, other Asian countries and Latin America.

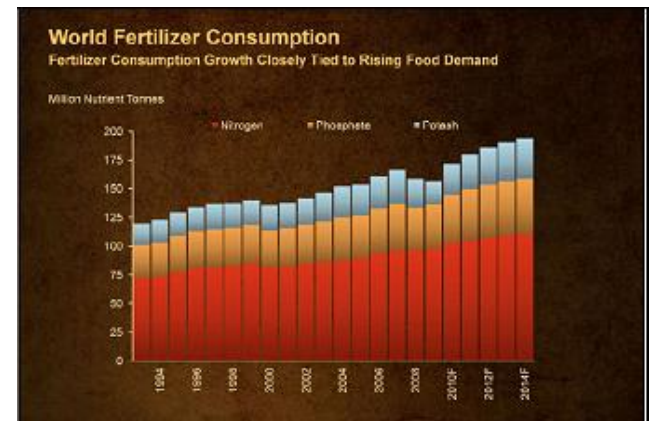
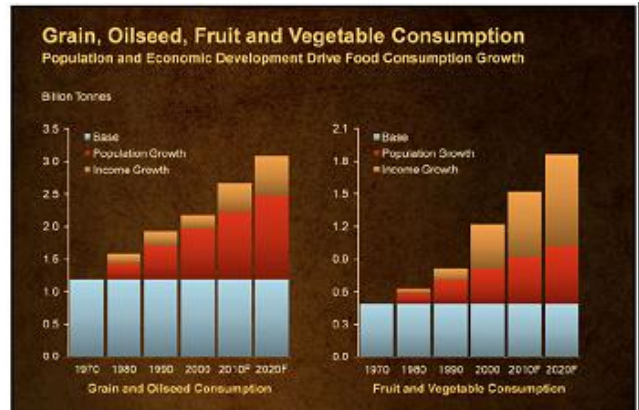


Though the consumption of potash has been most marked Asian countries, as they begin to address the need to increase crop yields through balanced soil nutrition, they are highly underinvested in potash production<sup>xviii</sup>. During the commodity rally of 2003-2008, potash was one of the hottest commodities surging from \$200 a ton to a staggering \$1000 a ton in June of 2008. In 2009, the potash market suffered from low agricultural prices, obstinate farmers, and a deflationary environment due to large excess capacity within the industry. These factors had lowered the price of potash on world markets all the way down to around \$350 a ton.<sup>xix</sup>

**Demand:** The potash market has experienced rapid growth in the last decade primarily due to an increased demand for food, fiber and feed. This trend directly correlates to its basic fundamentals: increasing global population, increasing incomes in emerging markets, improving diets, and decreasing arable land.

Potash is used as a major agricultural component in 150 countries. The largest importers of potash are the heavily populated countries of China, India and Brazil. Asian nations produce only 3.1MMT while consuming 23.1MMT. The state of potash producing

infrastructure is in decline as about 85% of the world's facilities are more than 25 years old.



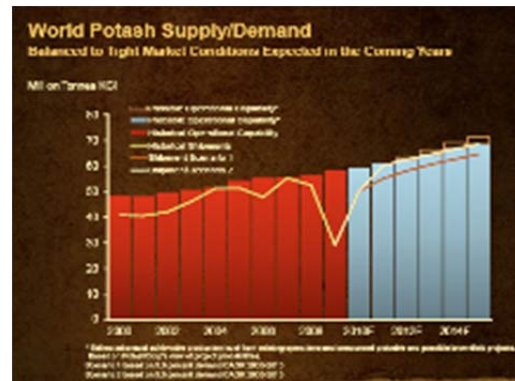
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The current potash market is estimated at 50MMT annually and is projected to grow at a rate of 3-4%. The United States remains one of the largest net consumers producing only 1.2MMT/year while consuming 5.2MMT/year.<sup>xxii</sup>

Potash Corp, the largest Potash player in the world is buoyed about the transition that took hold in 2010, when global potash shipments reached an estimated 52MMT. It believes that this is only the beginning of the rebound and that shipments in 2011 could reach 55-60MMT, depending on how aggressively farmers and fertilizer dealers move to replenish depleted inventories in the soil and supply chain. The

company asserts that potash has been under-applied in a number of key developing markets, but today these regions have growing economies, increasing demand for higher-quality food and greater ability to make the necessary investment in potash. Global potash production capabilities, however, are limited and bringing a greenfield mine into production is a seven- to 10-year proposition. <sup>xxiii</sup>

**Supply:** In 2007, the industry operated full out and produced about 55MMT. Since then, only limited new capacity has come online – most of it has been through the expansions in Saskatchewan. Based on what the industry produced in 2007 and it is estimated that the current global operational capability to be between 58-60MMT. Over the next five years, approximately 12MMT of additional global capability is expected to be added wherein Potash Corp would be responsible for more than half of the global total. Even with all announced brownfield projects coming on stream, it is believed that the market fundamentals are in place for a tight market. Historically, potash demand -has had an average annual growth rate of approximately 3.5 %. Following the unprecedented decline in demand that occurred in 2009, there need to be subsequent inventory build up to offset the deficit. <sup>xxiv</sup>

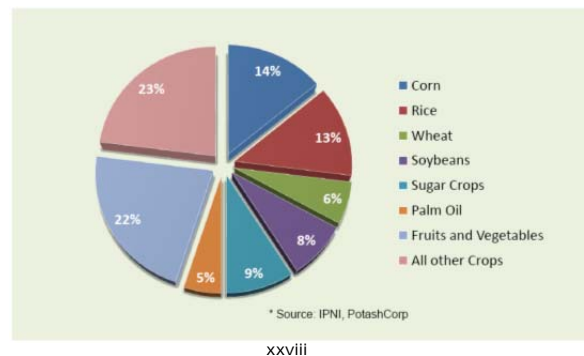


Potash Corp currently estimates the global potash operational capability at 61MMT; it expects the supply to remain under pressure throughout 2011. Given the tightening fundamentals, prices to all markets have begun to move higher. This has taken effect more quickly in the US, as market-focused farmers and fertilizer buyers secured the potash needed to capitalize on strong agricultural returns. Potash Corp sees the potential for similar trends in offshore spot and contract markets as the year progresses. <sup>xxvi</sup>

**Potash Applications<sup>xxvii</sup>**

Nearly 95% of all potash production goes into the agricultural sector where it is used as a plant nutrient. Typically as a component of N-P-K fertilizers or compound fertilizers which combine Potash with N (nitrogen) and P (Phosphate).

**Potash uptake and use by crop**



**Substitutes<sup>xxix</sup>:** The role of potassium cannot be substituted by any other nutrient and potash has no commercial substitute as a potassium fertilizer source. Manure and Glaucanite are low potassium sources that can be transported short distances to crop fields.

