



10 November 2015

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Dear Shareholder

## EXTRAORDINARY GENERAL MEETING - RESTRUCTURING

As you are aware, Straits Resources Limited (**Straits** or **Company**) announced on 3 August 2015 that it had entered into Binding agreements for a breakthrough restructuring deal that secures the future of your Company.

The transaction is the culmination of an exhaustive process and will result in a substantial reduction in the Company's total debt and provide financial capacity to fund growth and build shareholder value.

The transaction:

- reduces Standard Chartered Bank (**SCB**) debt by 55% to US\$50 million; and
- provides SCB with "at risk" capital through Redeemable Convertible Preference Shares and a Price Participation Structure.

On completion of the restructuring, we will also welcome an affiliate of PAG (formerly Pacific Alliance Group) as a substantial funding partner and convertible shareholder.

The restructuring is subject to a variety of shareholder approvals, which are being sought at an Extraordinary General Meeting to be held at HoggoodGanim Lawyers, Level 7, Waterfront Place, 1 Eagle Street, Brisbane, Queensland on Tuesday 15 December 2015. A comprehensive notice of meeting and explanatory memorandum is **attached**. That document also includes an Independent Expert's Report from BDO Corporate Finance (QLD) Ltd on the proposed transaction, which has determined that the Restructuring, including the provision of security to SCB, is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.

Your directors **unanimously recommend that you vote in favour** of all resolutions.

Critically, all of the various resolutions are inter-conditional, so that **all resolutions must be passed in order for the restructure to proceed**.

On behalf of the Board, I invite you to consider the Notice of Meeting and accompanying material, for this important transaction in your Company's future.

Yours faithfully

Andre Labuschagne  
Executive Chairman  
Straits Resources Limited

# Notice of Extraordinary General Meeting and Explanatory Memorandum

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Straits Resources Limited ABN 30 147 131 977

Date of Meeting: Tuesday 15 December 2015

Time of Meeting: 10.00am (Brisbane time)

Place of Meeting: HopgoodGanim Lawyers  
Level 7, Waterfront Place  
1 Eagle Street  
Brisbane Qld 4000

# Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of Shareholders of Straits Resources Limited ABN 30 147 131 977 (**Company**) will be held at HopgoodGanim Lawyers, Level 7, Waterfront Place, 1 Eagle Street Brisbane, Qld 4000, on Tuesday 15 December 2015 at 10.00am (Brisbane time).

## Agenda

### Notes

Resolutions 1 to 12 are conditional upon the passing of one another, so that each will not have effect unless and until all others are passed.

## Ordinary business

### 1. Resolution 1 – Consolidation of capital

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, pursuant to section 254H(1) of the Corporations Act, and for all other purposes, the issued capital of the Company be consolidated on the basis that every 10 Shares be consolidated into 1 Share to take effect on the Consolidation Date, and otherwise on the terms and conditions as summarised in the Explanatory Memorandum and where this consolidation results in a fraction of a Share being held by a Shareholder, the Directors be authorised to round that fraction up to the nearest whole Share.”*

### 2. Resolution 2 – Approval to undertake Existing Lender Group Restructuring

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, for the purposes of section 611 item 7 of the Corporations Act and Listing Rules 7.1 and 10.1 and for all other purposes, approval be given for the Existing Lender Group Restructuring, including:*

- (1) the Company issuing to the Existing Lender 560,463,653 CRPS and the conversion of some or all of these CRPS to Shares by one or more of the Existing Lender and the Existing Lender Permitted Acquirers;*
- (2) the Existing Lender Group potentially increasing its Voting Power in the Company to a maximum 83.1% as a result of the conversion of the CRPS into Shares;*
- (3) the Company granting additional security (including by varying the terms of certain existing security arrangements) in favour of the Existing Lender Group (with such security held by the Security Trustee) for the benefit of, among other such beneficiaries, the Existing Lender Group); and*
- (4) the payment of the Copper Price Participation to the Existing Lender,*  
*on the terms and conditions as summarised in the Explanatory Memorandum.”*

### Notes

An Independent Expert's Report has been prepared by BDO Corporate Finance (QLD) Ltd for the purposes of shareholder approval of Resolution 2 (and Resolutions 4 and 7) under section 611 item 7 of the Corporations Act and for the purposes of shareholder approval of Resolution

# Notice of Extraordinary General Meeting

2 under Listing Rule 10.1. The report is annexed as Annexure B of the Explanatory Memorandum and should be carefully considered by shareholders. The Independent Expert has concluded that the transactions under Resolutions 2, 4 and 7 are fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.

## 3. Resolution 3 – Variation of Credit Suisse Convertible Note Terms

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, for the purposes of Listing Rule 7.1, and for all other purposes, approval be given for the Company to vary the terms of the Convertible Notes on issue to Credit Suisse International to provide for the mandatory conversion of some of the Convertible Notes and the mandatory redemption of the balance of the Convertible Notes in association with completion of the Restructuring on the terms and conditions as summarised in the Explanatory Memorandum.”*

## 4. Resolution 4 – Approval to undertake New Lender Group Restructuring

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, for the purposes of section 611 item 7 of the Corporations Act and Listing Rule 7.1, and for all other purposes, approval be given for the New Lender Restructuring, including:*

- (1) the Company issuing to the New Lender 140,115,913 CNRPS and the conversion of some or all of these CNRPS to Shares by the New Lender; and*
- (2) the New Lender Group potentially increasing its Voting Power in the Company to a maximum 50.0% as a result of the conversion of the CNRPS into Shares,*

*on the terms and conditions as summarised in the Explanatory Memorandum.”*

### Notes

An Independent Expert's Report has been prepared by BDO Corporate Finance (QLD) Ltd for the purposes of shareholder approval of Resolution 4 (and Resolutions 2 and 7) under section 611 item 7 of the Corporations Act. The report is annexed as Annexure B of the Explanatory Memorandum and should be carefully considered by shareholders. The Independent Expert has concluded that the transactions under Resolutions 2, 4 and 7 are fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.

