



## Quarterly Activities Report For the period ended 30 September 2013

### SEPTEMBER QUARTER HIGHLIGHTS

#### About Straits Resources

**Straits Resources Limited** (ASX: SRQ) is an established copper producer and developer with multiple mines and a 1.5 Mtpa copper concentrator at its Tritton Copper Operations in New South Wales, Australia.

In 2013 Straits' Tritton operations produced more than 23,000 tonnes of copper metal, and this is forecast to increase to 25,000 tonnes in 2014.

The Company also has an exciting portfolio of highly prospective exploration projects creating a pipeline for future growth, including advanced projects at Tritton and its Temora project in NSW.

Straits' Board and Management team is experienced in all aspects of mining and corporate development.

Straits has a clear vision to become a mid-tier, multi-operation company – delivering shareholder value through an unwavering focus on operational excellence.

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## Turnaround strategy gaining traction

### Operations

- **Tritton Copper Mine hits new production records:**
  - ✓ Record copper production of 7,255t (a 16% increase over the June quarter)
  - ✓ C1 Cash Costs of A\$2.33/ lb (a 13% reduction on the June quarter)
- **Mt Muro gold operation placed on care and maintenance on 2 August:**
  - ✓ No further funding from Straits
  - ✓ Actively seeking buyers for asset

### Corporate

- **Cash and receivables (excluding Mt Muro) increased by \$5.0M**
- **Debt facilities restructured:**
  - ✓ Mt Muro Silver Prepayment Facility closed out and agreement reached to remove Parent guarantee
  - ✓ Tritton Copper Swap Facility restructured - repayments reduced until April 2014
- **~50% of copper production for 9 months to April 2014 hedged at \$A7,800/t**
- **Sale of Stuart Shelf tenements completed**



## Safety, Environment and Community

Tritton had no Lost Time Injuries (LTI) or significant safety incidents during the quarter.

There were no LTI's at the Mt Muro operation in Indonesia during the quarter. The riots that caused damage to vehicles and buildings on the site in late June resulted in suspension of operations until mid-July while the site was made secure.

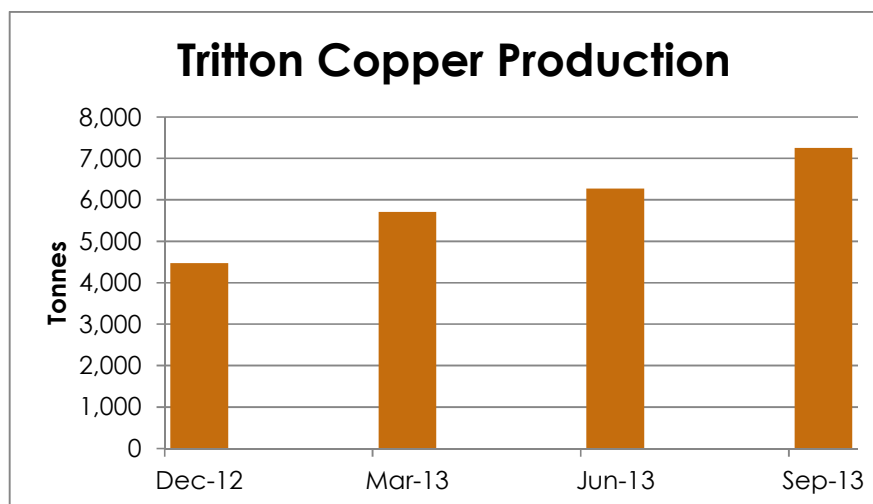
Straits' decision to place the Mt Muro operation into care and maintenance resulted in the majority of the workforce being demobilized from the beginning of August. The Serujan pit has flooded, preventing access by illegal miners to the ore. There have been no significant security or safety incidents during the care and maintenance period. The majority of community development and support programs have been suspended following the decision to move to care and maintenance. A significant security force of police and army was retained on site through to the end of the quarter to ensure there was no further disruption or risk to employees.

## Tritton Copper Mine (NSW)

### PRODUCTION

Quarterly records for ore processed and metal produced for the Tritton concentrator. Quarterly copper production increased to 7,255 tonnes (a 16% increase over the June quarter) as a result of improved and stable performance by both mining and ore processing. Steady and more reliable performance is the result of a focus on improving maintenance and operations planning practices, in combination with employee commitment to improved performance.

