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CEO on Outlook & Strategic Focus

Open Briefing with Chief Executive Officer Milan Jerkovic

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In this Open Briefing®, Straits Resources CEO Milan Jerkovic discusses

- Strategic objectives and strengths of the de-merged Straits Resources
- Outlook for Tritton and plans to increase reserves and value.
- Mt Muro recapitalisation progress and exploration upside.

Open Briefing interview:

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Straits Resources (ASX: SRQ), following the successful de-merger in February of its coal operations, is now exclusively a copper and gold producer and explorer. What are the key strengths of the de-merged company?

CEO Milan Jerkovic
The de-merger has simplified our operations: we're now focused on copper and gold exploration and production.

The de-merged company has two operating mines – Tritton and Mt Muro – that we think have very good exploration and production upside. The market attributed very little value to those mines under the previous structure of the company but we believe our simpler structure will allow investors to better understand the quality and size of these assets.

The capital and site works at Tritton are mostly complete for an increase in production, which will ramp up this year. Work at Mt Muro to prepare for a production increase has been completed as well.

We also have excellent exploration assets: our 71 percent holding in Goldminco, which holds gold and porphyry copper/gold exploration tenements in New South Wales and is listed on the Canadian TSX Venture; and a number of exploration projects in South Australia targeting iron-oxide and copper-gold (ICOG) deposits including the right to earn 70 percent of the Torrens project.

We have net cash and investments totalling about $100 million that can support the activities we've planned for the immediate future.

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You've previously indicated Tritton would reach a sustainable minimum production rate of 25,000 tpa of copper in concentrate by the March 2011 quarter. What progress has been made towards achieving this?

CEO Milan Jerkovic
Over the last 12 months we've invested in a full make-over of Tritton, including investment in a change in mining method to transverse mining and the construction of a pastefill plant which will increase extraction rates. We've also changed over to owner-mining and brought in new underground mining equipment. We're now starting to see the benefits of this investment in terms of stable production. The pastefill plant should be fully operational by the end of this quarter and will provide a more stable scheduling platform for the underground mine.

We remain very confident of achieving a 25,000 tpa copper in concentrate production rate this quarter and of maintaining that as the minimal repeatable production for the mine.

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How confident are you that your exploration program will prove up a minimum eight year mine life for Tritton by June 2011 as previously flagged? How much further capital investment is required to convert and enlarge Tritton's reserve and resource base?

CEO Milan Jerkovic
Geologically, we're confident about achieving our stated aim of expanding the resource/reserve base at Tritton to prove up an eight year mine life at the stated run rate, effectively creating a minimum five year mine life beyond our contracted delivery under our current off-take agreement.

The drill program is on track. We currently have three surface drillings underway and we expect to have most of the physical field work done by the end of next quarter, with the aim of producing results we can release to the market in the third quarter of this calendar year.

Most of the capital investment has been made. There will be some working capital required over the medium term depending on which reserves we chose to schedule into the mining program but there should be no significant short-term capital required to exploit those reserves.

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How do you plan to mitigate the negative effects on profitability of the onerous off-take terms, which at current shipment rates won't be fulfilled until 2013?

CEO Milan Jerkovic
Tritton's profitability has been significantly affected due to the agreed treatment and refining charges which have taken a relatively large portion of revenue. The way we're mitigating the impact on the net present value of the mine is to increase the reserves beyond the onerous off-take terms. Once the remaining tonnage of approximately 67,000 tonnes of copper has been delivered, annualised EBITDA at Tritton will increase by approximately US$70 million at today's copper prices. That compares with Tritton's EBITDA of A$8.3 million in the June 2010 financial year. We expect to be able to demonstrate that the mine has substantial, deliverable reserves beyond the current period.

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When will the Mt Muro recapitalisation be completed and how are production stability, cash costs and operating profit expected to improve after the recapitalisation?

CEO Milan Jerkovic

The recapitalisation of Mt Muro is in progress and the current cutback to develop the Serujan East pit is ongoing and will improve production stability and reduce costs significantly. Production is currently ramping up, with forecast production of at least 10,000 gold equivalent ounces in the June quarter. Mt Muro is targeted to make an operating profit in the June 2011 quarter.

