MJG Capital Management, LLC
891 Parma Way
Los Altos, CA 94024
(650) 814-6105

To: **MJG Capital Limited Partners**

From: **Matthew J. Geiger**

Date: **July 24, 2012**

Subject: **The MJG Capital Fund, LP 2012 First Half Review**

Below is set forth The MJG Capital Fund's performance since inception.

Performance Since Inception (9/1/11):

MJG Capital Performance (net of all fees and expenses)	(17.25)%
S&P 500	11.75%
S&P/TSX Venture Composite Index	(34.23)%

Note: All returns for MJG Capital Partners are estimated and subject to the completion of an audit at a future date. In addition, the returns for each limited partner may vary depending upon the timing of their individual contributions and withdrawals.

Introduction & Fund Update

It's a pleasure to present you with my second semi-annual letter. The fund was launched just over ten months ago and the results are detailed on the previous page. Please keep in mind that ten months of performance mean little for a fund with a ten-year investment horizon. (Also remember the that S&P 500 is being used as my gauge for the US economy, while the S&P/TSX Venture Composite Index is the closest proxy for the universe of junior resource companies I am selecting from.)

I very recently returned from a month long trip to Bolivia, Argentina, and Peru. There I visited multiple mine sites, including the Olaroz and Cauchari Salars (world-class lithium brine deposits) in Argentina. The fund has a stake in both of these unique resources through investments in the junior mining companies (Orocobre and Lithium America, respectively) that are pushing these projects towards production. These site visits allowed me to evaluate development progress as well as the on-site technical teams for each of these projects.

As for some logistics, the fund has added two new investors, bringing the total to ten. A new website was recently launched; check it out at www.mjgcapital.com. Pictures from the site visits mentioned above are posted on the website.

Underscoring My Thesis

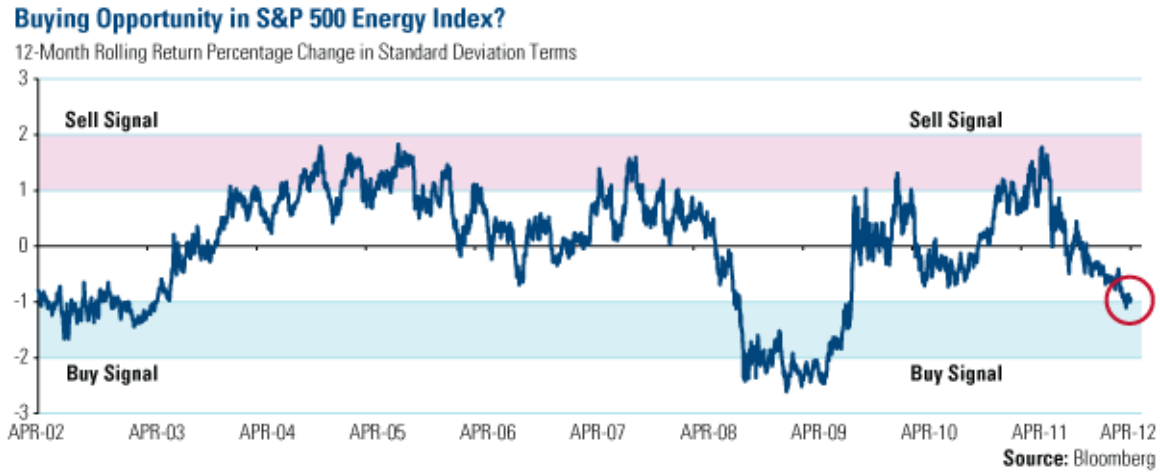
In early May, I was able to attend the Hard Assets Conference in New York. This gathering (of companies, analysts, and investors that focus on junior resource companies) was both entertaining and informative. One of the keynote speakers was Rick Rule, a well-respected investor in the junior resource space. Rule confidently proclaimed that for the savvy investor "2012 will be the year of sowing, while 2013 and 2014 will be the years of reaping". I can whole-heartedly agree with at least half of that statement: 2012 is certainly the year of sowing.

We are currently seeing fear in the marketplace that is reminiscent of the Panic of 2008 (not itself an insignificant event). Since its high in February 2011, the S&P/TSX Venture Composite Index has lost nearly half of its value. (Remember that this index is comprised of junior mining companies that while based out of Canada, have projects all over the world. This is a good proxy for the universe of companies I am selecting from.) Even the finest junior resource companies are priced as if the world ending in 2012 is a distinct possibility.

In an April article, Frank Holmes (another well-respected investor in natural resources) discussed these market conditions as well:

"The chart below shows the 12-month rolling return percentage change of the S&P 500 Energy Index. Over the past 12 months, energy stocks have declined so dramatically that it now registers a "one-sigma event" in standard deviation terms. Historically, this has occurred only 18.5% of the time in the past 10 years. There

were only two episodes when performance was worse on a one-year rolling basis: during the 2002–2003 period and during the global financial crisis in 2008-2009 when the US was in a recession."



In other words, the only times in which the energy market (which is highly correlated with the resource market) has fallen in so dramatic a fashion in the past decade were 2002 and 2008. Of course, investors with the foresight to buy during the 2002 and 2008 declines proceeded to make fortunes. Keep in mind that the chart above is only through April, while the trend has accelerated over the past two months.