Processing Plant performance has improved steadily over the last four quarters (see graph 1 below). Keeping stocks of ore in front of the processing plant has allowed the operating team to push the throughput rate, identify any constraints and implement measures to continuously improve performance. More reliable and consistent operation is supported by a strong focus on planned maintenance programs.



Graph 1 – Tritton Quarterly Copper Production



Mining production continued to be steady from both Tritton and North East underground mines. Planned maintenance of mobile equipment is being prioritised to ensure targeted mining capacity is achieved. A replacement, rebuilt loader and good quality second hand truck have been purchased. These units will improve the overall fleet availability.

Truck haulage capacity is normally the constraint on Tritton mine production. Maintaining a good supply of broken ore stocks in the mine helps reduce variation in truck fleet performance and promotes continuous improvement in truck productivity by the mine team. The operation has adopted a strong focus on ensuring the availability of broken ore stocks to maintain steady truck fleet operation.

Decline and ore drive development has previously been the bottleneck on North East mine production. Development for the quarter at North East was in line with expectations and is a good performance given that progress was slowed in September while electrical power infrastructure was extended to the bottom of the mine. Development rates are expected to be in line with the plan for the remainder of the year for sustained production at North East.

The copper grade of ore processed at 1.93% was 13% higher than targeted. Higher than expected copper grades were produced from the North East mine. A focus for the operation is to improve the detail of stope drill and blast design to further reduce unplanned dilution. Some effect from this effort is apparent in the recently achieved grade results.

The end of quarter closing ore stock on surface was 22kt and broken stock underground was 29kt.

#### Tritton Production Statistics

		DEC 2012 QTR	MAR 2013 QTR	JUN 2013 QTR	SEPT 2013 QTR
MINED	TONNES	275,871	314,923	374,594	384,091
GRADE	Cu (%)	1.68%	1.96%	1.82%	1.93%
ORE MILLED	TONNES	281,807	300,183	350,270	395,527
GRADE MILLED	Cu (%)	1.75%	1.95%	1.86%	1.91%
RECOVERY	Cu (%)	93.95%	95.20%	94.27%	94.98%
COPPER CONCENTRATE PRODUCED	TONNES	19,339	23,264	25,519	29,567
COPPER CONCENTRATE GRADE	Cu (%)	24.0%	24.0%	24.0%	24.30%
CONTAINED COPPER IN CONCENTRATE	TONNES	4,341	5,580	6,132	7,183
COPPER CEMENT PRODUCED	TONNES	130	132	139	72
TOTAL COPPER PRODUCED	TONNES	4,471	5,712	6,271	7,255



## RESOURCE DEVELOPMENT

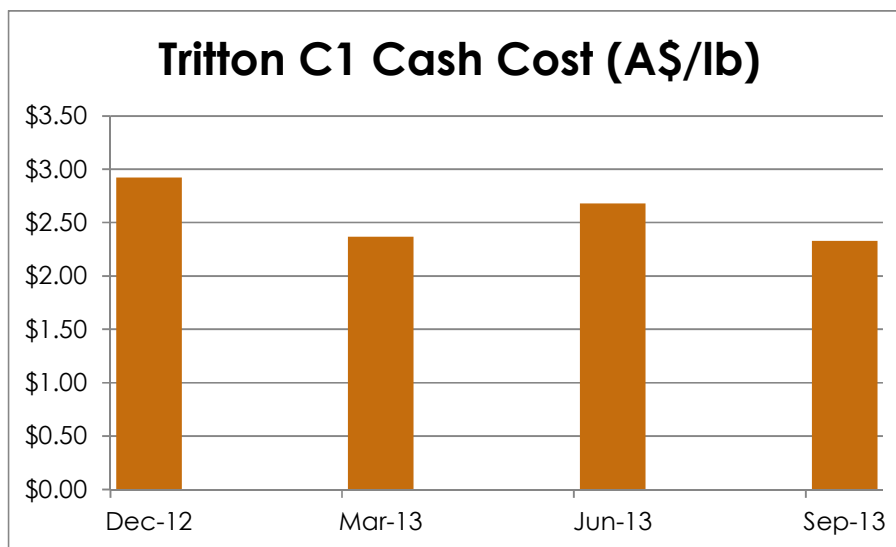
As part of the recently announced restructure of the Tritton copper swap facility with Standard Chartered Bank (see detail in Corporate section), Straits is required to undertake a reserve upgrade program to prove-up an additional 50kt of JORC certified reserves at Tritton by 15 May 2014. Work has commenced on this upgrade program and the additional JORC compliant Ore Reserves are targeted to come from the following projects:

- Avoca Tank Underground;
- Murrawombie Open Pit;
- Murrawombie Underground;
- Budgery Open Pit; and
- Budgerygar Underground.

