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ASX/MEDIA RELEASE

STRAITS RESOURCES LIMITED
(ASX: SRQ)

Corporate Update

The Executive Chairman of Straits Resources Limited (ASX: SRQ), Mr Andre Labuschagne, provides shareholders with the following update on recent developments in the company.

Overview

“I would like to take the opportunity to outline to Straits shareholders the tremendous amount that I believe has been achieved in the last few months and the continued progress we are making on many fronts. A turnaround has commenced at Straits and while we have much work to do I am confident that we are on the right path to where we want to take the company.

“Straits is not an entity without challenges, principally driven by its high levels of debt and operational underperformance. Fortunately, the Board and Management team recognise these challenges and over the last several months have begun implementing a clear plan aimed at progressively overcoming them. We have already made significant progress and I expect this to continue in the coming months.”

Corporate Strategy

“One of the key foundations of our turnaround strategy was to define a clear corporate strategy and restructure the company’s portfolio of assets. Straits was a complex company that had two operational mines in Tritton and Mt Muro, a portfolio of exploration projects, shareholdings in other listed resource entities and the Hillgrove Antimony Mine (Hillgrove) on care and maintenance.

“Since the beginning of 2013 we have simplified the company and in the process raised a substantial amount of funds from asset sales. Through the sale of Hillgrove, the sell down of most of our shareholdings in other listed resource entities, the sale of the Pressure Oxidation Plant at Hillgrove and the signing of a Heads of Agreement for the sale of a portfolio of exploration tenements in South Australia, we have raised over \$40 million in much needed funds which we are reinvesting into our two core operations.

“In parallel, we have continued to restructure the corporate office to better align the services it provides with the company’s current needs. This has significantly reduced the corporate overhead costs whilst also streamlining reporting structures and ensuring the organisation can respond quickly to changing circumstances.

“Straits is now a company with:

- Two operating mines in attractive commodities;
- The highly prospective Temora copper/gold project;
- Joint ventures in a number of high quality exploration projects where we have a free carry or minimum expenditure obligations into the medium term; and
- An exploration tenement in the Lake Torrens region in South Australia which is highly prospective for a significant IOCG deposit similar in style to Olympic Dam (BHPB) and Carrapateena (OzMin).

“The core focus of the business in the short term is maximising the performance and financial return from our operational mines. Minimal exploration is likely to be undertaken outside of leases immediately around our current operating mines and associated infrastructure. I don’t believe that the market currently appreciates the inherent value in our remaining exploration portfolio, particularly the Temora Project, and therefore we continue to explore all options for these assets.”

Organisational Structure

“In the last six months all but two of the senior executives in the company have changed. We have brought in experienced and well regarded mining industry professionals who have been through all stages of the commodity price cycle and are attracted to the challenge of turning around the financial and operational performance of Straits. This experience provides us with significant advantage, particularly during periods of increased volatility in commodity prices, as we have seen recently.

“This was clearly demonstrated to me during the last week. As gold and copper prices fell sharply our team immediately responded by initiating actions targeting asset optimisation and cost management to ensure our mines will be profitable in a lower price environment. Each executive has a clear understanding of their accountabilities and the outcomes expected. Performance is monitored regularly and major decisions / investments must demonstrate that the necessary diligence and planning has been undertaken prior to approval being given.”

Mt Muro Gold Mine

“At the start of 2013 Mt Muro faced considerable uncertainty due to an order from the Regional Governor for mining activities to cease until there was clarity over the boundary defining the buffer zone between mining activities in the Serujan Pit and a site of local cultural significance.

“This was a major disruption at a particularly important time for the mine. The positive from this however is that it enabled me very quickly to meet the key stakeholders in Indonesia and understand our relationships with them and their views on Straits and the mining operation.

“What I found was that relationships with many of these key stakeholders had deteriorated to such an extent where we were in danger of losing their support. However, after spending time with each of these stakeholders and outlining our plans for the mine, what actions we are taking to get things back on-track and how we propose to work with key Indonesian stakeholders, I believe that we are rebuilding our

support base. This was underlined when operations resumed in the eastern end of the Serujan Pit in the first week of March with the strong support of the local community.