**Potash Market Driver**

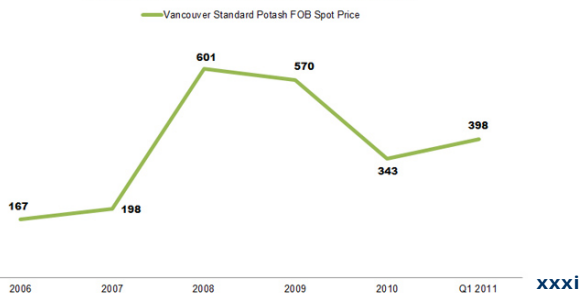
The potash market is primarily driven by the rising population and the need for nutritious food as the per capita income increases in the emerging markets. As Potash plays an important role in improving yield, taste, and nutrient value of these key crops, the farmers in developing countries have started to address decades of unbalanced fertility practices, applying potash in greater quantities to catch up on years of under-application. After a temporary slowdown during the global economic downturn beginning at the end of 2008, potash consumption levels have begun to return to pre-crisis levels in most key markets.

**Market Trends: Commodity Prices**

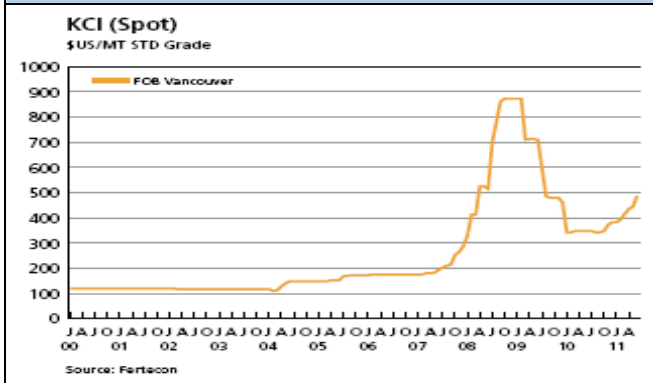
With long-term fundamentals firmly in place, the potash demand is expect to a return to near historical trend-line consumption of at least 55MMT in the near term. Arrowhead believes that Potash prices should be firmly supported by demand recovery in the near term. As grain prices trend higher and farmer economics improve, potash demand is expected to sustain the potash price range of US\$400-450 per tons in 2011.<sup>xxx</sup>

**Potash Current Price Trend**

Average Potash Selling Prices (US\$ per tonne)



**Commodity price trend in the last 12 years**



**Nickel**

Nickel (symbol Ni, atomic weight 58.71, atomic number 28) is a lustrous, silvery-white metal discovered in 1751.

**Chemistry and Properties**

Nickel has a melting point of 1453°C, relatively low thermal and electrical conductivities, high resistance to corrosion and oxidation, excellent strength and toughness at elevated temperatures, and is capable of being magnetized. It is attractive and very durable as a pure metal, and alloys readily with many other metals.

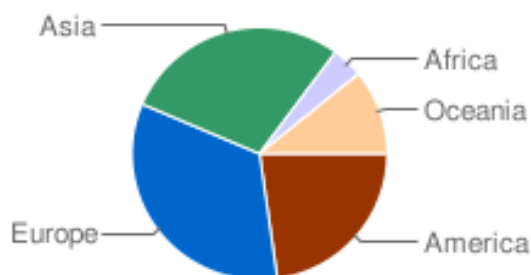


**Nickel Sources and Production**

**Sources:** The bulk of the nickel mined comes from two types of ore deposits: laterites; and sulfides. Currently 50% of production comes from sulfide sources. Laterite nickel ore accounts for about two thirds of the world's nickel resources but is generally not used for producing refined pure nickel because of its low nickel content, which ranges between 1 – 2%. Open pit methods are utilized to exploit laterite, while sulfides are exploited utilizing underground methods. For these reasons, though laterite nickel processing is more expensive, the cost of exploitation is cheaper than that of sulfide nickels.

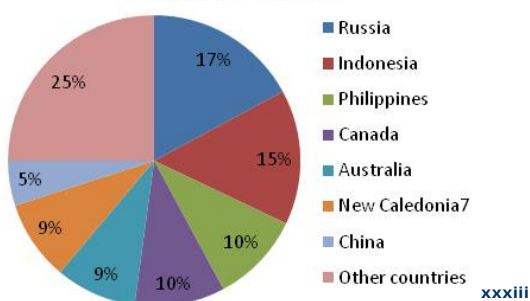
**Production:** In 2007, worldwide primary production of Nickel stood at 1.42MMT. This production was 24% higher than in 2002. Russia is the leading producer accounting for 19% followed by Canada 16%, Australia 11%, Indonesia 9%, New Caledonia 7%, Colombia 6%, China 5%, Brazil 5% and Rest of the world 25%. It is believed that most of the nickel on Earth is concentrated in the planet's core.

### Geographical production of Nickel



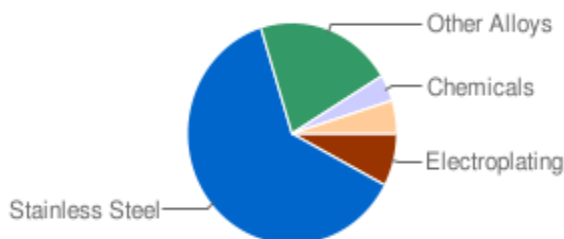
xxxii

2010 Nickel Production



xxxiii

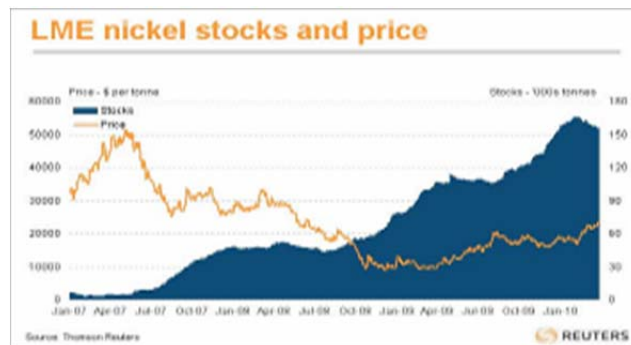
### Nickel consumption by first use



xxxiv

### Nickel Market: Demand, Supply and Outlook

Since 2000, the price of Nickel has shown considerable volatility. Until 2003, the price of Nickel remained below US\$10,000/T. The price, however, breached US\$14,000/T in 2005 and then escalated dramatically through 2006 before peaking at an average of US\$52,179/T in May 2007. Nickel prices then declined until the end of 2008, when the average cash price in December hit a low of US\$9,678/T. The fall in nickel prices was largely due to a collapse in demand and an increase in LME nickel inventories. Owing to the global economic recovery, nickel prices, in early 2009, began to once again climb and by August 2009 the price for a tonne of refined nickel had once again touched US\$20,000/T. Since then, the price has hovered between US\$15,000/T and US\$27,000/T.