## 5. Resolution 5 – Issue of Options to Mr Andre Labuschagne

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, in accordance with ASX Listing Rule 10.11 and for the purposes of Chapter 2E of the Corporations Act and sections 200B and 200E of the Corporations Act, and for all other purposes, the Company be authorised to issue 37,364,244 Options to Mr Andre Labuschagne (or his nominees) who is a Related Party of the Company on the terms and conditions as summarised in the Explanatory Memorandum.”*

# Notice of Extraordinary General Meeting

## Notes

A copy of this Notice of Meeting and the accompanying Explanatory Memorandum has been lodged with the ASIC in accordance with section 218 of the Corporations Act.

## 6. Resolution 6 – Issue of Options to Other KMP

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, for the purposes of ASX Listing Rule 7.1 and sections 200B and 200E of the Corporations Act, and for all other purposes, the Company be authorised to issue an aggregate of 56,046,365 Options to Mr Brainsbury, Mr Sheppard and Mr Miller (**Other KMP**) of the Company (or their nominees) on the terms and conditions as summarised in the Explanatory Memorandum.”*

## 7. Resolution 7 – Approval for the Company to hold a Relevant Interest in its own securities in excess of 19.99%

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To consider and, if thought fit, pass the following Resolution with or without amendment, as an Ordinary Resolution:

*“that, for the purposes of section 611 item 7 of the Corporations Act, and for all other purposes, the Company be authorised to hold a Relevant Interest in its own securities potentially in excess of 19.99% (to a maximum of 24.1%), as a result of the escrow arrangements over the Shares issued upon exercise of the Management Options, on the terms and conditions as summarised in the Explanatory Memorandum.”*

## Notes

An Independent Expert's Report has been prepared by BDO Corporate Finance (QLD) Ltd for the purposes of shareholder approval of Resolution 7 (and Resolutions 2 and 4) under section 611 item 7 of the Corporations Act and for the purposes of shareholder approval of Resolution 2 under Listing Rule 10.1. The report is annexed as Annexure B of the Explanatory Memorandum and should be carefully considered by shareholders. The Independent Expert has concluded that the transactions under Resolutions 2, 4 and 7 are fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.

## Special business

## 8. Resolution 8 – Attachment of additional rights to SRL Preference Shares (CRPS)

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To consider and, if thought fit, pass the following Resolution with or without amendment, as a Special Resolution:

*“that, for the purposes of section 254A(2) of the Corporations Act and for any and all relevant purposes, the Company be authorised to issue SRL Preference Shares as the CRPS, on the terms and conditions as summarised in the Explanatory Memorandum.”*

# Notice of Extraordinary General Meeting

## 9. Resolution 9 – Attachment of additional rights to SRL Preference Shares (CNRPS)

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To consider and, if thought fit, pass the following Resolution with or without amendment, as a Special Resolution:

*“that, for the purposes of section 254A(2) of the Corporations Act and any and all relevant purposes, the Company be authorised to issue SRL Preference Shares as the CNRPS, on the terms and conditions as summarised in the Explanatory Memorandum.”*

## 10. Resolution 10 – Financial Assistance to the Existing Lender

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To consider and, if thought fit, pass the following Resolution with or without amendment, as a Special Resolution:

*“that, for the purposes of section 260B and Part 2J.3 of the Corporations Act, and for all other purposes, approval be given for any financial assistance provided by the Company, Tritton, SML, or any subsidiary of the Company which granted financial assistance under or in connection with the Restructuring for the purposes of section 260A of the Corporations Act to the Existing Lender under or in connection with the Restructuring, on the terms and conditions as summarised in the Explanatory Memorandum.”*

## 11. Resolution 11 – Financial Assistance to the New Lender

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To consider and, if thought fit, pass the following Resolution with or without amendment, as a Special Resolution:

*“that, for the purposes of section 260B and Part 2J.3 of the Corporations Act, and for all other purposes, approval be given for any financial assistance provided by the Company, Tritton, SML or any subsidiary of the Company which granted financial assistance under or in connection with the Restructuring for the purposes of section 260A of the Corporations Act to the New Lender under or in connection with the Restructuring, on the terms and conditions as summarised in the Explanatory Memorandum.”*

## 12. Resolution 12 - Change of Company Name

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To consider and, if thought fit, pass the following Resolution with or without amendment, as a Special Resolution:

*“that, for the purposes of section 157(1) of the Corporations Act, and for all other purposes, approval be given for the name of the Company to be changed to Aeris Resources Limited.”*

## 13. Inter-conditionality of Resolutions

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Resolutions 1 to 12 are conditional upon the passing of one another, so that each will not have effect unless and until all others are passed.

## 14. Voting Exclusion Statements

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The Corporations Act and the ASX Listing Rules require that certain persons must not vote, and the Company must disregard any votes cast by certain persons, on several of the Resolutions to be considered at the Meeting.

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The Company will disregard any votes cast on the following Resolutions in accordance with the Voting Exclusion Table below, by:

- (a) the Excluded Person; and
- (b) an Associate of the Excluded Person.