These projects have already had a significant amount of drilling undertaken so the majority of the work planned relates to conducting feasibility studies and developing mine plans.

## COSTS

Total expenditure was similar to the previous quarter. Any costs above plan were driven by the higher volumes of ore mined and processed. C1 (see graph 2 below), Total Cash and Total Production unit costs were lower than the previous quarter. Expenditure on plant and mining equipment maintenance continues at a high level to support the focus on reliable equipment performance. A structured approach to identify and execute opportunities for cost control has resulted in savings being achieved - the focus on cost control continues.



Graph 2 – Tritton C1 Cash Costs (A\$/lb)

**Triton Unit Cost Statistics (A\$/lb)**

	DEC 2012 QTR	MAR 2013 QTR	JUN 2013 QTR	SEPT 2013 QTR
TOTAL MINING COSTS	1.64	1.30	1.47	1.24
TOTAL SITE PROCESSING COSTS	0.63	0.46	0.54	0.48
TC/RC'S & PRODUCT HANDLING	0.38	0.29	0.38	0.38
NET BY-PRODUCT CREDIT (INCL PROCESSING/TC/RC/TRANSPORT)	(0.11)	(0.06)	(0.07)	(0.07)
OTHER DIRECT CASH COSTS	0.38	0.38	0.37	0.30
<b>TOTAL C1 COSTS</b>	<b>2.92</b>	<b>2.37</b>	<b>2.68</b>	<b>2.33</b>
ROYALTIES	0.09	0.10	0.07	0.14
CONCENTRATE INVENTORY MOVEMENT	(0.18)	(0.65)	0.26	0.07
TOTAL CASH COSTS	2.83	1.81	3.01	2.54
DEPRECIATION & AMORTISATION	0.44	0.57	0.47	0.47
TOTAL PRODUCTION COSTS	3.27	2.38	3.48	3.01

**OUTLOOK**

Copper production targeted for the December quarter is 6,300 tonnes; the full year guidance for copper production is unchanged at 25,000 tonnes.



## Mt Muro Gold Mine (Indonesia)

### PRODUCTION

Following the 29 June riot, operations were suspended until mid-July while the site was secured. Operations recommenced on a limited basis from mid-July and continued until early August when a decision was made to place Mt Muro on care and maintenance and to put the operation up for sale. Following this decision the ore processing plant was run to recover gold in circuit before being shut in mid-August. The Serujan pit was allowed to flood, preventing illegal miner access to the ore body.

### SUSPENSION OF OPERATIONS

The Mt Muro operations were placed on care and maintenance on 2 August 2013 while a buyer is sought for the project. As at the end of the quarter the operation remains on care and maintenance.

### Mt Muro Production Statistics

		JUN 2013 QTR	SEPT 2013 QTR
MINED	ORE TONNES	286,821	70,777
	WASTE TONNES	1,969,232	229,377
ORE MILLED	TONNES	316,497	74,845
MILLED GRADE	GOLD (G/T)	1.20	1.09
	SILVER (G/T)	42.90	26.34
RECOVERY	GOLD (%)	92.44%	91.50%
	SILVER (%)	61.51%	82.00%
PRODUCTION	GOLD (oz)	11,248	2,820
	SILVER (oz)	264,705	64,971
	GOLD Eq (oz)	15,537	3,885
SALES	GOLD (oz)	11,831	4,469
	SILVER (oz)	629,345	314,170
	GOLD Eq (oz)	21,932	9,677

Note: The Mt Muro operations were placed on care and maintenance on 2 August 2013.



## COSTS

A key focus at Mt Muro during the quarter, both prior to and after the operation was placed on care and maintenance, has been cost minimisation.

### Mt Muro Unit Cost Statistics (US\$/oz)

	JUNE 2013 QTR	SEPT 2013 QTR
TOTAL MINING COSTS	632	1,470
TOTAL SITE PROCESSING COSTS	536	1,018
TC/RC'S & PRODUCT HANDLING	33	51
OTHER DIRECT CASH COSTS	508	1,576
<b>TOTAL C1 COSTS</b>	<b>1,709</b>	<b>4,115</b>
ROYALTIES	10	21
INVENTORY MOVEMENT	169	2,031
TOTAL CASH COSTS	1,888	6,167
DEPRECIATION & AMORTISATION	595	-
OTHER NON CASH COSTS	632	348
TOTAL PRODUCTION COSTS	3,116	6,515

Note: While mining production at Mt Muro ceased when the operation was placed on care and maintenance on 2 August 2013, the unit cost information included in the table above incorporates all operating costs incurred during the quarter, including those costs incurred after the operation was placed on care and maintenance.

