ASX Release

14th May 2013

SOUTH BOULDER MINES LTD

Corporate Details ASX

Code:	STB
Germany:	SO3-Fra
OTC/ADR:	SBMSY
Share Price:	$0.28
Market Cap:	$36M
Shares on issue:	128.0M
STB Options:	18.1M
Cash:	$14.7M

Contact Details

CEO
Paul Donaldson

Address
Ground Floor, 31 Ventnor Avenue
West Perth WA 6000
PO Box 970
West Perth WA 6872

Telephone
+61 8 6315 1444

Facsimile
+61 8 9486 7093

Email & Web Page:
info@southbouldermines.com.au
www.southbouldermines.com.au

Media Enquiries

Read Corporate
Paul Armstrong & Nicholas Read - Telephone: +61 8 9388 1474

South Boulder strikes key joint venture agreement with Eritrea for development of world-class Colluli Potash Project

South Boulder Mines (ASX: STB) ("STB" or "the Company") is pleased to announce that it has reached a binding term sheet agreement ("the Agreement") with the Eritrean National Mining Corporation ("ENAMCO") regarding ENAMCO's participation in the Colluli Potash Project ("Project").

The agreement represents a major milestone in the development of the Project and provides significant certainty as to the economic and fiscal basis under which the Project can be developed. This certainty is expected to assist ongoing discussions with potential strategic investors.

Overview

Key terms of the agreement are:

- ENAMCO and STB will each hold a 50% ownership interest in the Project through a newly formed company, Colluli Mining Share Company ("CMSC");
- It is proposed that Project Development Costs for initial development will be funded 70% by debt and 30% by equity;
- To the extent that third party commercial debt is not available for 70% of Project Development Costs, STB will be required to provide the debt to CMSC on arms' length commercial terms;
- The balancing 30% project equity required (including ENAMCO's 50% share) for initial Development Costs will be funded by STB. STB will be entitled to recoup 50% of this equity as a preferential payment from 50% of the Project cashflows that would have otherwise been available to all equity holders. As a result, until such time as the 50% of the equity contributed by STB on behalf of ENAMCO is repaid, STB will be entitled to receive 75% of all free distributable cashflows after debt service obligations;
- CMSC will have a Board of 5 being 3 members from STB and 2 from ENAMCO; and
- ENAMCO will provide a stabilisation agreement under which it bears the risk of adverse changes in the Eritrean fiscal regime for 10 years from first production.

A binding term sheet has been executed by the parties and approved by the Government of the State of Eritrea, ENAMCO and the STB Board. The next step is for this term sheet to be documented, largely in the form of establishing CMSC and signing the associated agreements between ENAMCO and STB.

A more detailed overview of the terms of the Agreement, its potential financial impact and STB's current activities are outlined below.

Terms of Agreement

The key terms of the Agreement are:

Ownership & Board of CMSC

- STB and ENAMCO will incorporate a new Eritrean company, CMSC;
- ENAMCO and STB will each own 50% of the issued shares of CMSC;
- STB shall transfer its interest in the Project (primarily an exploration licence) to CMSC (without incurring any tax, stamp duty or other costs) and CMSC will own 100% of the Project;
- The Exploration Agreement between STB and the State of Eritrea shall be transferred to CMSC;
- CMSC will take over the exploration, development and operation of the Project;
- The Board of CMSC shall consist of 5 members, 3 appointed by STB and 2 appointed by ENAMCO; and
- CMSC will manage the Project through the Board and its own employees, with certain specified key decisions requiring the unanimous approval of both shareholders.

Mining Agreement

- ENAMCO will support CMSC's efforts in negotiating a Mining Agreement with the State of Eritrea and the issuing of a mining licence within 2 years of entry into the CMSC Shareholders Agreement.

Debt Funding

- CMSC will seek to borrow up to 70% of Development Costs (which includes STB costs to date) from a third party financier on commercial terms;
- To the extent the full 70% of Development Costs cannot be funded by externally sourced debt, it will be contributed by STB on market terms and conditions as agreed between ENAMCO and STB; and
- CMSC will provide security for debt funding

Equity Funding

- The required equity funds for 30% of Development Costs will be contributed by STB in respect of both its shares and ENAMCO's shares;
- Of equity funding, 50% shall be recouped as outlined below;
- Free cashflows available to equity holders after obligations to debt providers have been satisfied will be applied as follows:
    - 50% to the repayment of the equity funds contributed by STB (until repaid); then
    - the balance will be distributed to CMSC shareholders in proportion to their equity holdings.
- The equity contribution regime outlined above only applies to initial Development Costs. Equity funding for project development costs that may be required after first production shall be financed by CMSC either through its own internal cash or from debt funding decided upon by the Board (e.g. for expansions).

Project Development Costs

- Pre-production development costs including capital costs, exploration (including past exploration), financing costs/interest, working capital and all other funding required prior to first production ("Development Costs").

Fiscal Stabilisation

- ENAMCO will bear the risk of adverse impact on the economics of the Project or CMSC associated with a change to the fiscal regime in Eritrea for 10 years from first commercial production through a stabilisation agreement between ENAMCO and STB.

Financial Impact

On 21 March 2013 STB announced the results of its staged development model ("SDM"), which examined the potential economics of commencing production from its Sylvinite resource at a rate of 1 million tonnes per annum, and then expanding after 5 years to a production rate of 2 million tonnes per annum by mining and processing the Carnallite resource. The SDM excludes the potential to mine and process the Kainite resource at this stage, which represents approximately 60% of the entire Colluli resource.