However, the Company need not disregard a vote if:

- (a) it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

## ***Voting Exclusion Table***

<b>Resolution</b>	<b>Excluded Person</b>
<b>1</b>	Nil
<b>2</b>	Existing Lender, Existing Lender Permitted Acquirers, each other member of the Existing Lender Group and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed
<b>3</b>	Credit Suisse International and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed
<b>4</b>	New Lender, each other member of the New Lender Group and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed
<b>5</b>	Andre Labuschagne
<b>6</b>	Other KMP and any person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed
<b>7</b>	Company
<b>8</b>	Nil
<b>9</b>	Nil
<b>10</b>	Existing Lender, Existing Lender Permitted Acquirers and each other member of the Existing Lender Group
<b>11</b>	New Lender and each other member of the New Lender Group
<b>12</b>	Nil

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## Voting exclusion statement pursuant to section 250BD of the Corporations Act

As Resolutions 5 and 6 are resolutions connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company (or, if the Company is a consolidated entity, for the entity), pursuant to section 250BD of the Corporations Act, a vote on Resolutions 5 and 6 must not be cast by:

- (a) any member of the Key Management Personnel for the Company (or, if the Company is a consolidated entity, for the entity); or
- (b) a Closely Related Party of a member of the Key Management for the Company (or, if the Company is a consolidated entity, for the entity),

who is appointed as a Shareholder's proxy, on the basis of that appointment, where the Shareholder does not specify in writing the way the proxy is to vote on the resolution.

However, the Company need not disregard a vote if it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, where the Shareholder does not specify in writing the way the proxy is to vote on the resolution, if the appointment of the proxy expressly authorises the chair to exercise the proxy even if the resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company (or, if the Company is a consolidated entity, for the entity).

## 15. Independent Expert's Report

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Shareholders should carefully consider the Independent Expert's Report (attached as Appendix 1 to this Explanatory Memorandum) prepared for the purpose of the Shareholder approvals required under section 611 item 7 of the Corporations Act and Listing Rule 10.1. The Independent Expert's Report comments on the fairness and reasonableness of the Restructuring to the Shareholders who will not participate in the Restructuring (other than via the consolidation of capital).

The Independent Expert has determined that:

- (a) the "Proposed Transaction" under the Independent Expert's Report including:
  - (1) the potential issue of Shares to the Existing Lender Group on the conversion of the CRPS in excess of 19.99% of the Company,
  - (2) the potential issue of Shares to the New Lender Group on the conversion of the CNRPS in excess of 19.99% of the Company; and
  - (3) the Company potentially holding a Relevant Interest in its own Shares in excess of 19.99%,

**is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report; and**

- (b) the "Security Transaction" under the Independent Expert's Report comprising the granting of security to the Existing Lender Group **is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**



# Notice of Extraordinary General Meeting

## **General business**

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To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

**By order of the Board**

A handwritten signature in blue ink, consisting of several overlapping loops and a horizontal line, positioned above the typed name of the signatory.

Mr Robert Brainsbury  
Company Secretary  
10 November 2015

# Explanatory Memorandum

## 1. Introduction

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This Explanatory Memorandum is provided to Shareholders of Straits Resources Limited ABN 30 147 131 977 (**Company**) to explain the Resolutions to be put to Shareholders at the Extraordinary General Meeting to be held at HopgoodGanim Lawyers, Level 7, Waterfront Place, 1 Eagle Street Brisbane, Qld 4000, on Tuesday 15 December 2015 at 10.00am (Brisbane time).

The Directors recommend Shareholders read the accompanying Notice of Meeting and this Explanatory Memorandum in full before making any decision in relation to the Resolutions.

Terms used in the Notice of Meeting and this Explanatory Memorandum are defined in Section 15 of this Explanatory Memorandum.

## 2. Background to the Resolutions and the Restructuring

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### 2.1 Company's existing debt

The Company has the following debt as at 30 April 2015 with SCB Singapore, as the Existing Lender:

- (a) US\$106,211,865 pursuant to a bridging loan (which pursuant to its terms accrues PIK interest at LIBOR + 6% per annum); and
- (b) US\$4,916,859 pursuant to a working capital facility (which pursuant to its terms accrues PIK interest at LIBOR + 6% pa),

totalling approximately US\$111 million (**Senior Debt**).

The Company also contingently owes the Existing Lender an additional AU\$10,328,000 pursuant to a contingent instrument facility (**CI Facility**).

In addition to the above amounts owed to the Existing Lender, the Company also has US\$7 million Convertible Notes outstanding with Credit Suisse consisting of 3,750,000 Class A Notes and 3,250,000 Class B Notes (all with a conversion price of AU\$0.03).

Without the Restructuring, the Company would likely not be able to repay these amounts.

### 2.2 Overview of the Restructuring

As announced on 3 August 2015, the Company, the Existing Lender Group and SPOV, as the New Lender, have entered into binding agreements, which, subject to the satisfaction of a number of conditions precedent (including the Shareholder approvals being sought at this Meeting), will:

- (a) result in a substantial reduction of the Company's Senior Debt (by 55% to US\$50 million) (**Restructured Senior Debt**); and
- (b) provide the Company with a three year US\$25 million revolving priority debt facility (**New Funding**).

With this New Funding, its Restructured Senior Debt and concomitant reduced interest repayments, the Company Group's business plan indicates that it will be able to generate sufficient cash flow to:

- service its obligations in relation to the New Funding;
- meet its current working capital requirements and restore the Company Group's stability with suppliers; and
- meet its critical capital expenditure requirements, which will help the Company increase its resources/reserves and extend the life of the Tritton Copper Operations.