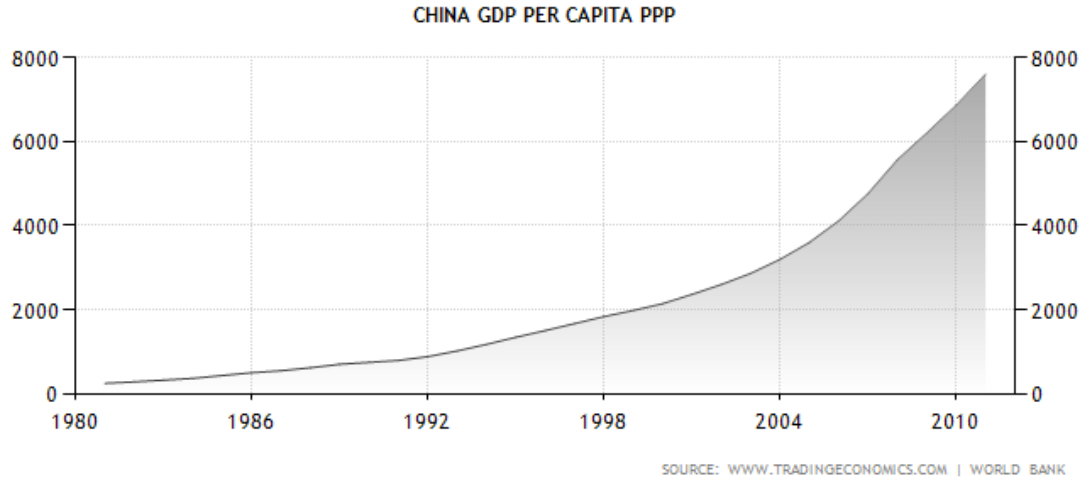
It is for this reason that the upcoming months will be prime hunting season for investors with "patience, discipline, courage, and cash" (another Rule quote). Investors who take advantage of this window will be rewarded when these "years of reaping" arrive, however long it may take.

I would first like to discuss why I am so confident that these "years of reaping" will occur one way or another. The premise is simple, as it has always been: we will eventually have to recognize that there is exponentially growing demand for a finite supply of natural resources. Let's start with "exponentially growing demand". Global consumption is a product of global population and consumption per person (global population x consumption per person = global consumption). When you have both global population and consumption per person growing at unprecedented rates, you get exponentially growing demand.

The scenario of exponentially growing demand has been occurring for at least the past three decades. How can we determine if this will continue in the next three decades? To do so, one has to consider the simple equation offered above. If the inputs of global population and consumption per person remain somewhat similar to how they are at present, then exponentially growing demand will continue for the foreseeable future. That to me seems the likely scenario.

There could of course be changes to the inputs, resulting in alternate scenarios. One possibility is if global population were to seriously decline. Since global population is expected to grow through at least 2045, this unfortunately would entail a serious calamity (WWIII, nuclear holocaust, a super disease, etc.) This is not likely but it would be naïve to fully rule it out.

As for the other input, consumption per person, it too is growing at an exponential rate in the majority of the world (ie the emerging world). For some easily digestible empirical evidence, see the graph below.



At this point, this trend seems to be firmly in place. This input will eventually change when either (a) the world at large began to live in a somewhat sustainable manner or (b) resource shortages cause the world to live in a somewhat sustainable manner. The first scenario to me seems exceedingly unlikely, as the developing world continues to ravenously pursue the luxuries that the developed world has enjoyed (at their expense) for the past century. This seems much more likely, and in this scenario the world would value what we have left far more than we do today.

Now let's look at "finite supply of natural resources". While nobody will disagree that we have a finite amount of stuff on this earth, many believe that technological advancements (both in extraction of resources and efficiency with resources) will prevent resource supply constraints for generations to come. There is undoubtedly an incredible amount of minerals, metals, and resources in our earth that will soon be able to be extracted due to technological gain. There is also undoubtedly an incredible amount of efficiency gains that will come in the coming decades through technological gain. For these facts, it is easy to look at problems in isolation (global food shortage, global fuel/energy shortage, global water shortage, etc.) and be reassured that technological progress will increase the supply of natural resources to match demand (a cornerstone economic concept). However, what is lost in this chain of reasoning is that this technological gain itself will require a tremendous amount of resources. Let me provide you with two examples. Below is an excerpt from a book written by Dr. Stephen Leeb entitled *Game Over*:

"One of the world's leading experts on wind energy is Stanford engineering professor Mark Jacobson. He's a staunch believer in wind's potential to provide the world with virtually endless---and green---energy that can turn on our lights, power our factories, and even fill our gas tanks.

According to Jacobson and his colleague Cristina Archer, globally wind could provide around 72 terawatts of energy. This is equivalent to around 54 billion tons of oil, or more than five times as much energy as the world currently uses a year. In 2007, for instance, the world's total energy consumption, including oil, nuclear, coal, and everything else, came to the equivalent of around 10 billion tons of oil.

In other words, theoretically, wind could do it all. In fact, if we could harness just 20 percent of the wind that blows, the world could free itself from its dependence on all other forms of energy, according to Jacobson's studies.

Jacobson presented his case for wind in two articles published in Science, the first in 2001 and the second about four years later. In the first, he argued that when all costs are factored in, wind is the cheapest way of generating electricity---even cheaper than coal. To be fair, in calculating the cost of coal, Jacobson added on direct health-care costs to society stemming from coal's role as a lung irritant. He did not, however, include any costs stemming from greenhouse gas emissions. The second article went even further. It argued that wind energy is cheap enough to be used to create fuel for automobiles.

