

COMPANY UPDATE

Dear Shareholder,

The start of the new calendar year provides an excellent opportunity to both reflect on the achievements of the past year, and look forward to the opportunities that 2015 will present.

Colluli is a very large, long life, at surface deposit, that is highly amenable to open cut mining methods and is in close proximity to the coast. The deposit is located in the Danakil depression in Eritrea, East Africa, and contains over 1 billion tonnes of potassium bearing salts suitable for the production of potash fertiliser^[1]. The Danakil depression is an emerging potash province. To date over 4 billion tonnes of measured and indicated potassium bearing salts have been identified there^{[2],[3]}.

2014 was a very positive year for both the Company and the Colluli project. The management team implemented a major shift in the project's strategic direction, driven by a focus on simplifying and optimising the project's development following a comprehensive review of the resource composition, processing options, potential product suite, and operating and capital cost structures. Pre-feasibility work for the production of potassium sulphate (SOP) from the Colluli resource was initiated in April. This study is scheduled for completion in February 2015.

A variety of potash types exist in the market. They are primarily differentiated by chemistry and carry different market prices. SOP is a premium potash fertiliser which achieves a higher price in the market relative to the more common potassium chloride (MOP). SOP has limited primary production centres globally, and is typically used on higher value crops such as fruits, vegetables, nuts and coffee. SOP enjoyed continued price growth throughout 2014. Prices reached their second highest level on record. There is a small, limited number of projects for new supply globally.

The pre-feasibility study is underpinned by a highly capable team of consultants including Lycopodium, Global Potash Solutions, AMC Consultants, Knight Piesold, MBS Environmental and PRDW. In May 2014, South Boulder appointed James Durrant as the Colluli study manager to oversee and manage the project teams, in-country support and data collection.

Colluli Project Highlights: 2014

The key highlights for 2014 include:

- Appointment of AMC Consultants to conduct a comprehensive review of the resource model in preparation for assigning a maiden ore reserve to the project
- Allocation of Anfile Bay and the road transport corridor by the Eritrean Ministry of Energy and Mines to provide certainty on the project logistics
- Completion of pre-feasibility level metallurgical testwork
- Completion of pre-feasibility process plant design and associated flowsheets
- Finalisation of mining method, fleet composition and pit designs
- Initiation of process optimisation testwork for the definitive feasibility study
- Commencement of pilot tests
- Submission of first tranche of environmental baseline assessments
- Extension of exploration license

In addition to these key project milestones, STB completed an above market price strategic share placement with Hong Kong based construction company Kam Lung Investment and Development (KLID).

The year ahead

2015 has commenced with an above market share placement to Well Efficient Limited (WEL). The year ahead will focus on completion of both the pre-feasibility and definitive feasibility studies for Colluli's development.

We will achieve this by:

- Completing metallurgical optimisation testwork and piloting program
- Finalising the definitive feasibility study process layout
- Assembling and appointing a technical review committee
- Progressing capital and operating cost estimates based on optimised process configuration
- Progressing funding discussions to advance the project to construction as efficiently as possible

We will also ensure the Company has the right people to continue project development, complete and submit the remaining baseline assessments and submit the environmental management plan and mining license application.

Upon completion of the feasibility studies for the production of potassium sulphate, the potential economic upside associated with the other materials within the resource including magnesium sulphate, magnesium chloride, gypsum and salt will be explored.

Such achievements will be accomplished through the strong and collaborative relationship with our joint venture partners.

SOP Market Outlook

SOP prices have climbed throughout the year to their second highest level on record as a direct consequence of inadequate supply. There are limited greenfield developments for SOP outside of China and none that have coastal access to match Colluli. [4],[5]

With an additional 80 million people per annum on the planet, fertiliser growth will continue into the future to feed a growing population. This in combination with reduction in arable land, and changing dietary preferences means the potassium sulphate market will continue to expand. Projections estimate SOP demand growth of more than 2 million tonnes over the next decade, and the Colluli project has the potential to meet the requirements of the future and transform to a resource of global significance.[6]

Colluli Mining Share Company (CMSC)

South Boulder Mines Ltd ("STB" or the "the Company") continues to work in partnership with the Eritrean National Mining Company (ENAMCO) to develop the Colluli Potash Project in Eritrea. The project is a 50/50 joint venture with ENAMCO. STB and ENAMCO each own 50% of the joint venture company known as the Colluli Mining Share Company (CMSC) which was fully incorporated in March 2014.

Yours faithfully,



Paul Donaldson
Managing Director, South Boulder Mines
27 January 2015

- [1] ASX announcement "Colluli Potash Project Updated Economics", 21st March, 2013
- [2] Allana potash, available at <http://www.allanapotash.com/resources/factsheet.pdf>
- [3] Agriminco Corp. Technical Report, N43-101, available at <http://www.sedar.com/FindCompanyDocuments.do>
- [4] Greenmarkets Fertiliser Pricing, available at <http://www.fertilizerpricing.com/fchart.php?fid=23#>
- [5] CRU Marketing Report
- [6] ASX announcement "Investor Showcase Presentation", 13th November, 2014