# Explanatory Memorandum

The Restructuring can be broadly categorised into the following components:

- (a) the consolidation of the Company's share capital (**Consolidation**);
- (b) the restructure of the Company Group's existing debt with the Existing Lender Group, consisting of:
  - (1) the issue by the Company of the CRPS to the Existing Lender Group;
  - (2) the grant of additional security (including by varying the terms of certain existing security arrangements) by the Security Providers to the Existing Lender Group to secure the payment and performance obligations of the Security Providers under the New SSFA, the Price Participation Deed and the Existing Lender CPS Subscription Agreement; and
  - (3) the payment of the Copper Price Participation to the Existing Lender Group under and in accordance with the Price Participation Deed,

as is set out in further detail at section 2.5 of this Explanatory Memorandum below (**Existing Lender Restructuring**);

- (c) the provision of the New Funding to the Company Group by the New Lender Group including:
  - (1) the issue of the CNRPS by the Company to the New Lender Group; and
  - (2) the grant of security by the Security Providers to the New Lender Group to secure the payment and performance obligations of the Security Providers under the Priority Loan Agreement,

as set out in further detail at section 2.6 of this Explanatory Memorandum below (**New Lender Group Restructuring**);

- (d) the conversion of some and the redemption of the balance of the Convertible Notes held by Credit Suisse<sup>1</sup>, as set out in further detail at section 2.7 of this Explanatory Memorandum below (**Credit Suisse Restructuring**); and
- (e) the issue of Management Options to the Relevant Managers, as set out in further detail at section 2.8 of this Explanatory Memorandum below (**Management Restructuring**).

Should the Company not be able to undertake the Restructuring or any alternative funding or restructure, the Company may not be able to meet its obligations in respect of the Senior Debt. If the Company is issued with a notice of default by the Existing Lender Group, it will be required to immediately find an alternative source of funding. Given the current economic climate, the Company's market capitalisation and the Company's inability to otherwise raise capital, it is unlikely that such an alternative lender could be found.

As the Existing Lender holds a first ranking security over the assets of the Company and other members of the Company Group, it would have the right to appoint a receiver to these entities in the event of default. If a receiver is appointed, that receiver may be required to dispose of the secured assets in order to recover money owed by the Company to the Existing Lender. Under these circumstances, the Company's Shareholders will lose control of the secured assets, including the Company's only producing asset - the Tritton Copper Operations.

Should the Company not be able to undertake the Restructuring and restructure its Senior Debt and the CI Facility, there will likely be no economic interest remaining for existing Shareholders.

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<sup>1</sup> As detailed in Section 2.7, the Company is aware that Credit Suisse proposes to sell the Notes that are subject to conversion to a third party

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## 2.3 Voting Power Tables

The table below sets out the maximum Voting Power that may be acquired by various parties as a result of the Restructuring. As set out in Voting Power Resolutions, depending on the point in time at which conversion or exercise of relevant securities takes place, the Existing Lender and the New Lender (and their Associates) may acquire Voting Power in the Company in excess of 19.99%. The Company may also acquire a Voting Power in excess of 19.99% in its own securities by virtue of sections 608(8) and 608(9) of the Corporations Act as a result of the voluntary escrow arrangements applicable upon the exercise of the Management Options.

The table below provides an indication of the maximum percentage Shareholding which the Existing Lender, the New Lender and the Company may acquire in the Company's Shares as a result of the various transactions contemplated by the Restructuring.

As set out above, the Voting Power the parties acquire is dependent on a number of factors, including the point in time at which the relevant convertible securities (CPS or Options as the case may be) are converted to Shares by various parties when compared to the other parties. Accordingly, the maximum Voting Power which Shareholders are being asked to approve in respect of each party may not actually ever be obtained (for example, if the New Lender converts their CNRPS before the Existing Lender, then the Existing Lender would not reach their maximum Voting Power as set out below on conversion of their CRPS).

It should also be noted that CPS can be converted into Shares up to five years after their date of issue and accordingly Shareholders are being asked to approve the acquisition of Relevant Interests in Shares (and resulting increases in Voting Power in the Company) via the conversion of CPS which may not occur for up to five years.

### **Existing Capital Structure**

	Number of Shares	Voting Power
Relevant Managers <sup>1</sup>	58,479,136	4.8%
SC Private Equity <sup>2</sup>	214,663,735	17.6%
Other Shareholders <sup>3</sup>	944,587,422	77.6%
<b>Total</b>	<b>1,217,730,293</b>	<b>100%</b>

<sup>1</sup> Comprising 53,580,134 ESAP Shares and 4,899,002 Shares.

<sup>2</sup> A company having the same ultimate parent company as the Existing Lender.

<sup>3</sup> Excluding the Relevant Managers and SC Private Equity

### **Fully diluted Capital Structure pre-Consolidation and pre-Restructure (assuming conversion of the Conversion Notes)**

	Number of Shares	Voting Power
Relevant Managers <sup>1</sup>	58,479,136	4.0%
SC Private Equity <sup>2</sup>	214,663,735	14.7%
Holder of Conversion Notes <sup>3, 4</sup>	245,000,000	16.7%
Other Shareholders <sup>5</sup>	944,587,422	64.6%
<b>Total</b>	<b>1,462,730,293</b>	<b>100%</b>

<sup>1</sup> Comprising 53,580,134 ESAP Shares and 4,899,002 Shares.

<sup>2</sup> A company having the same ultimate parent company as the Existing Lender.

<sup>3</sup> Assumes the conversion of the Conversion Notes, being that part of the Convertible Notes not being redeemed in accordance with Resolution 3.

<sup>4</sup> The Conversion Notes are presently held by Credit Suisse, Whilst Credit Suisse is the holder of

## Explanatory Memorandum

these Conversion Notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these Conversion Notes to a third party under an arm's length transaction, prior to the date of conversion. These shares will be issued to the holder of the Conversion Notes.

<sup>5</sup> Excluding the Relevant Managers and SC Private Equity.

### ***Fully diluted Capital Structure post-Consolidation (assuming conversion of the Conversion Notes)***

	Number of Shares	Voting Power
Relevant Managers <sup>1</sup>	5,847,913	4.0%
SC Private Equity <sup>2</sup>	21,466,374	14.7%
Holder of Conversion Notes <sup>3</sup>	24,500,000	16.7%
Other Shareholders <sup>4</sup>	94,458,742	64.6%
<b>Total</b>	<b>146,273,029</b>	<b>100%</b>

<sup>1</sup> Comprising 5,358,013 ESAP Shares and 489,900 Shares.