Specifically, Jacobson wrote that wind-generated hydrolysis---that is, using wind to generate electricity to separate a hydrogen atom from the water molecule H2O---would be a cheaper way to fuel automobiles than refining gasoline from oil. This unequivocal and provocative assertion was backed up with a tremendous amount of detailed analysis that to the best of our knowledge has not been seriously challenged. Jacobson seemed to be offering a clear road to a hydrogen economy in which wind would serve as a cost-effective means of getting the hydrogen. Fueling automobiles with hydrogen-based fuel cells has long been a dream of alternative energy advocates, and Jacobson seemed to have found a way.

How realistic is this vision, and how much might it cost? In a recent conversation with us, Jacobson estimated the United States would need around 700,000 wind turbines to satisfy all its energy needs. He estimated the initial costs to be around $3 trillion, including the costs of constructing the turbines along with other essential costs such as setting up transmission wires to the grid. But once the turbines were in place, the costs of generating electricity would be minimal. Turbines have life spans of twenty years or longer. In saying that wind is cheaper than coal or other competing methods of generating electricity, Jacobson was saying that if you spread out the initial construction costs over twenty years, you'd spend less than if you obtained electricity from coal or other sources. According to Jacobson, the savings from wind would be so great that the initial costs would be recovered in around ten years or so.

Jacobson is an exceptionally bright researcher who knows the technology of wind energy inside and out. But we think that in projecting the costs of wind energy and hence its potential to take over as the energy of the future, he's missed something critical: the rising costs of the raw materials needed to construct wind

turbines, in particular the iron ore that goes into making steel. This important oversight is an excellent illustration of the tunnel vision among scientists we discussed in the preceding chapter and of why it's so important to bring specialists from different areas together.

In 2008, wind energy will account for about 1 percent of America's electricity needs. This is dramatically up from just a few years ago, when wind made almost no contribution. Typically, when a new technology comes on board, you expect to see a "learning curve effect"---that is, you look for costs to come down over time as those producing the technology perfect the process. The transistor is a prime example: as it has matured as a product, its cost has decreased, literally, many millionfold. Not many products will come down to that extent, but still, prices should almost always come down.

And this was true with wind technology---until recently. Advances in turbine technology brought down some basic costs in constructing wind farms. Yet despite these advances, Jacobson acknowledged that the cost of wind turbines had risen about 20 percent over the past several years. The reason is that the learning curve savings have been more than offset by the rising costs of raw materials. In 2008, one of the world's major iron ore companies managed to negotiate a nearly 100 percent increase in iron ore, a basic ingredient in making steel, which in turn is a basic component of wind turbines. *Steeply rising prices and growing shortages of iron ore make it unlikely that the United States ever could rely on wind power as a central source of electricity.*

It's not just that the costs have risen already. The real dilemma is that if we proceed to multiply the number of wind turbines by a hundred times---to go from 1 percent to 100 percent of our electricity---it would enormously increase the demand for steel. In fact, it's possible there would not be enough iron ore available in the world to accommodate those needs, at any price. And this accounts just for converting the United States to wind energy. If the rest of the world tried to follow suit, there's almost no doubt it would be impossible.

Once again it comes back to the vicious circles we described in chapter 2. As oil becomes scarcer and more expensive, it becomes more expensive to find other raw materials, including iron ore. And actually, the relationships are so entangled that it's not even clear what is cause and what is effect. That is, to explain the high and rising price of oil, you could plausibly argue that the scarcity of iron ore, which is needed for drilling equipment, is the culprit, rather than vice versa. It really doesn't matter---the point is that there's no way to treat all these commodities separately."

My second example involves the Shale Gas Revolution that we are currently witnessing in the United States. Due to new drilling techniques (i.e. technological advancement in extraction), the amount of proven natural gas reserves has skyrocketed in recent years. In fact, the American Gas Association (AGA) recently released its "Preliminary Findings Concerning 2011 Natural Gas Reserves". The report stated that "The national inventory of gas reserves is approximately 300 trillion cubic feet…This 'on-the-shelf' inventory is the foundation along with growing national resource estimates that may point to as much as a 100 year

natural gas supply in America." I agree that there is technically more than enough natural gas in the ground "to supply the United States for generations" (as a recent ConocoPhillips ad put it). In addition, we will continue to add to these reserves as technology inevitably advances. It's understandable why there are currently proponents of the United States becoming the Saudi Arabia of Natural Gas (in effect to produce so much natural gas that we become a large-scale net exporter).

But there is a not-so-minor caveat. Natural gas hydraulic fracturing is an extremely water intensive (both in usage and the resulting contamination) process. If we were to fully and wholeheartedly embrace the Shale Gas Revolution as proponents like T. Boone Pickens urge, we would run out of clean water far before we run out of natural gas. (Please note that I will sometimes resort to grandiose statements in order to demonstrate broader points. *There will always be certain geographic regions in the United States that have abundant access to clean water*. However, there are already major population centers across this country where the issue of more natural gas pales in comparison to the issue of more clean water. Unfortunately, it is also in these regions where there is much excitement about future shale gas and/or shale oil production. Prime examples include the Monterey Shale Formation in California and the Barnett Shale Formation in Texas. Other regions are not water restrained but may be off-limits to large-scale extraction due to valid contamination worries. One such example is the Marcellus Shale Formation, which is inconveniently located below the watershed that supplies drinking water to the Northeastern United States, including New York City, Philadelphia, and Boston. There is much talk of the Marcellus Formation in the documentary "Gasland".)