**Demand:** Demand for nickel is predominantly driven by stainless steel production, which accounts for around two-thirds of total nickel consumption, and is correlated with the general state of the global economy. The demand for stainless steel has increased significantly over the past decade, due to rapid industrialization in countries such as China, Russia and India. China is responsible for the highest increase in nickel consumption, with an annual average growth rate of almost 25%. China alone now accounts for almost 25% of world nickel demand compared with 4% in 1995.<sup>xxxv</sup>

The Economist Intelligence Unit estimates that growth in nickel consumption will be 5.2% in 2011 and will largely depend on China's stainless steel export market.<sup>xxxvi</sup> In the medium to long term, demand should continue to grow on the back of growth in BRIC (Brazil, Russia, India and China) countries. Anglo American forecasted a CAGR growth of 3.6 % from 2008 through 2020.<sup>xxxvii</sup>

**Supply:** Due to the global economic meltdown, output of nickel declined sharply in 2009 as some major producers cut mine production to stabilize prices. For the first three quarters of 2009, nickel mine production fell by 18% year-on-year, while primary production was down by 6%. While production of nickel declined in 2009, Inventory at the LME built up steadily. At the end of December 2009, official stocks at LME warehouses totaled in excess of 150,000T. To put this into perspective, when nickel prices surged to above US\$50,000/T, LME stocks totaled 4,700T.<sup>xxxviii</sup> As at 26<sup>th</sup> September, 2011 official LME stocks were 97,242T. The stocks dropped to 91,782T by October 13, 2011.<sup>xxxix</sup>

Looking ahead, projected nickel supplies appear to be more than adequate, in view of large idle capacity and a stream of new projects due to

start production this year and the next few years. Anglo American forecasted that longer-term robust demand growth will require additional new capacity of ~500,000T/year by 2020.<sup>xi</sup> Newer projects will largely consist of laterites, which is likely to ramp up average production costs. The Economist Intelligence Unit estimated 2010 production at 1.4m T, a rise of 5.9% year on year, increasing by a further 7.5%, to 1.5m T, in 2011.

**Nickel applications**

Nickel is used primarily to make stainless steel and many other corrosion resistant alloys. Copper-nickel alloy tubing is used in desalination plants. Nickel is used in coinage and for armor plating. When added to glass, nickel gives a green color. Nickel plating is applied to other metals to provide a protective coating. Finely divided nickel is used as a catalyst for hydrogenating vegetable oils. Nickel is also used in ceramics, magnets, and batteries.

**Substitutes:** Nickel pig iron can be used as a substitute for nickel in stainless steel production and was used in China to offset high nickel prices in 2007. However, this process is, not sustainable if nickel prices are below US\$24,000/T.<sup>xli</sup> Nickel-free specialty steels are sometimes used in place of stainless steel within the power-generating and petrochemical industries. Titanium alloys or specialty plastics can substitute for nickel metal or nickel-based alloys in highly corrosive chemical environments. Cost savings in manufacturing lithium-ion batteries allow them to compete against NiMH in certain applications, and the technological trend indicates that this should be increasingly the case

**Market Trends: Commodity Prices**

Changes in the nickel prices tend to correlate very closely with the level of nickel stocks at the LME. Nickel prices on the LME have come down

to \$17,920 per ton as of September 26, after setting a post-crash record of \$29,000 in March.

Nickel is expected to be in oversupply in the year 2011. Around 60% of world nickel demand comes from stainless steel production and there is increasing of substitutes for nickel in steel production. Further china's, the consumer of nearly 25% of world nickel production, has reduced production of stainless steel owing to weak demand for output in domestic and overseas market. Also, supply is expected to rise 10.1 percent, nickel producers expanded their production in response to the price rise in early 2011, while demand for nickel is expected to rise 7.7 percent in 2011. The upside is, demand in Japan, due to post-earthquake reconstruction and recovery of its auto industry, might reduce the oversupply of nickel.

As of September 26, 2011, Nickel three-month futures contract was trading at US\$18,000/T; the spot price was US\$ 17,920/T. Whereas, on October 13, 2011 Nickel three-month futures contract was trading at US\$19,000/T; the spot price was US\$ 18,920/T; showing a rise in prices by US\$ 1000/T in just 15 days.<sup>xliii.</sup>



## Porter's Five Force Analysis

### Potash and Nickel industry in Brazil and Australia

Potassium is one of three key elements used in fertilizers; others being nitrogen and phosphates. Brazil holds the world's fourth - largest potash reserves with nearly 300 million tones of reserves.<sup>xliii</sup>

Almost 90 per cent of Australia's nickel is produced in Western Australia holding reserves of nearly 32% of world reserves.<sup>xliiv</sup>

## Enterprise Value Estimation: Nickel Project

We have identified peers for South Boulder in Australia and Canada as a reasonable proxy to ascertain a suitable Enterprise value based on the grade of the resource.

### Nickel Comparables

Company	Ticker	Resource (T)			Grade %			Enterprise Value (EV) (A\$M)	EV/Resource (A\$)
		Proved & Probable	Measured & Indicated (Incl. 2P)	Inferred	Measured & Indicated (Incl. 2P)	Inferred	Cumulative		
Independence	IGO	51,800	77,800	16,100	5.50	5.80	5.55	826	10,613
Mirabela Nickel	MBN	829,800	878,730	894,280	0.51	0.79	0.65	131	149
Panoramic	PAN	54,362	63,400	67,936	2.00	1.33	1.65	199	3,145
Western Areas	WSA	167,270	470,480	81,820	3.60	4.50	3.73	1,136	2,414
Mincor Resources	MCR	50,200	119,634	31,280	3.66	4.00	3.73	77	642
Minara Resources	MRE	219,000	271,000	12,000	1.02	0.96	1.02	809	2,987
Victory Nickel	NI	-	424,785	113,410	0.58	0.55	0.57	24	56
Hard Creek Nickel	HNC	-	1,501,226	1,016,528	0.22	0.20	0.21	15	10
Mustang Minerals	MUM	53,315	56,063	4,170	0.55	0.25	0.53	14	247
Duluth Metals	DM	-	1,100,076	566,838	0.20	0.21	0.20	298	271
Liberty Mines	LBE	5,660	14,688	5,295	1.26	1.48	1.32	25	1,712
First Nickel	FNI	32,027	43,105	10,659	0.45	0.38	0.44	55	1,266
URSA Major	UMJ	39,032	14,020	12,706	0.49	0.57	0.53	5	333

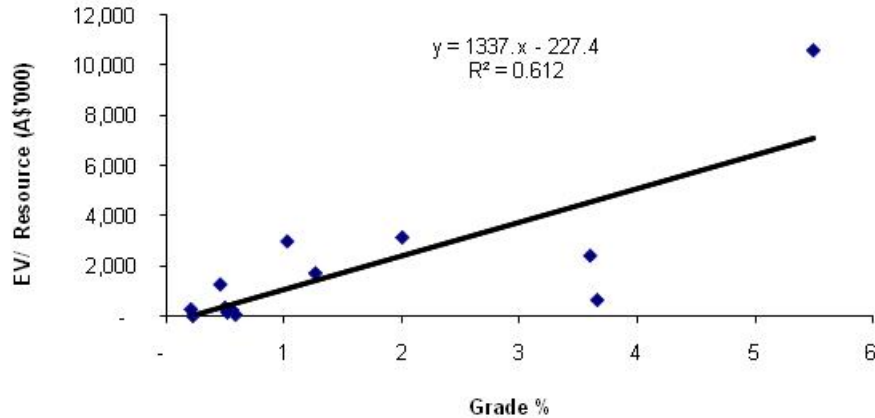
STB Rosie Project Nickel Estimate (LOW; HIGH)			
3 Input	Low	High	
Length (Strike Area)	750	750	m
Depth (Strike Area)	400	400	m
True Width	2.5	3.0	m
Nickel Ore density	3.0	3.0	T/m <sup>3</sup>
Est. Nickel Ore ('000)	2,250	2,700	T
Grade	2.0%	2.5%	
Est. Total Nickel Resource	45,000	67,500	T
<b>STB 30% Interest</b>	<b>13,500</b>	<b>20,250</b>	<b>T</b>
Life of Mine (Years)	20	20	
Total Ni Production/Yr	2,250	3,375	T

The companies' share of Nickel would be in range of 13,500 and 20,250T on a conservative Nickel grade of 2% - 2.5% and true width between 2.5-3.0m.