<sup>2</sup> A company having the same ultimate parent company as the Existing Lender.

<sup>3</sup> The Conversion Notes are presently held by Credit Suisse, Whilst Credit Suisse is the holder of these Conversion Notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these Conversion Notes to a third party under an arm's length transaction, prior to the date of conversion. These shares will be issued to the holder of the Conversion Notes.

<sup>4</sup> Excluding the Relevant Managers, SC Private Equity, the Existing Lender and the New Lender.

### ***Capital Structure post-Consolidation and post-Restructuring (before exercise of Management Options and conversion of CPS)***

	Number of Shares	Voting Power
Relevant Managers <sup>2</sup>	489,900	0.4%
SC Private Equity <sup>3</sup>	21,466,374	15.3
Holder of Conversion Notes <sup>4</sup>	24,500,000	17.5%
Other Shareholders <sup>1,2</sup>	93,659,640	66.8%
New Lender Group	Nil	0%
Existing Lender Group <sup>5</sup>	Nil	0%
<b>Total</b>	<b>140,115,914</b>	<b>100%</b>

<sup>1</sup> Excluding the Relevant Managers, SC Private Equity, the Existing Lender Group and the New Lender Group.

<sup>2</sup> After cancellation of all ESAP shares.

<sup>3</sup> A company having the same ultimate parent company as the Existing Lender.

<sup>4</sup> These shares will be issued to the holder of the Conversion Notes. Whilst Credit Suisse is the holder of these Conversion Notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these Conversion Notes to a third party under an arm's length transaction, prior to the date of conversion.

<sup>5</sup> Excluding SC Private Equity.

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## **Capital Structure post-Consolidation and post-Restructuring (on an as converted and exercised basis assuming all Management Options are exercised and all CPS are converted)**

	Number of Shares (on a fully diluted basis)	Voting Power
Relevant Managers <sup>2</sup>	93,900,508	10.1%
SC Private Equity <sup>3</sup>	21,466,374	2.3%
Holder of Conversion Notes <sup>4</sup>	24,500,000	2.6%
Other Shareholders <sup>1,7</sup>	93,659,640	10.0%
New Lender Group <sup>5</sup>	140,115,913	15.0%
Existing Lender Group <sup>6,8</sup>	560,463,653	60.0%
<b>Total</b>	<b>934,106,088</b>	<b>100%</b>

<sup>1</sup> Excluding the Relevant Managers, SC Private Equity, the Existing Lender Group and the New Lender Group.

<sup>2</sup> After the cancellation of ESAP Shares and assuming all Management Options are exercised. The Management Options vest annually in tranches, and upon exercise, the Shares issued are also subject to voluntary restriction. Accordingly, this is the maximum number of Shares which can be held by Relevant Managers. In accordance with Resolution 7, while these Shares remain subject to voluntary restriction, the Company will also have a Relevant Interest in the Shares.

<sup>3</sup> A company having the same ultimate parent company as the Existing Lender.

<sup>4</sup> These shares will be issued to the holder of the Conversion Notes. Whilst Credit Suisse is the holder of these Conversion Notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these Conversion Notes to a third party under an arm's length transaction, prior to the date of conversion.

<sup>5,6</sup> Assuming that all CPS are converted.

<sup>7</sup> After cancellation of ESAP shares issued to persons other than the Relevant Managers.

<sup>8</sup> Excluding SC Private Equity

## **Maximum Voting Power post-Consolidation and post-Restructure**

This table sets out the potential **maximum** voting power that each of the identified parties may obtain in the Company if **only** that party (and none of the other parties) exercises its right to convert its Management Options or CPS (as applicable).

Party	Maximum Number of Shares able to be issued to the party under the Restructure	Total Shares on issue in the Company after Maximum Number of Shares are issued for the party named	Maximum Voting Power for that party (assuming that Shares have only been issued to the benefit of that party)
Relevant Managers <sup>1</sup>	93,900,509	233,526,522 <sup>4</sup>	40.2% <sup>8</sup>
New Lender Group <sup>2</sup>	140,115,913	280,231,826 <sup>5</sup>	50.0% <sup>9</sup>
Existing Lender Group <sup>3</sup>	560,463,653	700,579,566 <sup>6</sup>	80.0% <sup>10</sup>
Existing Lender Group and SC Private Equity <sup>3</sup>	581,930,026	700,579,566 <sup>7</sup>	83.1% <sup>11</sup>

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<sup>1</sup> After cancellation of the ESAP Shares and assuming all Management Options are exercised.

<sup>2</sup> Assuming that all CNRPS are converted.

<sup>3</sup> Assuming that all CRPS are converted.

<sup>4, 8</sup> Assuming that only the Management Options are exercised and that no CPS are converted and no other Shares are issued.

<sup>5, 9</sup> Assuming that only the CNRPS are converted and that no Management Options are exercised, no CRPS are converted and no other Shares are issued.

<sup>6, 7, 10, 11</sup> Assuming that only the CRPS are converted and that no Management Options are exercised, no CNRPS are converted and no other Shares are issued.