As badly as proponents of natural gas want to convince the public otherwise, there is a reason why the landmark bill clearing the way for large-scale shale gas extraction (the Energy Policy Act of 2005) exempts fluids used in Hydraulic fracturing from protections under the Clean Air Act, Clean Water Act, and Safe Drinking Water Act. This suggests to me that many promising shale formations will either (a) remain untouched in the earth (as the public realizes that the benefits of large-scale natural gas production are outweighed by the costs of high water usage, water contamination risk, and ecological risk) or (b) be developed with far reaching water supply problems. There are no simple answers to these problems.

The above was an explanation why I am so confident that the "years of reaping" will occur one way or another, as we will be forced to recognize the value of what we have. I first described how an increasing population and increasing consumption per person is resulting in exponentially increasing global consumption. I then provided two of many examples of how even technological progress will be constrained by resources. The global resource bull market is still fully intact, and will continue to be so until the world is living somewhat sustainably. Until then, every single barrel of oil that is consumed, every single can of coke that is produced, and every single ton of fertilizer that is used to grow our food makes the value of our remaining resources that much greater.

As for Rule's prediction of 2013 and 2014 being the "years of reaping", that is the likely scenario (a scenario that still seems like an eternity to your average investor). But let's pretend that he is dead wrong on the second half of that statement. Let's pretend that it takes an abnormally long time for the resource market to get somewhat close to fair value, that fear grips the market for the greater part of this decade. Let's pretend that anything close to rationality doesn't return to the market until 2018 and 2019 (because the market right now is both panicked by the deleveraging occurring since 2008 and not appreciating the magnitude of the long-term trends discussed above).

Even with the wait, the potential investment returns even from this scenario would be satisfactorily (in reverence to Benjamin Graham) high. The fund owns dozens of junior resource companies that realistically have a chance to appreciate ten or fifteen times in value over the coming years. Even if the majority of these companies do not deliver, the stories that do come to fruition will offer stellar returns for investors able to sit tight with their winners for five, six, seven years. And that is exactly why this fund is designed the way it is. The ten-year lock up makes us the most patient kid on the block.

Featured Investment: South Boulder Mines Ltd (ASX: STB)

South Boulder Mines is an aspiring potash producer in the country of Eritrea. Potash is an essential input into inorganic fertilizer. Please keep in mind that this is a speculative investment, albeit one that I have deemed to have very good speculative value. This is an important concept to understand. Even a project with a 40% chance of "success" can be very attractive if the payout (in the case of a success) is 10x or 20x. The trick of course is to scatter your bets across projects that are geographically, geologically, and technically different, but still offer that excellent speculative value.

With respect to South Boulder Mines, I would not lose any sleep if the company did not "succeed". (Success, in the case of STB, would be reaching production in a reasonable timeframe without excessive shareholder dilution.) This is because the fund also has similarly promising potash projects in Ethiopia, Brazil, and Canada (as well as exposure to the potash byproduct of lithium brine deposits).

That being said, I have very high hopes for South Boulder Mines and the country of Eritrea (as you will read below, their fates our intertwined). I recently built a position in this company at below $1 per share and plan to remain a supportive shareholder as long as the company remains on the proper track to reaching production.

Investment Thesis for Eritrea

South Boulder Mines is an aspiring potash producer in the country of Eritrea. There are plenty of factors that must be considered in this investment, but (given the phenomenal resource, strong potash fundamentals, and strong management which will all be discussed later) this company will live or die with the country of Eritrea. So that is where we will start.

Eritrea is located along the Red Sea coast in the Horn of Africa, bordering Ethiopia and Djibouti to the south and Sudan to the west and north. Eritrea has approximately 1,200km of coastline and two commercial ports located in both Massawa and Asseb.

Sixty percent of Eritrea's landmass is covered by the Arabian Nubian Shield. This geological anomaly also runs through Sudan, Ethiopia, and Somalia. This region is very underexplored (relative both Africa and the rest of the world) and hosts rich deposits of gold, copper, zinc, and potash.

Eritrea became an Italian Colony in 1890 until 1941 when British forces overthew the Italian administration and developed a temporary military administration. Eritrea's food, architecture and language still bears heavy influence from Italian Colonization. Eritrea achieved independence in 1991 after fighting a long and devastating war for independence against Ethiopia. Eritrea now has a stable

government led by the head of state Mr. Isaias Afwerki who was appointed by referendum in 1993.

If one searched for Eritrea on google and skimmed through the first couple result pages, it would seem as if the country was a mix between destitute Somalia and totalitarian Zimbabwe. And it certainly has elements from both of those countries. It is one of the world's poorer countries (with half of the populace living in poverty) and has been run by the same ruler for the past two decades. It also does not accept any foreign aid and has severely limited freedom of speech.

But I am interested not in where Eritrea is, but in where it is going. Eritrea is unique (both in Africa and for the world in general) due to its relentless push for self-reliance, understanding of shared interest, and zero tolerance for corruption. Let me address these points in more detail.

On face value, Eritrea's refusal to accept foreign aid is reprehensible. There are millions suffering that could be *immediately* assisted if this policy (shared only by Somalia) where not in place. However, when looked upon through a historical lens, it may be justifiable. Considering that Eritrea has been abused by the western world for over a century, it makes more sense why they would not want western institutions (IMF, World Bank, etc.) providing welfare and in the process shaping the country. By starting from scratch without aid and development influences from the outside world, Eritrea is putting in place a system that will tremendously benefit the entire nation in the long-run (at the expense of the immediate).

