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# CEO on Production and Exploration Outlook

## Open Briefing interview with CEO Milan Jerkovic

Straits Resources Limited
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*Straits Resources Limited (SRQ) is a mining and exploration company focused on copper and gold in Australia and Asia. SRQ has two operating mines - the Tritton Copper Mine in New South Wales and the Mt Muro Gold Mine in Indonesia.*

*Market capitalisation: $100 million*

### In this Open Briefing®, Milan discusses:

- Production and exploration outlook for Tritton and Mt Muro
- Reduction in costs after restructure
- Outlook and strategic objectives

### Record of interview:

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Straits Resources Limited (ASX: SRQ) recently announced that its Tritton Copper Mine (SRQ 100%) produced 6,583 tonnes of copper in the September 2012 quarter. This was up from 5,716 tonnes in the June 2012 quarter and above your guidance of 6,000 to 6,500 tonnes. Your production target for Tritton for the current quarter is unchanged and you continue to anticipate FY2013 production of 25,000 tonnes. What are the key risks to your Tritton production targets in the nearer term?

**CEO Milan Jerkovic**
Tritton achieved good steady state production over the past quarter, which we anticipated after a fairly intensive capital investment program over the past two years. We're now focused on maintaining mining sequencing, equipment availability and productivity, as well as attracting and retaining appropriate operating and technical staff. We expect to continue to generate reasonably steady quarterly production without much variance from the underlying production target.

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Cash costs at Tritton in the September quarter were A$2.18/lb, down from A$2.72/lb in the previous quarter, primarily reflecting lower mining costs. Is the cost reduction sustainable?

**CEO Milan Jerkovic**
We believe the cost reduction is sustainable over the long term as it comes off the back of the finalisation of our investment program. The lower cash costs are due to a reduction in the number of people and contractors versus those used during the ramp-up phase. We continue focusing on productivity and cost improvements while maintaining a higher quarterly production rate. We expect to continue driving costs down following those improvements.

In the medium term, we're looking for opportunities to increase the utilisation of our mill. Greater volume as well as potentially higher grade material from the Avoca deposit will provide the next step in reducing average costs.

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For the full year you expect cash costs at Tritton in the range of A$2.00/lb to A$2.20/lb. What assumptions regarding copper grade and recoveries is this based on?

**CEO Milan Jerkovic**
We expect the copper grade at the mine to remain around 2%. Our reconciliation of reserve to mill production has been good at Tritton and we expect an average recovery of about 95% for the year which is what we've historically achieved. We had some downward pressure on recovery in the last quarter, when it fell slightly to 93%. That was related to the composition of the material at the North East mine. While we don't expect this to be a significant issue long term, we'll need to manage it going forward.

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The Mt Muro gold project (SRQ 100%) produced 16,938 oz Au Eq in the September quarter, up from 4,896 oz in the June quarter. Even if the mine produces at the upper end of your target range for the December quarter of 15,000 of 17,000 oz Au Eq, it will have to produce an average of 33,000 oz Au Eq over the following two quarters to reach your production target 100,000 oz Au Eq for FY2013. What is the anticipated profile of the operational ramp-up at Mt Muro and what further work is required before the ramp-up is complete?

**CEO Milan Jerkovic**
Completing the ramp-up requires almost two full quarters of work and additional investment of about $20 million in waste stripping to reach the lower, higher grade, parts of the main pit. That will expose longer strike lengths and allow us to extract better volume and grade on a more consistent basis. To meet our production ramp-up we also need to double our mining fleet and there is the associated work to source consumables, including diesel, for the mine and plant as well as recruiting operators for the fleets.

Once we finish the strip, we'll have access to about 140,000 tonnes of ore on a monthly basis. Some time in February or March next year, we expect to hit 10,000 to 12,000 oz Au Eq a month of gold equivalent production. This equates to about 33,000 oz Au Eq per quarter and we should have a full quarter of production at that level in the last quarter of FY2013.

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Mt Muro cash costs averaged US$1,254/oz Au Eq in the September quarter, down from US$2,874/oz in the June quarter, reflecting the large scale development of the Serujan pit and increased production volume. What is the outlook for cash costs at Mt Muro as production ramps up?

**CEO Milan Jerkovic**
Cash costs are inversely related to metal production. As we ramp up metal production quarter by quarter, costs will decline. Our target is to achieve sub US$1,000/oz As Eq cash costs as we get closer to steady state production in the early part of next year. We'll then look at opportunities for cost improvement and optimisation around a steady state production profile.

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You recently agreed to revised terms for the repayment of your silver loan from Credit Suisse, with deferral of all silver deliveries into the facility until March 2013. Under the new delivery schedule, SRQ will deliver 1,955,053 oz of silver into the facility from March 2013 to June 2015. Were there penalties associated with the change in terms? How do the revised terms position Mt Muro for a potential demerger or sale?