## 2.4 Conditions Precedent to the Restructuring

The Restructuring is subject to a number of Conditions Precedent, including as are set out as follows:

Condition Precedent	Status as at date of Notice
FIRB Approvals - any necessary approvals required under the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth)	Relevant applications have been made to FIRB and it is anticipated that the condition will be satisfied before the date of the Meeting.
ASIC, ASX and Regulatory Approvals – any necessary regulatory approval, waiver or consents	All necessary regulatory approvals have been obtained. For the condition to remain satisfied, no such approval may be withdrawn prior to completion of the Restructuring.
Independent Expert's Report – an independent expert providing a report stating that in its opinion the certain transactions or matters forming part of the Restructuring that the Independent Expert is required, under the Corporations Act, the ASX Listing Rules or any applicable rules, regulations or regulatory guides under the Corporations Act or the ASX Listing Rules, to provide an opinion on, is reasonable to Shareholders	The Independent Expert's Report has been obtained. For the condition to remain satisfied, the Report must not be withdrawn prior to completion of the Restructuring.
Shareholder approval – the Resolutions the subject of this EGM being passed by the respective requisite majorities of Shareholders	Outstanding – this Condition Precedent can only be satisfied at the Meeting
ASIC forms – the lodgement of the prescribed documents and forms required to be lodged with ASIC following approval of the Required Resolutions	Outstanding – this Condition Precedent can only be satisfied after the Meeting
Existing Debt Restructuring Documents – each of the Existing Debt Restructuring Documents has been executed and has become unconditional (other than in respect of any condition precedent the satisfaction of which is dependent upon completion of the Restructuring Deed occurring)	All Existing Debt Restructuring Documents have been executed. Only customary conditions precedent and conditions relating to completion occurring under the Restructuring Deed remain to be satisfied.

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Condition Precedent	Status as at date of Notice
<p>New Funding Documents - each of the New Funding Documents has been executed and has become unconditional (other than in respect of any condition precedent the satisfaction of which is dependent upon completion of the Restructuring Deed occurring)</p>	<p>All New Funding Documents have been executed. Only customary conditions precedent and conditions relating to completion occurring under the Restructuring Deed (or funding under the new Funding Document) remain to be satisfied.</p>
<p>New Security Documents - each of the New Security Documents has been executed and has become unconditional (other than in respect of any condition precedent the satisfaction of which is dependent upon completion of the Restructuring Deed occurring)</p>	<p>All New Security Documents have been executed except for the Variation Deed (ANZ Account Control Deed). The terms of the Variation Deed (ANZ Account Control Deed) continue to be negotiated between the Existing Lender Group, the New Lender Group, the Company Group and the ANZ. Otherwise, only customary conditions precedent and conditions relating to completion occurring under the Restructuring Deed remain to be satisfied.</p>
<p>Credit Suisse agreement – the execution of an agreement with Credit Suisse under which all of the Convertible Notes will be converted or redeemed in conjunction with the Restructuring</p>	<p>Satisfied</p>
<p>Management arrangements – the Company and all relevant senior management and parties entering into agreements to restructure the current Share-entitlements and on-going incentive arrangements of management</p>	<p>This condition remains to be satisfied. The terms of the agreements have been agreed to and are attached to the Restructuring Deed and it is anticipated that they will be executed on or before the date of the Meeting.</p>
<p>No Restraints – there being no restraint by a court or government agency being in place at the time of completion of the Restructuring</p>	<p>This condition is live and tested constantly up until Completion. As at the date of this Notice, the restriction contained within this condition has not been breached</p>
<p>Satisfactory tax opinion – the Company (and the Lenders) receiving a written report stating that the entry into and performance of the Restructuring documents will not give rise to a materially adverse cash tax impact for the Straits Group</p>	<p>This condition remains to be satisfied and is anticipated that it will be satisfied prior to the date of the Meeting</p>
<p>No Regulated Events – there being no regulated events (including standard events such as the Company undertaking any capital reconstructions, issuing securities (other than in specified circumstances), incurring any capital liabilities such as a dividend or distribution of profits or capital, the Company’s amending its constitution, the Company undertaking any acquisition, lease or disposal of an entity, business or asset (other than</p>	<p>This condition is live and tested constantly up until Completion. As at the date of this Notice, the restriction contained within this condition has not been breached</p>



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Condition Precedent	Status as at date of Notice
in the ordinary course of business or as the Company is already legally committed to do)) in excess of AU\$3 million and any capital expenditure in excess of AU\$2.5 million) occurring or becoming known to the Lenders before completion of the Restructuring	
No Material Adverse Change – there being no material adverse change (such as an event which results in the Straits Group being unable to carry on its business in substantially the same manner as carried on as at the date of the Restructuring Deed, or that otherwise materially and adversely affects the prospects of the Straits Group (other than limited exceptions)) occurring or becoming known to the Lenders before completion of the Restructuring	This condition is live and tested constantly up until Completion. As at the date of this Notice, the restriction contained within this condition has not been breached
Straits representations and warranties – there being no breach of the representations and warranties given by the Company occurring before the completion of the Restructuring	This condition is live and tested constantly up until Completion. As at the date of this Notice, the restriction contained within this condition has not been breached

## 2.5 Existing Lender Group Restructuring

Under the Existing Lender Group Restructuring:

- the Company's outstanding Senior Debt with the Existing Lender of approximately US\$111 million will be reduced to US\$50 million;
- the CI Facility of AU\$10.328 million will continue;
- the Existing Lender will be issued with the CRPS with an aggregate face value of US\$40 million (being equivalent to 60% of the Company's post-Restructuring and fully diluted equity);
- the Security Providers will grant additional security (including by varying the terms of existing security arrangements) to the Existing Lender Group to secure certain obligations of the Security Providers in connection with the Senior Debt, the CI Facility, the Price Participation Deed and the Existing Lender CPS Subscription Agreement; and
- the Existing Lender and the Company have agreed a price participation structure whereby the Existing Lender will receive a small percentage of incremental revenue above a copper price of AU\$8,000 per tonne (**Copper Price Participation**).

### (a) Senior Debt – New SSFA

The Existing Lender has agreed for the Senior Debt to be restructured (the Senior Debt will be reduced from approximately US\$111 million to the Restructured Senior Debt amount (of

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US\$50 million). To give effect to this, the parties have agreed to amend and re-state the existing SSFA to give effect to the New SSFA.