Due to Eritrea's tremendous relative mineral wealth and the tendency of the early stages of development to be based around resource extraction, the "system" referenced above is the Eritrean Mining Code. The code is both simple and creates shared interests between the government and the foreign firms supply the technology/capital. The government earns a minimum 10 percent stake in any mine, without having to pay for the stake up-front or fund exploration costs. The government also has the option to earn another 20-30 percent stake, but in order to do so must help fund exploration and development costs.

This combination of simplicity and shared interest has attracted 20 foreign mining and exploration companies to Eritrea (which roughly compares to the number of similar companies in Sudan, Ethiopia, and Djibouti *combined)*. Eritrea's first modern mine commenced production in December 2010 (operated by Nevsun Resources, which had a $1B+ market capitalization before the recent resource downturn). A notable aspect is that Nevsun received over $250 million from the Eritrean government to fund exploration, development, and infrastructural costs. In addition, China has been very active (both in Eritrea and north-east Africa region), most recently with an $80 million purchase of a stake in the Eritrea's Koka gold deposit by a Chinese group.

I have argued that the system is in place in Eritrea for tremendous relative resource wealth and long-run development. This success stories offered above bode well for the firms operating in the country and (since it will own 30-40% of successful projects) the Eritrean government. However, as we have learned from the Arab Spring Movement, this success will only be realized if the people of Eritrea are able to benefit from this influx of wealth. This leads to the final reason on why I am optimistic on Eritrea's long-run trajectory: the government's zero tolerance of corruption. This was what got me interested in the country to begin with. At school this year, I was fortunate enough to become good friends with an Eritrean native. When we first discussed the country, I was anticipated a dour outlook resembling a description of Somalia. Instead he was optimistic, in particular highlighting the minimal corruption and the modesty of upper-level government officials, including Afwerki.

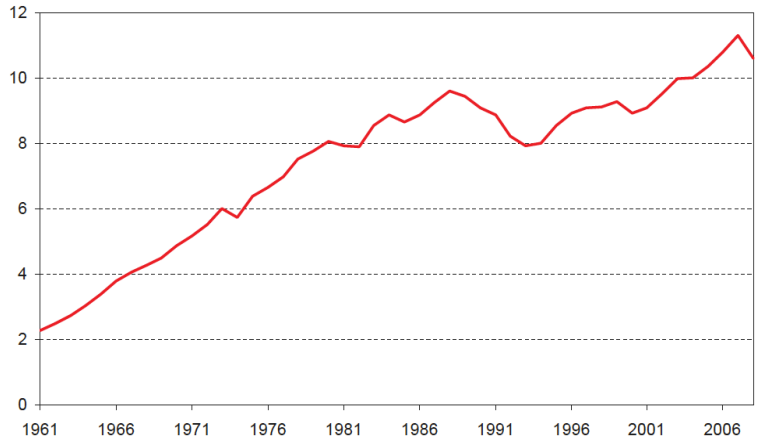
I have since done much research on this issue and have reached the same conclusion. Minimal corruption is not common for a state that could easily be described as autocratic. As long as this precedent stays in place, then the Eritrean people will also benefit from the country's current trajectory.

Investment Thesis for Potash

Potash is a mined material that is one of the three major inputs (the other two being phosphate and nitrogen) into inorganic fertilizer. Potash is important for agriculture because it improves water retention, yield, nutrient value, taste, color, texture, and disease resistance of food crops. It has wide application to fruit and vegetables, rice, wheat and other grains, sugar, corn, soybeans, palm oil and cotton, all of which benefit from the nutrient's quality enhancing properties. The major producing countries of potash include Canada, Belarus, Russia, China, and Germany.

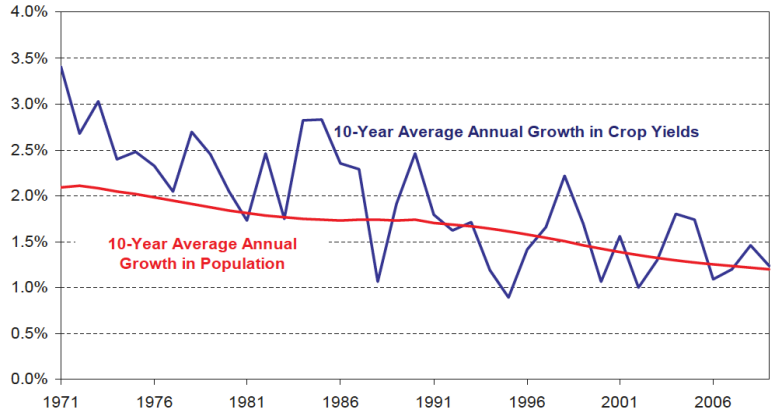
Potash is a material that will continue to gain value as the world continues to grow both in population and in food consumption per person. Producers of this commodity will be some of the few winners as the Global Food Shortage continues to progress. Even today, we are utterly dependent on inorganic fertilizers (in which potash is an irreplaceable component) to provide enough food for our overpopulated planet. The below graphs illustrate this concept: even with greater and greater amounts of fertilizer are being used, crop yield growth is suffering from diminishing marginal returns.