“To ensure that we maintain and strengthen our relationships with our key Indonesian stakeholders we have separated the responsibilities for operational performance and stakeholder liaison / compliance and now have a senior executive responsible for each function. We are also in the process of refreshing our local board and advisory functions to better meet the changing needs of the company in Indonesia.

“At an operational level Mt Muro has been challenging. The mine was not achieving both its cost and operational targets. The underperformance of grade against the mine plan has been a significant focus over the last few months. Work continues to better understand the geological structures of the Serujan orebodies and we expect to be able to provide a more detailed update in May. However, from the work undertaken to date we have been able to develop a new operating strategy which we believe will significantly enhance the economics of the orebody compared to the previous strategy.

“In broad terms, the new mine plan is focussed on a reduction in overall waste mined from now until the completion of mining in the Serujan Pit. This is planned to result in approximately 10 million bank cubic metres (bcm) (an approximate 50% reduction) less waste being mined during this period, for the loss of only around 20% gold equivalent ounces of production. The revised strategy is based on a more focused pit which leaves behind significant areas of waste in the bottom of the pit which were previously targeted to be mined through.

“The reduction in volumes of waste moved has enabled a restructuring of our mobile fleet to occur with a large number of units currently being stood down. This will result in not only a significant reduction in the base monthly charges incurred for this equipment but will also have flow-on reductions in the costs of fuel, tyres, maintenance and labour. We expect to see the benefits of these cost reductions to start flowing through in the coming months. We have also initiated a review of all major contracts and are either re-tendering or renegotiating these contracts with the aim of securing further cost reductions.

“The change in the mine plan of Serujan will reduce the life of the pit by around nine months, although the economics will be significantly improved. We do however have a portfolio of reserve/resource status projects from which to draw upon and we will now bring forward our review and development processes for these projects in line with a new five year plan. This plan is currently being finalised and will be communicated to the market in the coming weeks.

“The Mt Muro tenements remain highly prospective for new discoveries and we will recommence greenfield exploration activities as soon as cashflow permits. Many of the deposits already identified have good potential for the orebodies to also be exploited at depth through underground mining and evaluation work will commence in the near future on these opportunities.

“In summary, operations at Mt Muro are improving however the mine is currently not cashflow positive. We expect production to increase steadily through to October and from this time we forecast a significant uplift in both production and cashflow, with the aim of being cash flow positive moving forward.”

Tritton Copper Mine

“Tritton is a quality asset and is one of the few copper mines in Australia not currently owned by one of the world’s major mining companies.

Tritton has excellent infrastructure in both mining and processing. The Tritton underground mine remains the mainstay of the mining operations which is currently supplemented by the North East/Larsens underground mine.

“The focus in recent months has been to improve productivity in the underground operations to increase ore to the currently underutilised processing plant and therefore improve unit costs. The Tritton underground mine remains the main source of ore with additional ore coming from the North East/Larsens underground mine.

“We are currently reviewing the life of mine plan and I am pleasantly surprised by the various options available to us by applying alternative mining strategies to our current resource base.”

“Tritton has excellent existing mining and processing infrastructure which provides substantial leverage to new discoveries. The geology on the Tritton leases is characteristic of volcanogenic massive sulphides (VMS) style deposits which generally are found in clusters. Recent exploration success with the discovery of the Avoca Tank and Kurrajong prospects highlights the prospectivity of the region. We believe there is good potential to find additional orebodies that will enable the current mine life to be extended.”

Financing

“The company is highly leveraged which makes it difficult to get the right balance between investing to sustain and grow the business whilst also meeting our obligations to our financiers. Fortunately our two financiers are supportive of the new management team and the strategies that we are looking to implement and are working with us to restructure the debt profiles.”

Demerger and other Corporate Structures

“When I joined Straits in December it was with a mandate from the Board to proceed with a demerger of the copper and gold businesses. A demerger still remains the favoured method to unlock the unrecognised value that exists in Straits’ current portfolio, however in order to demerge we need to have stable operations that are appropriately capitalised and financed. This remains our key focus and we will not implement the demerger until the fruits of our current initiatives have materialised.

“That being said, in this challenging market we will not discount any alternative that has the potential to provide shareholders with a superior outcome.

“Your board and management remain committed to getting Straits back on track. The high quality executive team we have assembled and the untapped potential of our assets gives me the firm belief we have the right tools to deliver enhanced value for Straits shareholders.”

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