Under the SDM the real, ungeared IRR on a 100% basis was 15.1% at an FOB potash price of US$450/t. If 70% third party debt can is obtained for 70% of the Development Costs (approximately $700m) at an interest rate of LIBOR +5% over a 7 year term (includes a 2 year construction period), under the Agreement, STB's IRR would increase to approximately 18.5% on the same pricing basis.

The above information is indicative in nature and provided to illustrate the financial impact of the Agreement only. In particular it is to be noted that the SDM is currently prepared to a scoping study level of accuracy and any financial and economic assumptions made may vary in practice.

The SDM also excludes any benefit from mining Kainite and studies are underway to confirm the optimum development path for the Colluli resource. Preliminary results indicate that inclusion of the Kainite resource in STB's development plans has the potential to improve the financial returns from the Project and work is ongoing as outlined below.

STB has confirmed Kainite is a product that may be mined and shipped in its own right, to be sold as a direct application fertiliser or further processed into conventional potash products as occurs already in nearby markets such as India. A study is also being undertaken into processing a mixed feed of Kainite, Sylvinite and Carnallite into a single product. The company is in the process of engaging with processing and product specialists to contribute to scoping studies that will better define this potential and may influence the direction taken in the DFS.

South Boulder Chief Executive Officer, Paul Donaldson said:

"The signing of a binding term sheet with ENAMCO is a significant milestone for STB. The agreement establishes clear terms for a partnership with the Eritrean Government through ENAMCO, clearly aligns STB and ENAMCO's interests in moving project forward with project development and provides certainty which will facilitate interaction with potential financiers and strategic investors."

-ENDS-

More information:
Email: info@southbouldermines.com.au
Website: www.southbouldermines.com.au
South Boulder Mines Limited: Telephone +61 8 6315 1444

Mr Paul Donaldson
CHIEF EXECUTIVE OFFICER

Competent Persons and Responsibility Statement

The Colluli Potash Project has a current JORC/NI43-101 Compliant Measured, Indicated and Inferred Mineral Resource Estimate of 1,079.00Mt @ 17.97% KCl or 11.35% K2O (total contained potash of 194.09Mt KCl or 122.61Mt K2O). The resource contains 261.81Mt @ 17.94% KCl or 11.33% K2O of Measured Resources, 674.48Mt @ 17.98% KCl or 11.36% K2O of Indicated Resources and 143.50Mt @ 18.00% KCl or 11.37% K2O of Inferred Resources. The current Mineral Resource Estimate is included in the current exploration target of 1.25 – 1.75 billion tonnes @18-20% KCl. The potential quantity and grade of the total current exploration target which includes the current Mineral Resource Estimate is conceptual in nature and there has been insufficient exploration to define a Mineral Resource other than the current Mineral Resource Estimate and it is uncertain if further exploration will result in the determination of a Mineral Resource Estimate other than the current Mineral Resource Estimate.

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Greg Knox using estimates supplied by South Boulder Mines Ltd under supervision by Ercosplan. Dr Henry Rauche and Dr Sebastiaan van der Klauw are co-authors of the JORC and NI43-101 compliant resource report. Greg Knox is a member in good standing of the Australian Institute of Mining and Metallurgy and Dr.s' Rauche and van der Klauw are members in good standing of the European Federation of Geologists (EurGeol) which is a "Recognised Overseas Professional Organisation" (ROPO). A ROPO is an accredited organisation to which Competent Persons must belong for the purpose of preparing reports on Exploration Results, Mineral Resources and Ore Reserves for submission to the ASX.

Mr Knox, Mr Rauche and Mr Van Der Klauw are geologists and they have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they have undertaken to qualify as a Competent Person as defined in the 2004 Edition of the "Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Knox, Mr Rauche and Mr van der Klauw consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Quality Control and Quality Assurance

South Boulder Exploration programs follow standard operating and quality assurance procedures to ensure that all sampling techniques and sample results meet international reporting standards. Drill holes are located using GPS coordinates using WGS84 Datum, all mineralisation intervals are downhole and are true width intervals. Assay values are shown above a cut-off of 6% K2O. The samples are derived from HQ diamond drill core which in the case of carnallite ores are sealed in heat sealed plastic tubing immediately as it is drilled to preserve the sample. Significant sample intervals are dry quarter cut using a diamond saw and then resealed and double bagged for transport to the laboratory. Halite blanks and duplicate samples are submitted with each hole. Chemical analyses were conducted by Kali-Umwelttechnik GmBH Sondershausen, Germany utilising flame emission spectrometry, atomic absorption spectroscopy and ionchromatography. Kali- Umwelttechnik (KUTEC) Sondershausen1 have extensive experience in analysis of salt rock and brine samples and is certified ac cording by DIN EN ISO/IEC 17025 by the Deutsche Akkreditierungssystem Prüfwesen GmbH (DAR). The laboratory follow standard procedures for the analysis of potash salt rocks • chemical analysis (K+, Na+, Mg2+, Ca2+, Cl-, SO42-, H2O) and X-ray diffraction (XRD) analysis of the same samples as for chemical analysis to determine a qualitative mineral composition, which combined with the chemical analysis gives a quantitative mineral composition.