The resource at Rosie is estimated by considering the mineralization area of an approximate strike length of 750m and a dip extent of about 400m as per companies estimate for defining resources. We expect a potential of about 2.7MMT of Nickel Sulphite ore taking into account a true width of 3m and density of 3t/m<sup>3</sup>. At an assumed 2.0% grade rate, Rosie project would contain 45,000t of Nickel of which 13,500t would be attributable to South Boulders' 30% interest.

Rosie Project Nickel Estimate (Sensitivity)						
		True Width (m)				
		2.00	2.50	3.00	3.50	4.00
Nickel Grade %	1.5%	8,100	10,125	12,150	14,175	16,200
	2.0%	10,800	13,500	16,200	18,900	21,600
	2.5%	13,500	16,875	20,250	23,625	27,000
	3.0%	16,200	20,250	24,300	28,350	32,400
	3.5%	18,900	23,625	28,350	33,075	37,800

### Nickel Project Enterprise Value Estimate



Based on a regression analysis, we observe that there is a good correlation (R-Squared ~.612) between Enterprise Value (EV) / resource and the grade of the resource. We have estimated the Enterprise Value of South Boulder’s resource based on the regression equation represented in the chart.

### Nickel Project Valuation Bracket

Value Bracket	Grade %	Estimated EV/Resource (AU\$'000)	Contained Tonnes	Attributed EV (AU\$M)	Value/ Share (AU\$)
Low	2.0	2,448	13,500	33.05	0.38
High	2.5	3,117	20,250	63.11	0.72

The Nickel project on a standalone basis has an estimated current Enterprise Value bracket of AU\$33.05MM and AU\$63.11MM which would imply a fair value bracket of AU\$0.38 to AU\$0.72 on a per share basis.

### Enterprise Value Estimation: Potash Project

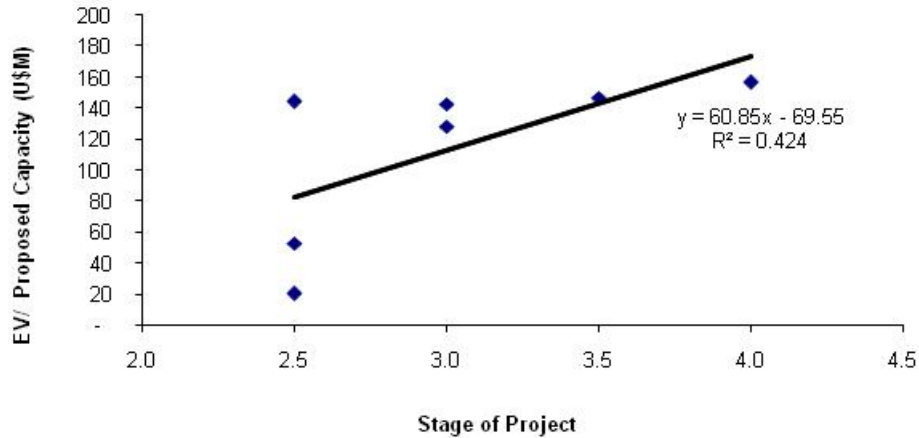
The Potash peers for STB have been screened based on the various stages of mining:

- ▶ Drilling , Seismic Activity & Resource definition
- ▶ Permitting, Licensing ,Scoping & Pre-feasibility
- ▶ Feasibility & Engineering Studies
- ▶ Mine construction & Plant development
- ▶ Potash production

STB current value emerges from its exploration interest in the Nickel and the Potash projects. These projects are currently in the various stages of pre-production including resource identification and pre-feasibility study. We have identified peers in the various pre-production stages of potash production to ascertain a suitable Enterprise value per productive capacity based on the current stage of the project.

**Potash Comparables**

Company	Ticker	Current Stage	Measured & Indicated (Incl. 2P) MT	Inferred tonnes MT	Measured & Indicated (Incl. 2P) Grade %	Inferred Grade %	Mining Type	Enterprise Value (EV) (AU\$M)	Proposed Capacity (MMTpa)	EV/Capacity (AU\$)	EV/Resource (AU\$)
South Boulder Mines	STB	3.0	207	18.56	341	18.6%	Open-cut	\$192	1.5	128	\$350
Allana	AAA	3.0	-	-	105	20.8%	Solution	\$143	1.0	143	\$1,359
Encanto Potash	EPO	2.5	79	29%	61	29.2%	Solution	\$40	2.0	20	\$289
Western Potash Corp	WPX	2.5	174	19%	560	19.5%	Solution	\$131	2.5	52	\$179
IC Potash	ICP	2.5	701	-	353	15.6%	Solution	\$87	0.6	144	\$82
Potash One	KCL	3.5	216	28%	859	26.8%	Solution	\$419	2.9	147	\$390
MagMinerals	MAA	4.0	33	17%	1,700	12.1%	Solution	\$94	0.6	157	\$54
Code	Project Phase										
1	Drilling , Seismic Activity & Resource Definition										
2	Permitting, Licensing ,Scoping & Pre-feasibility										
3	Feasibility & Engineering Studies										
4	Mine construction & Plant development										
5	Potash production										








Based on a regression analysis, we observe that there is fair correlation between EV/installed capacity and the stage of the project due to the quality of resource and the depth. We have estimated the Enterprise Value of South Boulder’s proposed capacity based on the regression equation represented in the above chart. As the potash companies define their resources appropriately in 2011 in the coming quarters, the relationship will be stronger.

Value Bracket	Stage	Estimated EV/Capacity (AU\$'000)	Proposed Capacity	Attributed EV (AU\$M)	Value/Share (AU\$)
Low	3.0	111	1.5	165.79	1.90
High	4.0	171	1.5	257.08	2.95

The Potash project on a standalone basis has an estimated current Enterprise Value bracket of AU\$165.79MM and AU\$257.08MM which would imply a fair value bracket of AU\$1.90 to AU\$2.95 on a per share basis.