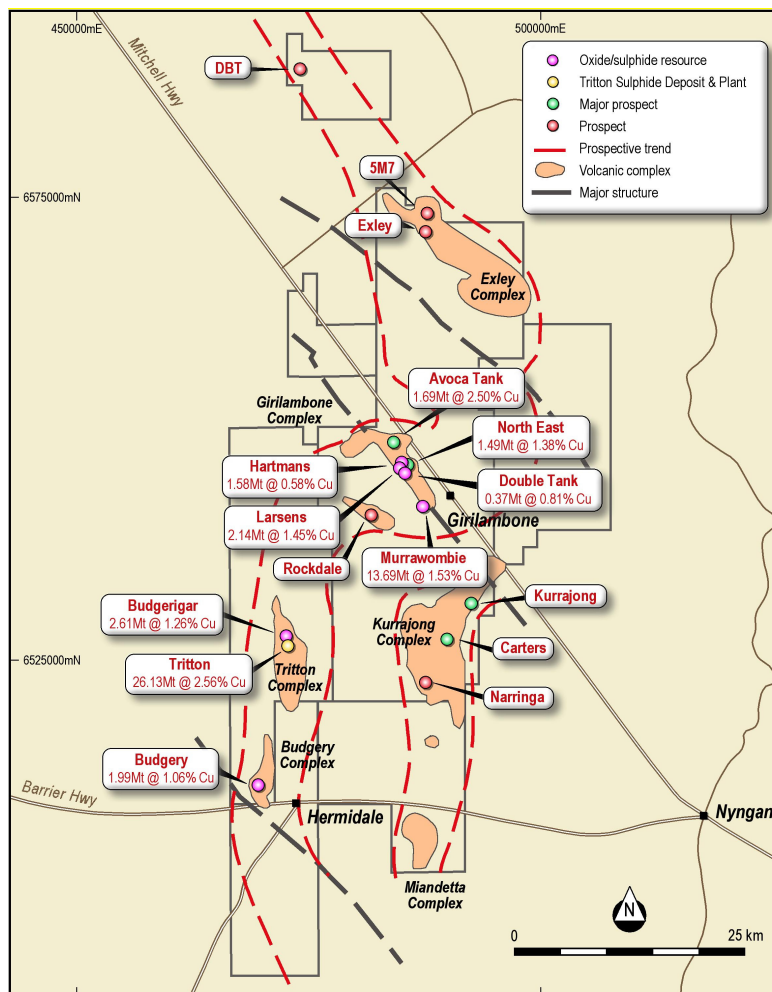
## OUTLOOK

The Board's decision, on 2 August 2013, to stop funding the Mt Muro asset whilst a buyer is sought stands - Straits has not contributed any further funding to the Mt Muro assets.

## Exploration

### TRITTON (100%)

Straits currently holds 177,000 hectares in the prospective Tritton VMS district. This is made up of 4 granted Exploration and 3 Mining leases. Six major mafic complexes have been identified within a sequence of sedimentary rocks with a combined strike length of greater than 100km. Numerous anomalies have been identified and remain untested in the Tritton region. These are shown in the following diagram (Map 1):



Map 1 - Tritton Region showing copper deposit distribution and relative size

An exploration strategy has been steadily evolving for the region and has been extremely effective in both identifying and testing for VMS sulphide systems as demonstrated by recent exploration success at Avoca Tank, Kurradjong, Carters and Budgery.





The quality of the remaining targets in the Tritton region and the potential for further discoveries in this large VMS copper district remains excellent. "Besshi" style VMS systems are characterised by repeats along strike, multiple horizons and lenses and significant depth potential, providing confidence for the discovery of additional deposits along the multiple prospective horizons within the Tritton region.

**Kurrajong:**

No further work was conducted during the quarter.

Drilling to date has confirmed the presence of a large mineralised system at Kurrajong and additional drilling has been planned to test the significant downhole electromagnetic anomalies identified in TKJD010 and TKJD011, which remain untested at depth.