Under the New SSFA:

- (1) the Senior Debt and the CI Facility are each subject to a seven year term (**SSFA Term**);
- (2) the Borrower is required to make a bullet payment of all outstanding monies occurring at the end of the Senior Debt;
- (3) the Senior Debt accrues cash interest at a rate of 5% per annum (following a "cash interest holiday" of two years) which is payable in accordance with the agreed payment structure between, among others, the Company, the Existing Lender and the New Lender as set out in the Intercreditor Deed;
- (4) if a payment of cash interest on the Senior Debt cannot be made by the Borrower, the amount owing will capitalise; and
- (5) PIK interest accrues at a rate of 10% per annum in the first year, 12.5% per annum in the second year and 7.5% per annum for the remaining five years of the seven year term.

In order to secure the obligations of the Borrower under the New SSFA (as well as the New Funding Documents), each of the Security Providers has agreed to:

- (1) execute the New SSFA as an obligor;
- (2) give an interlocking guarantee and indemnity (which is contained in the Intercreditor Deed) for the repayment of money owing by the Borrower from time to time under the New SSFA (including certain New Funding Documents);
- (3) secure their obligations under the New SSFA (including the guarantee and indemnity) and any related document (including certain New Funding Documents) by:
  - (A) (in the case of the Company and SML):
    - (i) grant a new general security deed in favour of the Security Trustee over all of the present and after-acquired property of the Company and SML, respectively; and
    - (ii) amend the terms of existing security granted by the Company and SML to the Security Trustee;
  - (B) (in the case of the Borrower) amend the terms of the existing security granted by the Borrower in favour of the Security Trustee; and
- (4) execute any document ancillary to, or in connection with, the New SSFA, including the Intercreditor Deed which regulates the payment and enforcement priorities as between, among others, the Company Group, the Existing Lender Group and the New Lender Group.

The only material changes to the terms of the existing security arrangements relate to security granted by the Company and SML to the Security Trustee. The Security Trustee already holds:

- (1) fixed Security Interests over the shares held by the Company and by SML in Tritton; and
- (2) "featherweight" Security Interests over all other assets of the Company and SML. These "featherweight" Security Interests are (a) only enforceable if the Company or

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SML (as applicable) enters voluntary administration and (b) only secure obligations up to a nominal threshold.

The New Security Documents will effectively remove the limited nature of those "featherweight" Security Interests. The other existing Security Interests held by the Security Trustee will continue and extend to secure the obligations of the Security Providers under the Finance Documents (other than New Lender CPS Subscription Agreement).

The Company's obligations under the Finance Documents are significant. Those obligations include:

- (1) unconditionally and irrevocably guaranteeing the performance of the obligations (including payment obligations) of the Borrower and each other Security Provider;
- (2) indemnifying each Finance Party against any liability, loss or cost incurred by them under, or in connection with, the Finance Documents; and
- (3) granting security interests over all its assets and after-acquired property to secure its obligations, and the obligations of the Borrower and each other Security Provider, under the Finance Documents from time to time.

## (b) **CRPS**

### (1) **CRPS**

The CRPS are fully paid redeemable cumulative convertible preference shares in the capital of the Company.

The CRPS are issued with an aggregate face value of US\$40 million (**CRPS Aggregate Face Value**) which reflects the amount that the Senior Debt of the Company will be reduced by the issue of the CRPS should the Restructuring complete.

### (2) **Dividends**

The CRPS accrue a cumulative unfranked dividend at 5% per annum (**CRPS Dividend**). If a dividend is not paid (as a result of the Directors not declaring a dividend or the payment of the dividend not being permitted by law), then the unpaid amount (**CRPS Deferred Amount**) will also accrue interest at the rate of 5% per annum (**CRPS Deferred Amount Interest**).

Any CRPS Deferred Amount and CRPS Deferred Amount Interest will:

- cease to accrue and be written off if the CRPS are converted; and
- cease to accrue and be paid in cash if the CRPS are redeemed.

While there is a CRPS Deferred Amount, the Company is restricted from undertaking various capital reduction and distribution actions (subject to a number of exceptions, including relevantly where the holders of the CRPS (**CRPS Holders**) approve the relevant action).

### (3) **Mandatory Conversion**

Unless earlier redeemed or converted, all CRPS mandatorily convert into Shares on the fifth anniversary of their issue (**CRPS Mandatory Conversion**). Other than Mandatory Conversion, the Company has no right to convert the CRPS.

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## (4) **Holder Conversion**

Subject to their earlier redemption and prior to the date of CRPS Mandatory Conversion, a CRPS Holder may elect to convert all or any amount of the CRPS into Shares by delivering a notice to the Company (**CRPS Holder Conversion Notice**). However, if during the first four years after the issue of CRPS (**CRPS Redemption Period**) a CRPS Holder delivers to the Company a Holder Conversion Notice in respect of some (but not all CRPS), then the Company may, within 3 Business Days after receipt of such a notice, give that CRPS Holder (and all other CRPS Holders) a redemption notice, obliging the Company to redeem all of the CRPS on issue.

If prior to the date of Mandatory Conversion a CRPS Holder is an SCB Group Member, that CRPS Holder may not convert CRPS into Shares if it would result in the Existing Lender Group having a Voting Power in the Company of 50 percent or more.

## (5) **Conversion**

If any Shareholder approval (or other regulatory approval) (**CRPS Relevant Approval**) is required to permit conversion of a CRPS held by an Existing Lender Group Member at any time or held by any other person (**CRPS Prescribed Person**) on the Mandatory Conversion Date (provided that the CRPS Prescribed Person would hold then less than 35% of the Company on an as converted basis) (**CRPS Relevant Circumstances**), then the Company must use reasonable endeavours to obtain such approvals (including calling a meeting of Shareholders and obtaining required expert reports).