## South Boulders – Risk profile analysis

Risk Type	Description	Risk score
Project Stage Risk	Most of the projects of the company are in the early stages i.e. at its exploration stages and the advanced projects are in its feasibility study stage. Potash project is in advanced stages and has shown highly positive drilling results, increasing the confidence in the project. Further, Potash will be one of the key products of the company.	
Financing risk / Capex risk	The company is currently establishing its resource measures, following which it would start mining resources. Though, the company has lowest capex needs for its Potash projects when compared to industry standards; considering that other projects are at initial stages, the company will have high financing requirements for each stage of exploration, development and production. The company has currently adopted only the equity mode of funding and could consider raising further funds through debt financing, joint ventures, or production sharing arrangements.	
Regulatory risk	The Company's mining operations and exploration and development activities are subject to laws and regulations, and requires permits from regulatory authorities for some its operations including exploration, development, production and rehabilitation. Some other activities that could be subject to government regulation include environmental compliance and protection, taxation, health and worker safety, waste disposal, native title, etc. Obtaining necessary approvals can be time consuming, delay of which could also result in monetary losses and a delay in operations.  Further, Political and economic risks from changes in Eritrea's political and legal system might affect ownership or operation of company assets	
Operational risk	With South Boulder at a very nascent stage in exploration, it remains exposed to the inherent risks in mining - specifically with regard to locating or identifying mineral deposits, failure to achieve the estimated grades in exploration and mining, and difficulties pertaining to commissioning and operating plant and equipment. Nevertheless, the company's management has a sound geological background, which it expects to leverage for achieving commercial viability through successful exploration and/or mining of its mineral interests.	
Commodity Price & Foreign exchange risks	Commodity prices fluctuate owing to supply and demand fluctuations for fertilizers, salts and metals and other macro-economic factors. Also, as expenses are incurred mainly in US dollars, Australian dollars, Euro and Eritrean Nakfa, while sales are priced in US dollars. The company is exposed to high exchange rate risk, which can be hedged.	



## Risk Parameters – Definition

### Project Stage Risk

The different stages in a project are

- **Pre-evaluation study:** Exploration drilling, preliminary ore body identification, and venture studies.
- **Concept or Scoping study:** This study will outline the possible options and its review. The minimal risk option will be studied in more detail to determine if the site has the potential to become a viable project.
- **Pre-feasibility study:** A preferred Base Case option will be identified from the possible options presented in the scoping study. The preferred Base Case option will be developed to provide some level of confidence in the production capacity, ore grades, metal recovery, capital and operating costs, project schedule, and project risks/opportunities. A financial analysis will also be carried out in order to assess the economic viability of the project.
- **Feasibility study:** This includes collection of more detailed information, additional designs, project-specific cost information to refine the project cost and schedule. This will also address information gaps, issues of concern, risks, and opportunities identified in the prefeasibility study.
- **Detailed Engineering:** Detailed designs based on the project scope and concept designs and purchase of key plant equipment will be completed.
- **Site Construction:** Site construction will start as per the field engineering designs and confirm adherence to appropriate quality control practices.
- **Commissioning and Start of Operations:** After completion construction, operability testing and acceptance by the Owner will be sought to confirm that the project construction and performance is as per the design and it meets the required plant performance and safety requirements. The final operating control programs will be completed, installed, and tested.

We consider a project to be of lower risk profile if Feasibility study is complete and Detailed Engineering has been conducted as the uncertainty regarding the sustainability of the project reduces significantly.

### Project Financing Risk

Initial stages of exploration, development and production requires high levels of capital investment. Such investments will be riskier when in feasibility study stage. The risk level of the capital reduces as it moves through further stages.

Initial stages of exploration, development of the project attracts high risk capital investors. As the project stages proceed, they have varied options like equity (IPO), debt financing.

We consider a project to be of lower risk profile if Feasibility study has been conducted and the exploration capital expenditure is low.

### Operational Risk

Mining machinery, transport and new technologies, including those developed by the Company, are used for operations in areas which have complicated geological and climatic conditions. There are increased risks of flooding, pit slope and rim slide, accidents caused by the use of the mining transport equipment due to adverse weather conditions and problems in the power supply facilities and recovery plants.

These risks could result in delayed ore production and recovery, increased costs, health, safety and environmental issues and affect the Company's production activities.

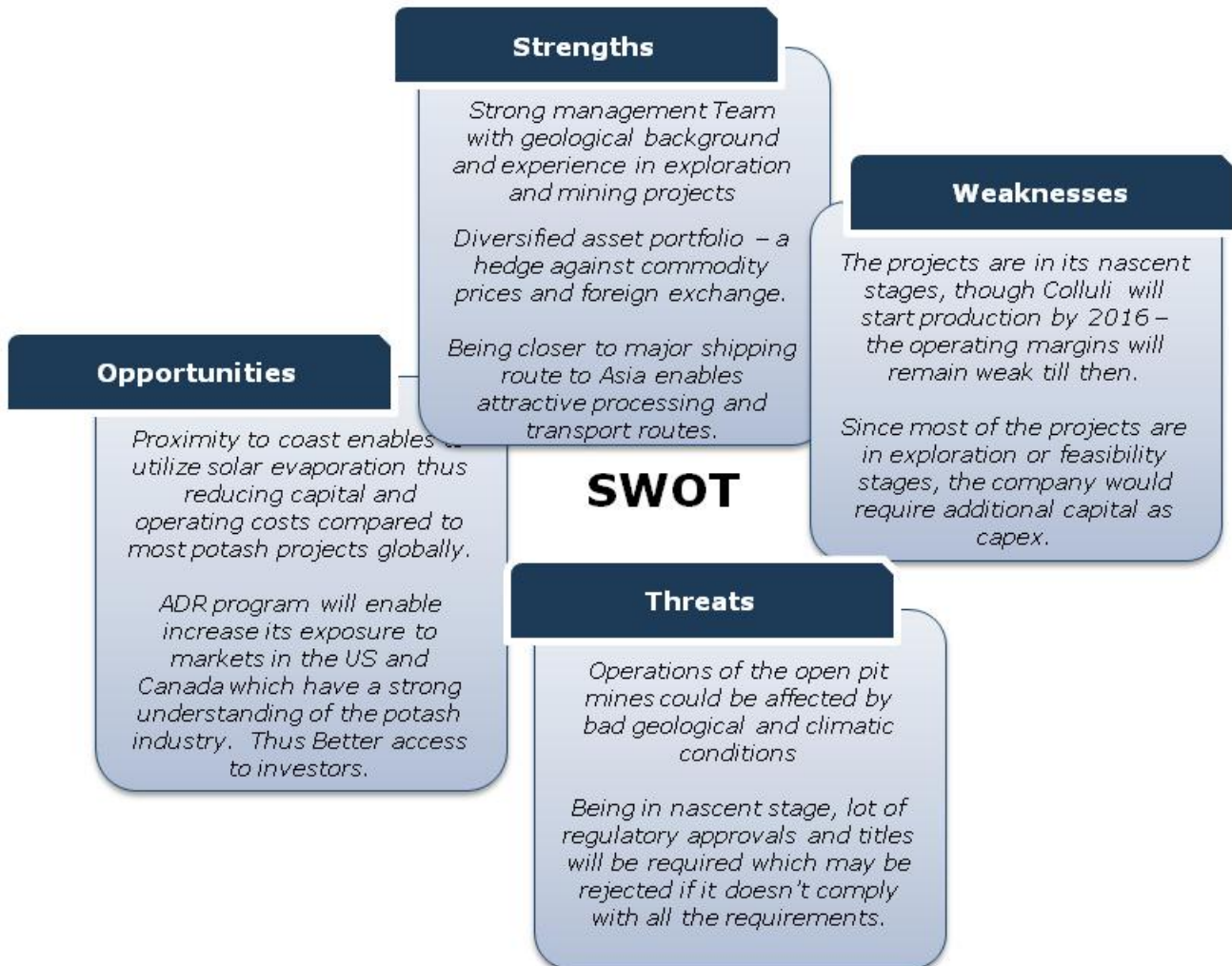
We consider a project to be of lower risk profile if the company is in the advanced stages of its operations.

