

The Company Announcements Officer  
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## The following is an *Inside Briefing* interview with South Boulder Mines Chief Executive Paul Donaldson

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In this interview, Paul Donaldson provides an update on South Boulder Mines (ASX: STB, market capitalisation: ~\$27.5m) and its Colluli potash project in Eritrea.

Highlights of this interview include an explanation of the significant change in South Boulder's approach to developing Colluli, why Mr Donaldson believes the project has a good future and an outline of the next key steps.

*Inside Briefing: South Boulder has been relatively quiet about its progress at the Colluli potash project since you were appointed CEO just over a year ago. The most recent ASX announcement clearly shows there has been a lot of work going on behind the scenes. Can you take us through what you have done over the past year?*

**Paul Donaldson:**

We have had a very productive 12 months. We have concluded an agreement with the Eritrean Government and we are very close to finalising the establishment of the joint venture company with the Eritrean National Mining Company (ENAMCO). We are now planning our first joint venture meeting, which we expect will take place in March.

We have also done a considerable amount of work on the development strategy for Colluli. We have recently completed a review of this strategy and we now have a short-list of three development options. The review also included a study of the logistics and energy options in Eritrea.

*Inside Briefing: Could you elaborate on why you decided to undertake the development review?*

**Paul Donaldson:**

As the review has shown, the original development path was not right for the Colluli resource. The most commonly used potash globally is potassium chloride, which is produced predominantly from a potassium-bearing salt called sylvinite. The original scoping work that underpinned the definitive study focused solely on the sylvinite in the resource and did not give the appropriate consideration to balancing the economics of mining and processing costs.

The +1 billion-tonne Colluli resource contains three potassium bearing salts which sit in layers within the ore body. Sylvinite accounts for only 16 per cent of these salts. The other two salts in the resource are Carnallite and Kainitite. Like Sylvinite, both of these salts are used to make potassium fertilisers, otherwise known as potash.

The salts sit on top of each other in the resource and therefore the more salt types that are used in the production process, the lower the mining stripping ratios – ie, the ratio of waste to ore. Given the mining costs represented the largest portion of the operating costs in the original development concept, utilising all salts represented a significant opportunity to improve the project's economics. The review indicates the waste to ore ratio can be reduced from 13.4:1 in the sylvinite-only scenario to approximately 2.5:1 by using all salts. This represents an overall cost reduction of approximately \$115 per tonne of product from the original study (ESS1) and \$50 per tonne of product from our published staged development plan (see ASX announcement dated 21<sup>st</sup> March 2013).

In addition, using all the salts opens up a lot more of the resource, extending the mine life significantly and increases the ultimate scale of the project. The paradigm shift here has been to stop thinking of the resource as a traditional deposit and question whether traditional processing is the most effective option.

More than 60 per cent of the resource is Kainitite, a potassium-bearing salt which is less common throughout the world and processed mainly from brines. We have an abundance of Kainitite in salt form and we have shifted a lot of our attention to ensuring we derive value from it.

*Inside Briefing: How does the review of the processing options alter the product suite?*

**Paul Donaldson:**

The processing options under consideration each have different product suites. All options allow for the production of potassium sulphate, a chloride-free potassium fertiliser commonly known as sulphate of potash. Sulphate of potash attracts a price premium compared with the more common potassium chloride. The market is considerably smaller and the main production centres are in Central America, Chile and China. Potassium sulphate is produced either from brines or by the addition of sulphuric acid to potassium chloride.

Potassium chloride could also be produced under two of the three scenarios and kieserite, a magnesium sulphate which is also used as a fertilizer, could be a product under one of the scenarios. The objective now is to determine which option is best suited to the resource. This is the aim of the next round of test work.

*Inside Briefing: The original development path was based on a production module of 1Mtpa of potassium chloride. How do you view that scenario in light of your latest studies?*

**Paul Donaldson:**

Our first objective is to get the product suite correctly aligned with the resource. The resource has the potential to produce potassium sulphate as well as potassium chloride, both of which are used in the fertiliser industry. Once we have finalised the product suite and processing route, our intent is to focus on a module size that offers attractive economic returns, builds a good platform for growth and mitigates safety, resource, commercial and capital risks.