Tons of Fertilizer Used Annually (per sq km of cropland)



Source: Food and Agriculture Organization of the United Nations As of 12/31/08

10-Year Average Annual Growth in Crop Yields



Source: Food and Agriculture Organization of the United Nations As of 12/31/09

Let's take a look at the potash supply/demand picture, starting with demand. Potash demand was about 55 million tonnes (Mt) in 2011, and is forecast to grow to 72 Mt, or by 3% per annum by 2020. However, that 3% per annum growth assumption may be conservative, due to ravenous demand in the emerging world (fertilizer usage per acre of land is significantly lower in the emerging world in comparison to the United States). To illustrate this point, let's look at three of the top four potash markets in the world: China, India, and Brazil (the fourth being the United States). Below is further insight into these markets (borrowed from an impressive research report published by Libertas):

China

China is a key driver of the potash market, producing only 20% of its own potash requirements. With a diet changing to more meat, fruit and vegetables, plus massive urbanisation, a decreasing amount of arable land and historical under-application, China already accounts for 20% of global demand. Meat consumption has increased seven-fold in 30 years and continues apace and while population growth is relatively

modest, the steady growth in GDP per capita leads to ever increasing demands for better quality food.

India

India has similar characteristics to China, but has a much more rapid rate of population growth and worse soil conditions. India's population has increased by 500 million people in the last 30 years, putting huge pressure on its resources. India is now the world's second largest producer of sugar, rice, wheat, fruit and vegetables with the majority consumed domestically. Currently India is the world's largest phosphate importer and has almost no domestic potash production. Potash imports have tripled in the last 20 years and the Government heavily subsidises fertilizer usage to improve yields. China and India's collective demand grew 8% per annum between 1993 and 2008, which is twice that of the rest of the world.

Brazil

Brazil is the largest user of potash in Latin America, as its soil is potassium deficient. This makes it the world's third largest consumer of potash and Brazil has to import 90% of its potash fertiliser requirements for the production of sugar cane, soybean, rice and corn. It also produces 27% of the world's meat exports, putting more strain on crops destined for livestock. Brazil uses above average amounts of granular potash (as it is generally slow releasing) due to the high amounts of rainfall and greater surface run-off that wash minerals away."

Moving onto supply, if all brownfield and greenfield potash projects capable of reaching production by 2020 did so, that would add around 70 Mt of potash production. That of course will not happen because remember only 17 Mt (which admittedly is conservative) will be needed in next decade. This leads to the question, which of these aspiring potash producers have the best chance of reaching production?

My answer is very simple: those that have a combination of an excellent location and an excellent resource. Let me give you an anecdote. As mentioned above, Brazil has to import 90% of its potash fertilizer requirements. Not surprisingly, a substantial amount of that potash comes from potash powerhouse Canada located far to the north. It turns out that the total transportation cost of potash from Canada to Brazil is around $250 per ton (and rising with the cost of oil), while a ton of potash itself is only worth around $500 per ton. This means that even if a Brazilian potash company produced potash for $245 per ton more than Canadian competition, it would make economic sense for Brazilian farmers to go with that option. (Keep in mind that these effects are only amplified in regards to China and India, as the geographical differences would suggest.)

In addition, and this applies to the resource side of the equation, Canada's cost per ton of potash is not particularly low. This is because the potash is extracted through

deep underground mine operations (this theme applies to the world's current major producers). This leads to high CAPEX and production costs. There are multiple locations throughout the world (the Danakil Depression in Eritrea/Ethiopia being a prime example) where the cost of production would be significantly lower than the established potash majors. If these projects were able to reach production, that will mean higher gross margins and thus more money for shareholders.

Investment Rationale for South Boulder Mines

South Boulder Mines is one such company that has the combination of an excellent location (geographically) and an excellent resource.

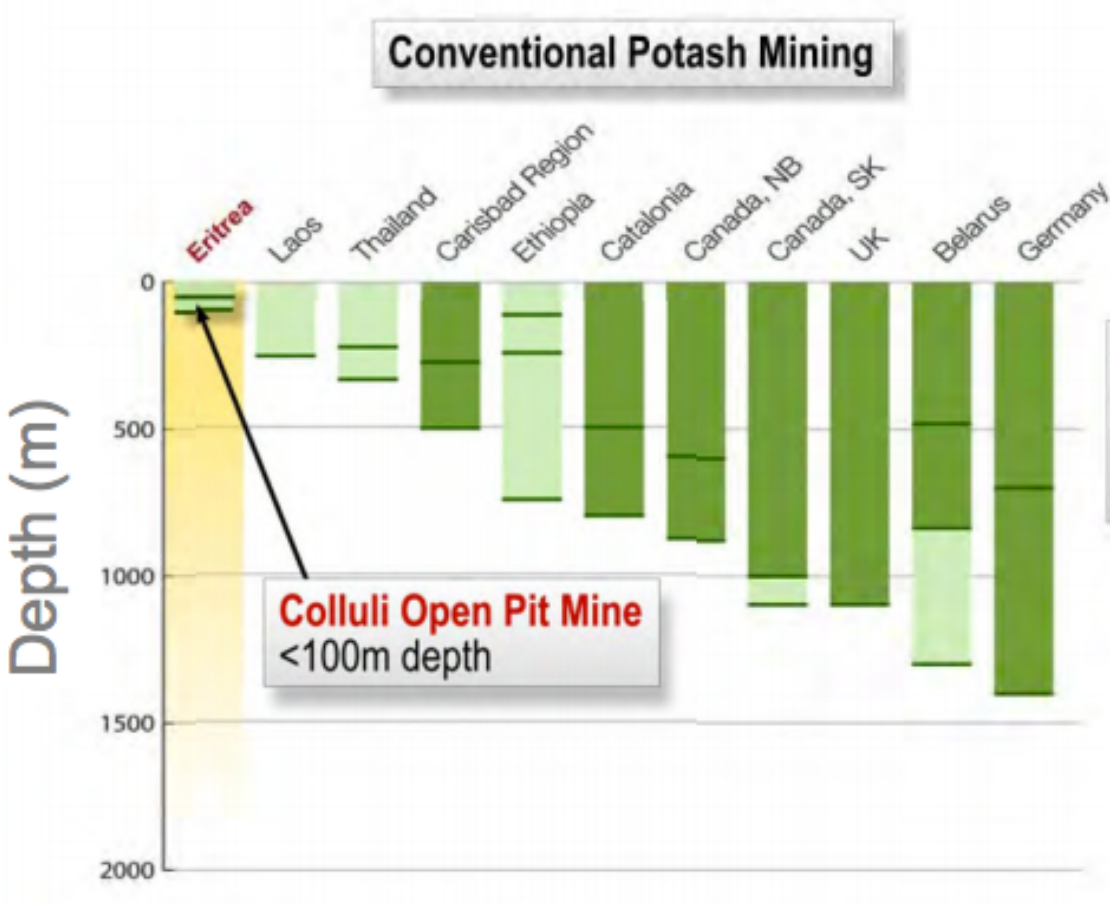
South Boulder's Eritrean Colluli Potash Project is located less than 100 kilometers from the Anfile Bay on the Red Sea. At this location, there is a proposed port, storage, and loading facility (the construction of which is dependent on support of the Eritrean government). However there is low risk of this facility not being built, as Eritrea's interests are firmly aligned with those of South Boulder. (Remember that the country already owns a sizable share of South Boulder Mines and negotiations are underway for the government to increase their stake to 30%.)