**CEO Milan Jerkovic**
There is an embedded charge for the restructure which requires an additional silver delivery of 217,000 oz over the payment period.

The restructure provided $17 million of accommodation through the ramp-up period to March 2013, where we don't have to deliver any silver. This allows the mine more liquidity to finish the stripping and mine development, as well as to pay our creditors.

As the banker providing the silver facility and a secure creditor, Credit Suisse will be party to any discussion on the potential demerger or sale. We've already engaged it in general discussions and will continue working work with it on that basis.

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SRQ's immediate exploration focus is on high grade discoveries at Avoca Tank and Kurrajong, both close to Tritton. What are your nearer-term exploration goals at these prospects?

**CEO Milan Jerkovic**
The immediate focus at Avoca Tank is to turn the current resources into reserves and further define resources, progress a mine development plan and make a decision on the mine before the end of FY2013. That work is in progress through a systematic drill program and we'll report the results progressively over the next quarters.

At Kurrajong we're excited about the initial hits we've had, which show the potential for a high grade sulphide system. We have very high hopes of a significant new discovery. We'll target drilling there in the next months to asses the potential for a new mine to add to our inventory.

We're also drilling in and around the North East deposit where we've found a sulphide block at the bottom of the current known ore body. We can follow the ore body further and potentially provide immediate additional feed for our plant, making use of our existing mine development and infrastructure. As we try to secure higher grade material at Avoca, any additional incremental material we can put through the mill will reduce unit costs. Our mill is capable 1.8 million tonnes per annum of throughput but the current ore bodies we're mining at Tritton and North East supply only about 1.4 million tonnes per annum. Any additional materials will help drive costs down and increase mine life.

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You are implementing a major restructuring program to reduce costs, optimise operations and drive financial and operational efficiencies. What cost savings do you expect in FY2013 and what are the targeted annual savings?

**CEO Milan Jerkovic**
Relative to the last quarter of FY2012, we've already made significant cost reductions. We're not far from delivering our target of a $9 million a year reduction in recurring, annualised head office corporate costs. At Tritton, including any reallocation of costs from the corporate office, we expect a net saving in outgoings, relative to the last quarter of FY2012, of about $20 million a year.

While that cost reduction work is mostly done, during the process of restructuring and refinancing there were one-off retrenchment and reallocation costs, so results this financial year will not fully reflect the underlying long-term cost reduction run rate. We may also incur one-off costs relating to the potential demerger or sale, depending on progress.

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At the end of September 2012, total cash and investments were $42.6 million and debt was $114.4 million. During the quarter you established a $20 million short term finance facility with Glencore and entered into a life of mine off-take agreement with it for 100% of production from Tritton. You also initiated an entitlement offer that has since raised approximately $60 million. How are you placed to fund the production ramp-up at Mt Muro and your planned exploration

program and how will the Glencore off-take agreement impact cash flow and profitability over the life of the Tritton mine?

**CEO Milan Jerkovic**
The Glencore off-take agreement is on market-related terms. It will achieve exactly the same treatment and refining contract terms as the large annual contracts of BHP Billiton, Rio Tinto and Xstrata in the Asian market. While prices under the agreement may lead or lag the spot market, over the life of the contract they should approximate the market and there should be no penalty to us.

The liquidity we raised from the rights issue, together with the cash flow we expect from operations this financial year, means we're fully funded to meet all the targets we've set. This includes $20 million working capital for the Mt Muro ramp-up and $10 million to $15 million capital to reduce creditors to manageable levels. We have the funds required to meet both our production and exploration targets.

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Can you comment on your current asset portfolio and the rationale for considering a demerger of your copper and gold assets?

**CEO Milan Jerkovic**
We believe a demerger of the copper and gold assets will add value. Separating the copper and gold businesses will provide greater clarity on both businesses. It will allow for easier peer group comparisons and should result in re-ratings for both. A demerger will allow greater management focus and greater flexibility within each of the businesses, and we believe it will enhance the ability of both businesses to realise their significant growth prospects. It will also enable investors to pursue their specific investment preferences and risk appetites in relation to gold or copper, or in relation to Australia or Indonesia, and potentially create more liquid investment vehicles.

We also continue to pursue the divestment of the Hillgrove asset and will keep the market informed of progress. We have a number of parties interested in the asset and hope to achieve a transaction in the next few months.

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Thank you Milan.

For more information about Straits Resources, visit www.straits.com.au or call Milan Jerkovic or Matthew Smith on (+61 8) 9480 0500

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The information in this report that relates to Exploration Results, Mineral Resources and Ore Reserves is based on information compiled and/or reviewed by Mr Ivan Jerkovic who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Jerkovic is a full time employee of Straits Resources Limited and has sufficient experience relevant to the style of mineralisation, type of deposits under consideration and to the activity being undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Jerkovic consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.