### Regulatory risk

Mining Company's operations and exploration & development activities are subject to laws and regulations, and requires permits from regulatory authorities for some its operations. Obtaining necessary approvals can be time consuming, delay of which could also result in monetary losses and a delay in operations.

We consider a project to be of lower risk profile if the company is in the advanced stages of its operations.

## SWOT Analysis



## Value

The Fair Market Value for South Boulder Mines Mining Incorporated shares stands between AU\$467.1MM and AU\$1539.4MM.

The Fair Market Value for one of South Boulder Mines Mining Incorporated publicly traded shares stands between AU\$5.36 and AU\$17.67.

### South Boulder Mines Mining Incorporated Balance Sheet Forecast

#### CONSOLIDATED BALANCE SHEET

*all figures in '000 AU\$,  
unless stated differently*

*Low bracket estimates*

<i>Year ending June 30</i>	<b>2011E</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
Total Current Assets	19,817	25,510	40,314	40,032	979,579	1,199,594	1,571,251
Total Non-Current Assets	(232)	113	176,418	367,379	506,797	649,718	784,891
<b>TOTAL ASSETS</b>	<b>19,584</b>	<b>25,623</b>	<b>216,732</b>	<b>407,411</b>	<b>1,486,377</b>	<b>1,849,312</b>	<b>2,356,142</b>
Total Current Liabilities	792	776	826	515	122,701	37,015	17,054
Total Non-current Liabilities	-	-	200,000	440,000	750,000	1,150,000	1,250,000
<b>TOTAL LIABILITIES</b>	<b>792</b>	<b>776</b>	<b>200,826</b>	<b>440,515</b>	<b>872,701</b>	<b>1,187,015</b>	<b>1,267,054</b>
Total Shareholders' Equity	18,792	24,847	15,906	(33,104)	613,676	662,296	1,089,088
<b>TOTAL LIABILITIES and EQUITY</b>	<b>19,584</b>	<b>25,623</b>	<b>216,732</b>	<b>407,411</b>	<b>1,486,377</b>	<b>1,849,312</b>	<b>2,356,142</b>

### Important information on Arrowhead methodology

The principles of the valuation methodology employed by Arrowhead BID are variable to a certain extent, depending on the sub-sectors in which the research is conducted. But all Arrowhead valuation researches possess an underlying set of common principles and a generally common quantitative process.

With Arrowhead commercial and technical due diligence, the company researches the fundamentals, assets and liabilities of a company, and builds estimates for revenue and expenditure over a coherently determined forecast period.

Elements of past performance such as price/earning ratios, indicated as applicable, are mainly for reference. Still, elements of real-world past performance enter the valuation through their impact on the commercial and technical due diligence.

We have also presented the comparables method based on market capitalization per resource of ton (AU\$/T) as a secondary measure of fair value, which, though is not central to the methodology applied towards building the fair value bracket, is presented here as additional information.

### Arrowhead BID Fair Market Value Bracket

The Arrowhead Fair Market Value is given as a bracket. This is based on quantitative key variable analyses such as key price analysis for revenue and cost drivers or analysis and discounts on revenue estimates for projects, especially relevant to projects estimated to provide revenue near the end of the chosen forecast period. Low and high estimates for key variables are produced as a valuation tool.

In principle, an investor comfortable with the high brackets of our key variable analysis will align with the high bracket in the Arrowhead Fair Value Bracket, and, likewise, in terms of low estimates. The investor will also note the company intangibles to analyze the strengths and weaknesses, and other essential company information. These intangibles serve as supplementary decision factors for adding or subtracting a premium in investor's own analysis.

The bracket should be taken as a tool by Arrowhead BID for the reader of this report and the reader should not solely rely on this information to make his decision on any particular security. The reader

must also understand that while on the one hand global capital markets contain inefficiencies, especially in terms of information, on the other, corporations and their commercial and technical positions evolve rapidly. This present edition of the Arrowhead valuation is for a short to medium-term alignment analysis (one to twelve months). The reader should refer to important disclosures on page 37 of this report.

### **Information on the South Boulder Mines Mining Incorporated valuation**

**South Boulder Mines Mining Incorporated Valuation Methodology:** The Arrowhead fair valuation for South Boulder Mines Mining Incorporated is based on the discounted cash flow (DCF) method.

**Time Horizon:** The Arrowhead fair valuation for South Boulder Mines Mining Incorporated is based on a DCF method. The time period chosen for the valuation is ~165 months (October 2011- June 2025). While revenue is expected to ramp up significantly during the 2017-2025, the later years are heavily discounted and have a marginal effect on valuation, which are included primarily to present a full project cycle situation.

**Underlying Business Plan:** South Boulder Mines' aims at defining the potash resource at Eritrea and target at producing 1.5mt -2.0mt per annum completing the development by mid of 2016. Be a passive partner in the Duketon Nickel JV with Independence Group and earn the 30% Nickel interest once Bank Feasibility Study is completed by the partner and the production commences subsequently. Define the Gold resource by conducting exploration and scoping studies at the 100% interest Gold Terminator project in Duketon Nickel belt concurrently while the Potash project is being explored.

**Terminal Value:** Terminal Value is estimated to depend on a terminal growth rate of 0%, representing the maturity, technology change and prospective competitiveness in the business.

**Prudential Nature of Valuation:** This Arrowhead Fair Value Bracket estimate is a relatively prudential estimate, as it discounts the eventuality of the company acquiring and producing from any projects other than Nickel and Potash project before 2025.

## Key variables in South Boulder Mines revenue estimations

### Variable 1 – Forecast price of Potash for 2011-2025

Arrowhead believes that secular increase in the per capital income of the emerging market and supportive crop economics would be primary driver for fertilizers and Potash in the coming years. Based on this forecast and on hypothesis for an average of price stability, Arrowhead forecasts that a comfortably low estimate for 2011 prices of Potash should be US\$380/T, whereas a prudent high estimate should be US\$450/T. The price should grow through 2012-2021 with a +3.0% CAGR.

	2011
Low	US\$400/T
High	US\$450/T

### Variable 2 – Cash cost of mining Potash in 2011 per tonne

The potash industry mining cash cost lie in the range of US\$100 and US\$250. Since, South Boulder has lowest cost potash mine in the industry Arrowhead believes that the cash cost of mining potash would be in the range of US\$120 to US\$140.

	2011
Low	US\$140/T
High	US\$120/T

### Variable 3 – Forecast price of Nickel for 2011-2025

Arrowhead believes that changes in the nickel prices tend to correlate very closely with the level of nickel stocks at the LME. Therefore, Nickel prices are expected to rise only moderately in 2011, because substantial idle capacity at LME and new supply additions are expected to comfortably satisfy rising demand. Arrowhead forecasts that a comfortably low estimate for 2011 prices of Nickel should be US\$23,000/T, whereas a prudent high estimate should be US\$24,000/T. The price should grow through 2012-2021 with a +2.0% CAGR.