Significant intersections returned to date include a 6 meter interval of massive sulphide in drillhole TKJD008 (6m @ 3.92% Cu) and drillhole TKJD012 returned a massive sulphide zone grading 10m @ 2.43% copper.

**Avoca Tank:**

The application and approvals process for a mining lease was suspended during the quarter while a review of all development projects was conducted. In the review process Avoca Tank was ranked as an attractive high grade development project, and an application for a Mining Lease will be made in the current financial year.

The deposit remains open at depth below 450 metre vertical and the company remains positive that extensions at Avoca Tank may be found in and around the Girilambone Mafic Complex. Surface air-core drilling through alluvial cover around Avoca Tank is planned with the target of finding another VMS deposit in the area.

**OTHER AUSTRALIAN EXPLORATION ASSETS**

The sale of the Stuart Shelf exploration project in South Australia was completed on 10 July 2013.

Straits Resources maintains an interest in one remaining South Australian exploration tenement – the Torrens Project (EL4296). No activity has been possible on the Torrens project while proceedings in the SA Supreme Court have been in progress - a decision is expected during October 2013.

Straits' largest remaining non-core asset is the Temora copper/gold project in NSW. This is a high quality project targeting copper porphyry deposits in the proven and highly prospective Lachlan Fold belt in NSW. Straits is currently assessing the various options for maximising the inherent value of this project. A number of parties have expressed an interest in farm-in joint ventures on the project and have requested access to the technical information.



## Corporate

### CASH

At the end of the September 2013 quarter, Straits (excluding Mt Muro) had total cash and copper concentrate sales receivables of \$29.0 million, representing an increase of \$5.0 million on the previous quarter:

\$million	September 2013 Quarter	June 2013 Quarter
Useable Cash - Straits Corporate and Tritton	8.3	16.7
Tritton - Copper concentrate receivables	20.7	7.3
<b>Straits/Tritton - Useable Cash and Receivables</b>	<b>29.0</b>	<b>24.0</b>
Useable Cash – Mt Muro operations	2.4	1.5
Investments	1.3	1.4
Restricted Cash	15.6	21.2

Towards the end of the quarter the Tritton operations transitioned from copper concentrate offtake agreements with two parties to a life of mine offtake agreement with Glencore. Due to timing impacts of concentrate shipments through this transition, the sales receivables as at the end of September increased to \$20.7 million, compared to \$7.3 million as at the end of June 2013. The outstanding shipment as at the end of the quarter was since paid in early October.

Restricted cash reduced by \$5.6 million during the quarter. The major impacts on this movement were:

- \$2.0 million in bonds at corporate level released from previous supplier obligations. These funds were applied to the corporate cash balance; and
- \$3.0 million held in a cash collateral account against the Tritton copper swap facility was released and utilised to reduce the copper swap facility balance.

Straits received \$2.0 million in early July as a result of the finalisation of the sale of the Stuart Shelf tenements to Oz Minerals.

### MT MURO DEBT RESTRUCTURE

On 5 August 2013 Straits announced that it had agreed indicative terms to restructure the existing silver prepayment facility (**Facility**) between its wholly owned subsidiary, PTIMK and the senior lender, Credit Suisse.

Completion of the restructure (scheduled for early November 2013), which is subject to shareholder approval (an Extraordinary General Meeting of shareholders is scheduled for 21 October 2013) will result in the close out of the existing Facility and remove Straits as a guarantor of the facility.

Under the terms of the Restructure, Straits will provide (in summary) the following to Credit Suisse:

- a cash repayment in the amount of \$US7.5 million on execution of formal documentation for the Restructure (which occurred on 20 August 2013); and



- the issue of \$US3.75 million of short dated (12 month) convertible notes (Class A Notes), which are convertible at the Senior Lender's election into Straits shares at a conversion price of 3 cents per share; and the issue of \$US3.25 million of 3 year convertible notes (Class B Notes), which are convertible at a conversion price of 3 cents per share as follows:
  - 50% of the Class B Notes must mandatorily convert into shares at the end of the term;
  - The balance (50%) of the Class B Notes are able to be converted at the Senior Lender's election.

Class A Notes and Class B Notes will bear interest at 12.5% pa (of which 2.5% is to be capitalised) and if not converted, will be redeemed by Straits on the relevant maturity date. Class A Notes must be redeemed early, in the event that Straits undertakes a capital raising or similar liquidity event during the currency of those notes.