As announced last week, a substantial ongoing drilling program with systematic drilling below the old pits has resulted in a 56 percent resource upgrade. This only includes drilling to the end of October 2010, so there's substantial data outside the resources we've announced that could see further resource upgrades, particularly given mineralisation remains open in all directions. A new reserve is expected to be calculated in the June quarter.

Mt Muro has significant available spare plant capacity and initial pit modelling indicates that with continued exploration success, the mine has the potential to increase production significantly over the next two to three years.

Increasing production will reduce unit operating costs and deliver sustainable cash flows. Mt Muro has suffered in the past because it hasn't had the reserve/resource base to maintain a stable production rate.

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What level of production increase are you expecting at Mt Muro and what capital investment will be required to achieve it?

CEO Milan Jerkovic

We have substantial work to do on assessing potential future production rates but we expect some clarity in the next three to six months. The operation used to produce well in excess of 200,000 ounces of gold equivalent per annum when it was managed by Aurora Gold. When we first bought it we concentrated on finding new ore bodies; it took us a while to realise the greatest immediate potential is around the old pits. Current exploration is focused on the vein systems under the old pits; these systems are large, extend to depth and are "open pitable" to substantial depth given the grade and volume of mineralisation we're finding.

We have adequate installed capital at Mt Muro to handle large volumes. Increasing production will require working capital, but the amount will come down to the stripping rates and how aggressive we are in getting to the targeted run rate. That in turn will be determined by the resource/reserve we prove up in the next three months.

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Why do you consider Hillgrove and Magontec non-core assets? What are the next steps before they can be sold and who are you targeting as potential buyers?

CEO Milan Jerkovic

We are focusing the company and our balance sheet resources on our natural strength which is copper and gold production and exploration. Hillgrove is an antimony/gold resource and while recent work shows it can operate profitably as a concentrate producer, it's on a smaller scale than the mines we'd like to run in the future.

Magontec is a business producing magnesium alloys and specialty products. It's non-core to our simplified business model, so we're looking for a new ownership structure for it.

We're in discussion with a number of parties on the future of these businesses and while these remain confidential, we will obviously brief investors as soon as we have an announcable transaction.

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Over 2011 how do you expect to progress the Goldminco project in New South Wales and Torrens project in South Australia? What are the opportunities for further gold and copper exploration?

CEO Milan Jerkovic
The Goldminco assets in New South Wales have demonstrated an extensive low-grade mineralisation copper and gold system, more copper rich than gold, which we like. We have a drill program in progress in the Temora area to expand the current resource base and target a minimum higher-grade section of 50 million tonnes with greater than 0.7 percent copper equivalent contained within the larger resource envelope. We'll continue with the program over the next 12 months, and its success will determine how aggressive we are in moving to a feasibility study and pre-development program.

Initial results for the Culingerai South area have also been positive and recent intersections extend our higher-grade mineralisation breccia find and demonstrate that our exploration concept is sound.

In South Australia, we're involved in joint ventures with two different companies. We're working on a couple of prospects where we expect to start field work and drilling in the next three to four months. However, we've had a set-back at the Torrens project, with the Environment, Resource and Development (ERD) Court disallowing exploration. We're appealing that decision and working with the government to resolve the issues around starting an exploration program.

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What is the strategic focus for SRQ in 2011? After re-focusing on core gold and copper operations, what is your strategy to attain optimum production and cash flow over the next 12 months?

CEO Milan Jerkovic
We're well advanced in delivering two operating mines with stable operating profiles and costs. We'll continue to focus on production stability and business improvement at both these mines once we have the resource and reserve base tied down. Tritton and Mt Muro should both make a full contribution to profitability in the 2012 financial year.

We believe the long-term future of Tritton is very good, especially once we've delivered the remaining tonnage into the current off-take contract. At Mt Muro exploration results point to a very exciting time ahead: potentially this is a multi-million ounce province which drilling will unlock in the next 12 to 18 months. We'll also continue to work on our brownfields and greenfields exploration projects, hopefully making a new discovery that will lead to a new development for the company.

We're backed by a strong balance sheet, a solid register, and a proven track record and management, and we're confident our more focused strategy will deliver significant value over the next three years.

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Thank you Milan.

For more information about Straits Resources, visit www.straits.com.au or call Milan Jerkovic or Dave Greenwood on +61 8 9480 0500.

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