	2011
Low	US\$23,000/T
High	US\$24,000/T

### Variable 4 – Hypothesis for annual production at Colluli Potash Project 2016

Arrowhead believes that once South Boulder completes its resource estimation and engineering studies at its Colluli project in Eritrea, it would start constructing a mine which would have a annual production in the range of 1.5 -2.0 MTPA. Arrowhead also believes that the cash cost using most probably open-cut mining should be in the lower quartiles of global comparable values. The relatively low anticipated capital and cash costs are a function of important key factors such as;

- Project is ~70kms from the coast;
- The mineralization identified is extensive and has been defined from 28.68m depth and is predominantly less than 100m deep. This makes it one of the shallowest buried evaporate deposits in the world;
- The mineralization is of economic grades;
- Open cut, underground or solution mining techniques are available to exploit the resource;
- The solar evaporation method is available in the processing route;
- Geothermal energy use has strong potential;
- No known environmental issues.

The cash cost is expected to be US\$100/T through 2011-2021 with a +2.0% CAGR, with the recent drill results confirming extensive mineralization at shallow depths.

	Annual Production
Low	1.50T
High	2.00T

**Variable 5 – Hypothesis for commencement of production from Colluli Potash**

Based on discussion with management, Arrowhead considers that the production could earliest by mid 2016.

**Variable 6 – Hypothesis for annual production at Duketon Nickel JV Project 2015-2025**

Arrowhead considers that annual production estimates from the Duketon Nickel JV range from 2,250 to 2,500T. Once the project becomes operational in 2015 Arrowhead assumed a cash cost of US\$9,000/T.

	2015-2025
Low	2250T
High	2500T

**Variable 7 – Hypothesis for capital expenditure at Colluli Potash Project 2013-2017**

Arrowhead believes that once South Boulder completes its engineering studies at its Colluli, it would incur a capital expenditure of about US\$700 to US\$800MM in development costs. We also believe that the spending would be uniform over the period to construct the mine to extract Potash using open-cut mining.

	2013-2017
Low	US\$700M
High	US\$800M

**Variable 8 – US\$/AUS\$ exchange rates**

Since South Boulders' forecast revenues are extremely sensitive to the forecast international prices of Potash and Nickel, which are priced in US\$, and since South Boulder is listed in Australia, the currency factor is important. US\$/AU\$ exchange rates of 0.91 are the benchmark for a low value, while a high value estimate is at 1.1.

Low	0.91
High	1.10

## Analyst Certifications and Important Disclosures

### Analyst Certifications

I, Thomas Renaud, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject company.

I, Vishal Pasari, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security and the subject company.

### Important Disclosures

Arrowhead Business and Investment Decisions, LLC received fees in 2010 and 2011 from South Boulder Mines for researching and drafting this report and for a series of other services to South Boulder Mines, including distribution of this report and networking services. Arrowhead BID and some of its principals or employees own long position in South Boulder Mines.

Aside from certain reports published on a periodic basis, the large majority of reports are published by Arrowhead BID at irregular intervals as appropriate in the analyst's judgment.

Any opinions expressed in this report are statements of our judgment to this date and are subject to change without notice.

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, any of the financial or other money-management instruments linked to the company and company valuation described in this report, hereafter referred to as "the securities", may not be suitable for all investors.

Investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary.

Investors are advised to gather and consult multiple information sources before making investment decisions. Recipients of this report are strongly advised to read the information on Arrowhead Methodology section of this report to understand if and how the Arrowhead Due Diligence and Arrowhead Fair Value Bracket integrate alongside the rest of their stream of information and within their decision taking process.

Past performance of securities described directly or indirectly in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from any of the financial securities described in this report may rise as well as fall, and may be affected by simple and complex changes in economic, financial and political factors.

Should a security described in this report be denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the security.

This report is published solely for information purposes, and is not to be considered as an offer to buy any security, in any state.

Other than disclosures relating to Arrowhead Business and Investment Decisions, LLC, the information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete statement or summary of the available data.

Arrowhead Business and Investment Decisions, LLC is not responsible for any loss, financial or other, directly or indirectly linked to any price movement or absence of price movement of the securities described in this report.

## Valuation

### WACC

Risk-free rate	4.20%	xlv
Beta	1.57	xlvi
Risk premium	10.8%	xlvii
Additional Risk Premium	0.0%	xlviii
Cost of Equity	21.08%	
Terminal Growth Rate	0%	xlix

	Potash Prices 2011-2025	Nickel Prices 2011-2025	CC Potash /tonne	Colluli Potash Capacity (MT)	Potash Capex( US\$/T)	Nickel JV Production (T)	US\$ / AUS\$
Max valuation	\$450 +3.0%p.a	\$24,500 +2.0%p.a	\$120	2.0	700	2,500	1.10
Min valuation	\$400 +3.0%p.a	\$23,000 +2.0%p.a	\$140	1.5	800	2,250	0.91

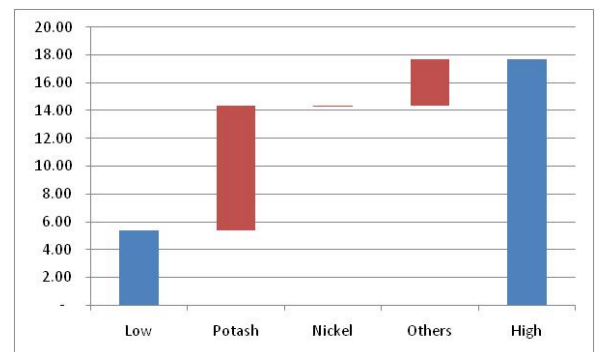
FCFE (High) Time Period -->	-	0.75	1.75	2.75	3.75	4.75	5.75	6.75	7.75
	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net cash from operating activities	7,169	6,859	(16,143)	(71,035)	764,970	9,939	411,155	489,575	528,293
Capital Expenditure	(2,000)	(2,000)	(170,500)	(170,500)	(170,500)	(170,500)	(170,500)	(31,900)	(31,900)
Net Debt Addition	-	-	200,000	240,000	310,000	400,000	100,000	(50,000)	(100,000)
<b>Free Cash Flow to Equity</b>	<b>5,169</b>	<b>4,859</b>	<b>13,357</b>	<b>(1,535)</b>	<b>904,470</b>	<b>239,439</b>	<b>340,655</b>	<b>407,675</b>	<b>396,393</b>
Discount Factor	1.00	0.87	0.72	0.59	0.49	0.40	0.33	0.27	0.23
<b>Present Value of FCF</b>	<b>5,169</b>	<b>4,210</b>	<b>9,558</b>	<b>(907)</b>	<b>441,475</b>	<b>96,526</b>	<b>113,423</b>	<b>112,108</b>	<b>90,029</b>
<b>FCFE (Low) Time Period --&gt;</b>	<b>-</b>	<b>0.75</b>	<b>1.75</b>	<b>2.75</b>	<b>3.75</b>	<b>4.75</b>	<b>5.75</b>	<b>6.75</b>	<b>7.75</b>
	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Net cash from operating activities	7,169	6,859	(16,143)	(70,611)	(135,049)	(20,469)	296,586	190,301	199,806
Capital Expenditure	(2,000)	(2,000)	(163,800)	(163,800)	(163,800)	(163,800)	(163,800)	(32,760)	(32,760)
Net Debt Addition	-	-	200,000	240,000	310,000	400,000	100,000	(50,000)	(100,000)
<b>Free Cash Flow to Equity</b>	<b>5,169</b>	<b>4,859</b>	<b>20,057</b>	<b>5,589</b>	<b>11,151</b>	<b>215,731</b>	<b>232,786</b>	<b>107,541</b>	<b>67,046</b>
Discount Factor	1.00	0.87	0.72	0.59	0.49	0.40	0.33	0.27	0.23
<b>Present Value of FCF</b>	<b>5,169</b>	<b>4,210</b>	<b>14,352</b>	<b>3,303</b>	<b>5,443</b>	<b>86,968</b>	<b>77,507</b>	<b>29,573</b>	<b>15,228</b>