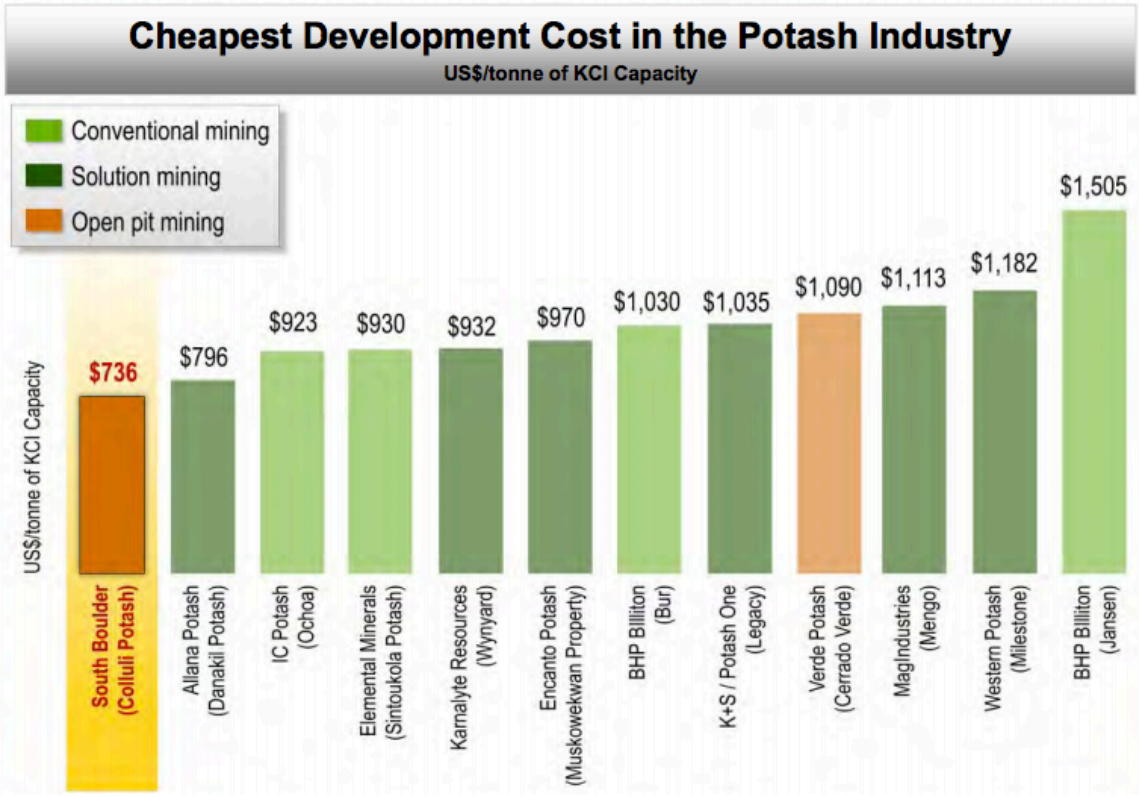
If South Boulder Mines is able to reach production, it will have immediate access to two of the world's largest potash markets, China and India. As illustrated by the below map of the region, the Colluli Project is right on the doorstep of these giants (especially when compared to major potash producers Canada and Belarus).

Furthermore, there is a powerful long-term trend that will make North East Africa *itself* a major potash *consumer*. Over the past decade, China, India, and Saudi Arabia have built large agricultural land portfolios in both Ethiopia and Sudan. Although the West is generally skittish of this region, even Americans have gotten into the act (an example being Nile Trading and Development recently leasing 6000 sq km in Southern Sudan).

The reason for this "farmland grab" is the abundance of rich, fertile land that has never been cultivated through modern agricultural processes. Inherent in this long-term trend of agricultural modernization is the usage of large amounts of inorganic fertilizer and hence potash. While this may seem very far off, it is still a huge deal to the Colluli Project and long-term shareholders of South Boulder as the life of mine will very likely be greater than fifty years.