In addition, in the event that Straits is able to find a buyer for the Mt Muro Gold Project, the net sale proceeds will be shared 75% to the Senior Lender and 25% to Straits.

The Restructure and issue of the Class A Notes and Class B Notes is subject to obtaining all necessary shareholder approvals under the Listing Rules and the Corporations Act (Shareholder Approvals).

Pending entry into the Formal Documents (which has been completed) and receipt of the Shareholder Approvals, Straits and Credit Suisse have entered into a standstill agreement pursuant to which Credit Suisse has agreed not to exercise certain of its rights under the existing Silver Prepayment Facilities (including calling upon Straits' corporate guarantee), absent certain exceptional events occurring (such as Straits' insolvency). The standstill will cease to operate if shareholder approvals have not been received or the Restructure has not become effective within 3 months of agreeing the indicative terms for the restructure (by 4 November 2013).

### **MT MURO GOLD HEDGING**

Upon agreement of the indicative terms of the debt restructure, as described above, Credit Suisse closed out the remaining silver ounces (1,473,000 ounces) under the Silver Prepayment Facility and the outstanding gold hedges (14,515 ounces). Proceeds from the closing out of the gold hedges were applied by Credit Suisse against the outstanding balance of the Silver Prepayment Facility.

### **RESTRUCTURE OF TRITTON COPPER SWAP FACILITY (INCLUDING COPPER HEDGING) WITH STANDARD CHARTERED BANK**

On 9 September 2013 Straits announced that it had reached agreement with Standard Chartered Bank (SCB) for an interim restructure of the existing Tritton copper swap facility on more attractive repayment terms for the nine months August 2013 to April 2014.

Under the revised terms, effective immediately, the monthly repayments will be reduced from 450 tonnes to 69.9 tonnes of copper which is the same as current repayments. At the end of the nine month period the remaining facility is intended to be restructured over a five year term (Long Term Restructure) instead of the previous three years, subject to further negotiation between the parties.



As a condition of the restructure, Straits is required to:

- undertake a resource to reserve upgrade program to prove-up an additional 50kt of JORC certified copper reserves by 15 May 2014; and
- hedge 8,114 tonnes of its copper production (or approximately 50% of production) during the period of the interim restructure. In furtherance of this condition, Straits has entered into various transactions providing for, amongst other matters, the forward sale of this amount of its production for the next nine months at a copper price of \$AUD7,800 per tonne.

In addition, in the event that Straits undertakes a debt or equity raising during the period of the interim restructure, 50% of the net proceeds of that raising are to be applied to repay the principal amount owing under the SCB facility, reduce the hedging liability or otherwise to be used as collateral under the facility.

### **MT MURO DIVESTMENT**

Straits announced on 5 August 2013 that as of Friday, 2 August 2013, the Mt Muro gold operations were being placed on care and maintenance and that Straits was actively seeking to dispose of the asset. Discussions continue with respect to a possible sale of the asset.

### **CORPORATE OFFICE AND DEMERGER**

As a result of the decision by Straits during the quarter to place the Mt Muro gold operation on care and maintenance, the previously announced intention to demerge the copper and gold assets of Straits is no longer relevant.

The company is now focused solely on its copper assets, which are predominantly on the East Coast of Australia and as a result the corporate office functions will be relocated to Brisbane. By the end of October the relocation of the corporate office to Brisbane will be complete and the downsizing that has occurred over more than 12 months will be concluded, resulting in a corporate office establishment with eight personnel, from a team of 50 previously.

With the corporate office relocating from Perth to Brisbane a number people including the following executives will be leaving the company: Scott Huffadine (Deputy CEO); Matthew Smith (Deputy CFO); and Ivan Jerkovic (General Manager – Exploration). Straits would like to thank all employees who have worked at the Perth office for their loyalty and support during a very difficult period.

### **BOARD CHANGES**

On 31 July 2013, Dr. Susan Vearncombe, an independent, Non-executive Director of Straits resigned with immediate effect. The Board is grateful to Dr. Vearncombe for her contribution to the company during her term on the Board.

### **SALE OF STUART SHELF EXPLORATION TENEMENTS**

The sale of the Stuart Shelf tenements to Oz Minerals (ASX:OZL) was completed on 10 July 2013. The final installment of \$2.0 million has since been received.



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References in this report to "Straits Resources Limited", "Straits" and "Company" include, where applicable, its subsidiaries.