In the model, the valuation is continued to the year 2025, from which point the terminal value is established. For all data see reference table below:

### ARROWHEAD FAIR VALUE BRACKET

	High	Low
Terminal Value (TV)	3,648,787	1,482,368
Present Value of TV	263,043	106,865
Present Value of FCF + TV	<b>1,524,296</b>	<b>452,055</b>
+ Cash <sup>i</sup>	13,000	13,000
<b>Equity Value Bracket</b>	<b>1,539,357</b>	<b>467,116</b>
Shares Outstanding (in '000) <sup>ii</sup>	87,116	87,116
<b>Fair Value Bracket</b>	<b>AUD 17.67</b>	<b>AUD 5.36</b>
Current Market Price	<b>AUD 2.370</b>	<b>AUD 2.370</b>
Current Market Capital	<b>206.46</b>	<b>206.46</b>
Target Market Capital	<b>1,539.4</b>	<b>467.1</b>

### AUS\$/SHARE VALUE CONTRIBUTION PER KEY VARIABLE



## Notes

- i* Arrowhead Business and Investment Decisions (ABID) Fair Value Bracket. See information on valuation on page 33-38 of this report and important disclosures on page 37 of this report
- ii* Source: Bloomberg 13<sup>th</sup> October 2011
- iii* 52 weeks to 30<sup>th</sup> September 2011 Source: Bloomberg as on 13<sup>th</sup> October 2011
- iv* 3-month average volume; Source: Bloomberg 13<sup>th</sup> October 2011
- v* Source: Bloomberg as on 13<sup>th</sup> October 2011
- vi* Arrowhead Business and Investment Decisions (ABID) Fair Value Bracket. See information on valuation on pages 33-38 of this report and important disclosures on page 37 of this report
- vii* Source: [www.potashcorp.com/media/PotashCorp\\_2010\\_AR\\_MDA.pdf](http://www.potashcorp.com/media/PotashCorp_2010_AR_MDA.pdf)
- viii* Source: Bloomberg as on 13<sup>th</sup> October 2011
- ix* Source: [http://www.southbouldermines.com.au/corporate/directors\\_profile/](http://www.southbouldermines.com.au/corporate/directors_profile/)
- x* Source: South Boulder Mines Resources disclosures. – As all other information on location and geology of the assets.
- xi* Quarterly report as on 30<sup>th</sup> June 2011
- xii* Source of information <http://www.westernpotash.com/about-potash>
- xiii* Source of information <http://www.westernpotash.com/about-potash>
- xiv* Source of information <http://www.potash-info.com/potassium/potassiuminfertilisers/potassiuminfertilisers.htm>
- xv* Source of information <http://www.potash1.ca/s/Fundamentals.asp>
- xvi* Source: <http://minerals.usgs.gov/minerals/pubs/commodity/potash/mcs-2011-potas.pdf>
- xvii* Source: Source Potash One <http://www.potash1.ca/s/Fundamentals.asp>
- xviii* Source: [www.potashcorp.com/media/PotashCorp\\_2010\\_AR\\_MDA.pdf](http://www.potashcorp.com/media/PotashCorp_2010_AR_MDA.pdf)
- xix* Source of information <http://www.westernpotash.com/about-potash>
- xx* Source Potash Corp September 2010 investor presentation
- xxi* Source Potash Corp September 2010 investor presentation
- xxii* Source of information <http://www.potash1.ca/s/Fundamentals.asp>
- xxiii* Source of information <http://www.potashcorp.com/news/1008/>
- xxiv* Source of information <http://www.potashcorp.com/investors/>
- xxv* Source Potash Corp March 2011 investor presentation
- xxvi* Source of information <http://www.potashcorp.com/news/1077/>
- xxvii* Source of information <http://www.westernpotash.com/about-potash>
- xxviii* Source: [www.magindustries.com/cmsdocs/.../MagIndustries-on-Potash.pdf](http://www.magindustries.com/cmsdocs/.../MagIndustries-on-Potash.pdf)
- xxix* Source of information <http://www.westernpotash.com/about-potash>
- xxx* Source: <http://www.infomine.com/chartsanddata/chartbuilder.aspx?z=f&g=127651&dr=3y>
- xxx* Source: <http://www.westernpotash.com/supply-and-demand/pricing>

- xxxii Source: London Metals Exchange [http://www.lme.co.uk/nickel\\_industryusage.asp](http://www.lme.co.uk/nickel_industryusage.asp)
- xxxiii Source: <http://minerals.usgs.gov/minerals/pubs/commodity/nickel/mcs-2011-nicke.pdf>
- xxxiv Source: London Metals Exchange [http://www.lme.co.uk/nickel\\_industryusage.asp](http://www.lme.co.uk/nickel_industryusage.asp)
- xxxv Source: Research Corporation; <http://www.crownmin.com/files/NickelReportFebruary2009.pdf>.
- xxxvi Economist Intelligence Unit Source: <http://gfs.eiu.com/Article.aspx?articleType=cfh&articleId=907274475>
- xxxvii Source: Anglo-American; [http://www.angloamerican.co.uk/aa/investors/presentations/2009pres/barro\\_alto\\_visit/barro\\_alto\\_visit.pdf](http://www.angloamerican.co.uk/aa/investors/presentations/2009pres/barro_alto_visit/barro_alto_visit.pdf).
- xxxviii Source: <http://www.resourceinvestor.com/News/2010/1/Pages/Demand-to-return-to-nickel-market-in-2010.aspx>.
- xxxix Source: <http://www.lme.com/nickel.asp>
- xl Source Anglo-American; [http://www.angloamerican.co.uk/aa/investors/presentations/2009pres/barro\\_alto\\_visit/barro\\_alto\\_visit.pdf](http://www.angloamerican.co.uk/aa/investors/presentations/2009pres/barro_alto_visit/barro_alto_visit.pdf).
- xli Source: <http://www.wikinvest.com/commodity/Nickel>.
- xlii Source: <http://www.lme.com/nickel.asp>
- xliii <http://minerals.usgs.gov/minerals/pubs/commodity/potash/mcs-2011-potas.pdf>
- xliv <http://minerals.usgs.gov/minerals/pubs/mcs/2011/mcs2011.pdf>
- xlv Source: Bloomberg as on 27<sup>th</sup> September 2011
- xlvi Source: Arrowhead BID estimate
- xlvii Source: Bloomberg as on 27<sup>th</sup> September 2011
- xlviii Source: Arrowhead BID estimate
- xliv Source: Arrowhead BID estimate.
- i Cash position as per the company's presentation dated 2<sup>nd</sup> September 2011
- ii Source: Bloomberg as on 27<sup>th</sup> September 2011