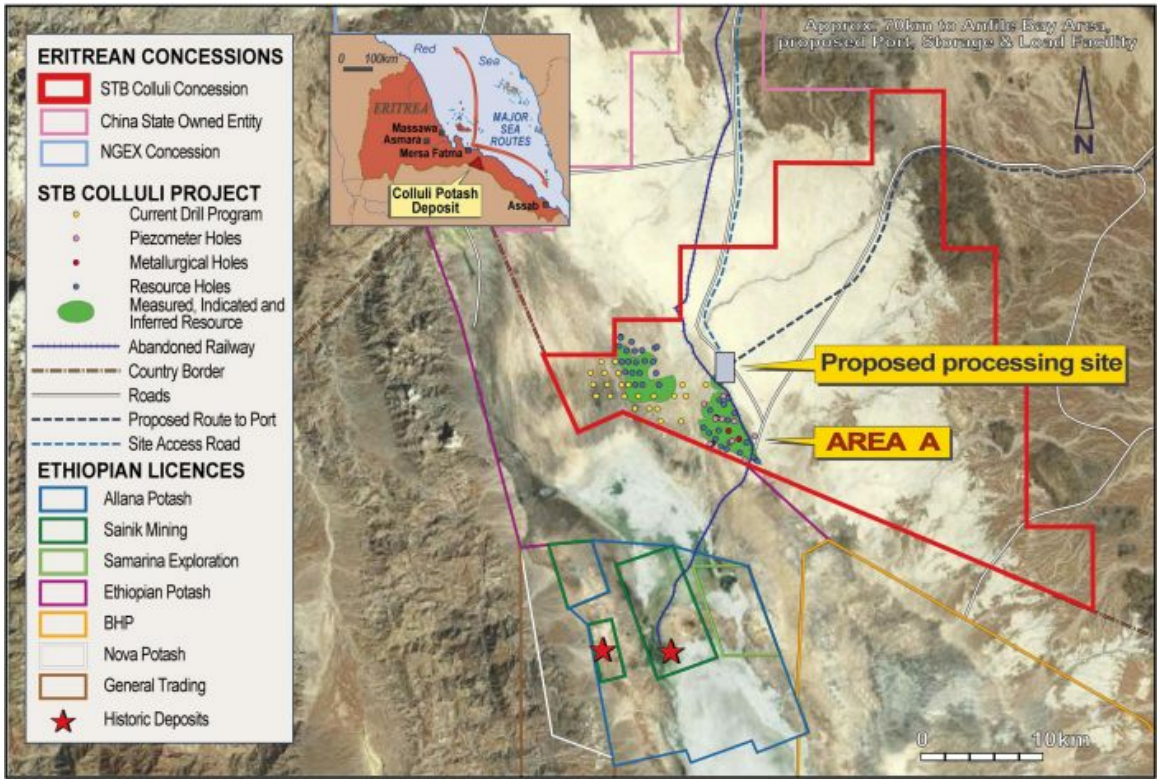
Let's move onto the resource itself. The Colluli deposit is world class: both in the quality of the resource and the absolute size. In layman's terms, the "quality of the resource" is simply how cheaply you can get "it" (and in this case "it" is potash) out of the ground. As illustrated by the below graphics, the Colluli deposit is so exceptionally shallow (and rich in potash) that it will have the cheapest development costs in the potash industry.





In fact, the uniqueness of Colluli Project would allow South Boulder Mines to be the world's first modern open pit potash producer. This means that the company will be able to scoop the resource from the ground (similar to a spoon scooping up Dreyer's ice cream). This is in comparison to the deep underground mineshafts characteristic of major potash production. The fact that Colluli can be mined in this method leads to the exceptionally low development cost and lowers the technical risk.

In terms of size, the Colluli Project is also impressive. While the current resource estimate of 1B tones of potash is already large, the company is poised to multiply that over the coming years. The below graphic demonstrates South Boulder's substantial land position (outlined in red) in the Danakil Depression. Observe how little of the property has been drilled thus far.



In May, I was able to meet with CEO Lorry Hughes and CFO Flavio Garofalo. Because the project is undoubtedly economic (with a 40%+ IRR) and technically not difficult, I focused the conversation on the company's relationship with Eritrea (which is a very important variable). I ascertained a couple interesting points. The first is that Lorry Hughes is meeting with head of state Afwerki this summer, indicating that the partnership between Eritrea and South Boulder is stable. The second point that was emphasized is that Eritrea has just as much riding on this project as South Boulder Mines. If brought into production in a reasonable timeframe, the Colluli Project will be the most significant mining project in the country by a large margin. The project is expected to create greater than $6B in revenues over the life of the mine, which is three times higher than Eritrea's current GDP. In other words, Hughes further emphasized the concept of "shared interest" discussed above.

South Boulder Mines was trading at above $5 per share in the early months of 2011. Between then and now, there has been only good news for the company, including quality drill results adding to the economics of the project and continued cooperation with the Eritrean government. However, these developments have been utterly ignored by the market, which instead has focused on macroeconomic events that will have a debatable impact on South Boulder's long-term future. Will Greece and/or Spain dropping the Euro dramatically decrease Chinese and Indian long-term demand for potash? The market seems to think so, as South Boulder is now trading at below $1 (with a market capitalization of around $100M).

If it succeeds, the Colluli Project will be worth $1.5B+ due to the size and quality of the resource. That is 15x above the current market capitalization. Even if there is only a 30% chance of this project coming to fruition (and I believe the number is markedly higher), this is a no brainer with South Boulder's shares trading below $1.