*Inside Briefing: There has been some discussion concerning South Boulder's relationship with the Eritrean Government since South Boulder announced a 50-50 joint venture agreement with the Eritrean National Mining Company (ENAMCO). Would you comment on this?*

**Paul Donaldson:**

Our relationship with ENAMCO is going from strength to strength. We have been providing regular project updates and sharing our insights on resource development strategies with them. These discussions have been both engaging and productive.

As I indicated earlier, we are planning our first joint venture meeting and we are all aligned in wanting to develop the resource both as quickly and effectively as possible. On my last visit to the Colluli site, I observed the ongoing construction of a mobile communications tower which is being installed to support the project, so the government is facilitating some of the infrastructure development in anticipation of the project advancing.

*Inside Briefing: What are the next key steps in the development of the Colluli resource?*

**Paul Donaldson:**

The next step is to determine which of the three processing options that have been shortlisted is the most viable. The studies completed to date are desktop studies that have derived mass balances from both the average grades of the resource and from similar processing facilities in production.

The important step now is to test that these calculations are correct and then determine how robust the process is with variations in the ore body. For example, although the chemistry that we have modelled is the average grade of the resource, we know that the mine plan will not deliver at the average grade. We need to determine how that grade variability impacts on the process and what buffers are needed to smooth out the variations to deliver predictable outputs in order to correctly design the infrastructure. We are in discussion with potential consultancies to conduct this work with samples from the resource and the Red Sea.

These results will then play a key role in finalizing the Definitive Feasibility Study.

- ENDS -

***Further information:***

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**Forward-Looking Statements:**

The information in this presentation is published to inform you about South Boulder Mines (the "Company" or "STB") and its activities. STB has endeavoured to ensure that the information in this presentation is accurate at the time of release, and that it accurately reflects the Company's intentions. All statements in this presentation, other than statements of historical facts, that address future production, project development, reserve or resource potential, exploration drilling, exploration on activities, corporate transactions and events or developments that the Company expects to occur, are forward-looking statements. Although the Company believes the expectations expressed in such statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in forward-looking statements.

Factors that could cause actual results to differ materially from those in forward-looking statements include market prices of potash and, exploitation and exploration successes, capital and operating costs, changes in project parameters as plans continue to be evaluated, continued availability of capital and financing and general economic, market or business conditions, as well as those factors disclosed in the Company's filed documents.

There can be no assurance that the development of the Colluli Project will proceed as planned. Accordingly, readers should not place undue reliance on "forward looking information". Mineral Resources have been estimated using the Australian JORC (2004) Code ('JORC 2004'), which is a permitted code under Canadian National Instrument 43-101 ('NI 43-101'). In addition to the CIM Definition Standards on Mineral Resources and Mineral Reserves. Mineral Resource classifications under the two reporting codes are recognised as equivalent in categories with no material differences. To the extent permitted by law, the Company accepts no responsibility or liability for any losses or damages of any kind arising out of the use of any information contained in this presentation. Recipients should make their own enquiries in relation to any investment decisions.

**Competent Persons 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% K<sub>2</sub>O (total contained potash of 194.09Mt KCl or 122.61Mt K<sub>2</sub>O). The resource contains 261.81Mt @ 17.94% KCl or 11.33% K<sub>2</sub>O of Measured Resources, 674.48Mt @ 17.98% KCl or 11.36% K<sub>2</sub>O of Indicated Resources and 143.50Mt @ 18.00% KCl or 11.37% K<sub>2</sub>O of Inferred Resources.

This information was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012 on the basis that the information has not materially changed since it was last reported by independent consultants ERCOSPLAN and announced by South Boulder on 16 April 2012.

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, Dr Rauche and Dr 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, Dr Rauche and Dr Van Der Klauw consent to the inclusion in the report of the matters based on information in the form and context in which it appears.