Where the CRPS Relevant Approval is not obtained within three months of the receipt by the Company of a CRPS Holder Conversion Notice, the Company must convert such number of CRPS which may be converted without the CRPS Relevant Approval and if:

- (A) the New Funding Term has not expired or there are outstanding moneys under the Priority Loan Agreement or any financier under the Priority Loan Agreement is under any obligation to provide further financial accommodation to any member of the Company Group, then the Company must seek the consent of the New Lender Agent to redeem the remaining CRPS for the CRPS Redemption Amount. If the New Lender Agent:
  - (i) provides their consent, the Company must redeem the remaining CRPS for the CRPS Redemption Amount; or
  - (ii) does not provide their consent, the CRPS Holder Conversion Notice will cease to have effect; or
- (B) the New Funding Term has expired or there is no outstanding moneys under the Priority Loan Agreement and no financier under the Priority Loan Agreement is under any obligation to provide further financial accommodation to any member of the Company Group, then the Company must redeem the CRPS for the CRPS Redemption Amount.

Where the CRPS Relevant Approval is not obtained within three months of:

- the Mandatory Conversion Date (in respect of CRPS Relevant Circumstances), then the Company must convert such number of the CRPS as is permitted without approval and redeem the remaining CRPS for the CRPS Redemption Amount;
- the receipt by the Company of a Holder Conversion Notice from a CRPS Holder other than an Existing Lender Group Member, then the Holder Conversion Notice will cease to have effect; or

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- the Mandatory Conversion Date in circumstances outside of CRPS Relevant Circumstances, then the Company must convert such number of the CRPS as is permitted without approval and redeem the remaining CRPS for the CRPS Reduced Redemption Amount.

The CRPS Holder will be allowed sufficient notice of any proposed rights issue or entitlement offer to enable exercise of conversion rights to participate in the rights issue or entitlement offer.

## (6) **Redemption**

The CRPS may be redeemed by the Company during the CRPS Redemption Period (provided that a CRPS Holder has not first issued a CRPS Holder Conversion Notice in respect of all of their CRPS). To redeem the CRPS, the Company must pay the CRPS Holders the CRPS Face Value of each CRPS, any CRPS Dividend that is due on the date of redemption, any CRPS Deferred Amount on the relevant CRPS and any Deferred Interest on the relevant CRPS (**CRPS Redemption Amount** or **CRPS Liquidation Sum**). The redemption of the CRPS has implications in respect of the Copper Price Participation (discussed in further detail below).

The Company may only redeem the CRPS if all CRPS are redeemed at the same time.

## (7) **Transferability**

The CRPS may be transferred by a CRPS Holder to a Related Body Corporate and also to external parties (but only where the number of CRPS transferred to that external party, if converted on completion of the transfer, would result in that party holding voting power of less than 20% of the Company). In the event that a CRPS Holder (**CRPS Original Holder**) transfers their CRPS to a Related Body Corporate (**CRPS Transferee**), and that CRPS Transferee ceases to be a Related Body Corporate of the CRPS Original Holder at a point in the future, the CRPS Transferee must transfer back to the CRPS Original Holder (or another member of the CRPS Original Holder's corporate group) such number of CRPS as is necessary to ensure that the CRPS Transferee does not hold voting power of more than 20% of the Company (on an as converted basis).

## (8) **General rights of the CRPS**

The CRPS have the following rights:

- (A) the CRPS rank equally amongst themselves;
- (B) the CRPS rank equally to the CNRPS;
- (C) the CRPS expressly authorise the issue of the CNRPS;
- (D) in relation to the payment of dividends, the CRPS and CNRPS rank equally with each other and senior to Shares and other instruments or securities of the Company that are expressed to rank junior to the CRPS and CNRPS;
- (E) in a winding-up of the Company, CRPS Holders are entitled to the CRPS Liquidation Sum (out of the surplus proceeds available for distribution to shareholders) in accordance with the following priority:
  - (i) equally with the CNRPS holders;
  - (ii) in priority to securities which by their terms rank junior to the CRPS;
  - (iii) equally amongst themselves; and
  - (iv) junior to all other creditors;

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- (F) if upon a return of capital on winding-up there are insufficient funds to pay the Liquidation Sum to CRPS Holders and CNRPS Holders in full then CRPS Holders and CNRPS Holders will share in any distribution of assets of the Company in proportion to the amounts to which they are respectively entitled;
- (G) CRPS Holders do not participate in surplus assets of the Company on a winding-up (other than in respect of the CRPS Liquidation Sum);
- (H) CRPS Holders do not have a right to apply for the winding up of the Company merely on the grounds that the Company does not pay a CRPS Dividend when scheduled in respect of a CRPS
- (I) the CRPS are unsecured;
- (J) CRPS carry voting rights only in the following circumstances:
  - (i) on any resolution to reduce the share capital of the Company;
  - (ii) on any resolution that may affect the rights attached to the CRPS;
  - (iii) on any resolution to wind up the Company;
  - (iv) on any resolution for the disposal of the whole of the property, business and undertaking of the Company;
  - (v) on any resolution to approve the terms of the buy-back agreement;
  - (vi) on any resolution during a period in which a dividend or part of a dividend on the CRPS is in arrears; or
  - (vii) on any resolution during the winding up of the Company.
- (K) until all of the CRPS have been converted or redeemed, the Company is not permitted to:
  - (i) issue shares (or other securities convertible into shares) which rank in priority to the CRPS; or
  - (ii) permit the variation of rights attaching to existing shares so that they rank in priority to the CRPS,

in respect of a return of capital or on a winding up of the Company (other than as contemplated by the Restructuring Deed) or with the approval of CRPS Holders;
- (L) if the Company reorganises its share capital through a bonus issue or subdivision of Shares (**CRPS Reorganisation Event**), the Company will ensure that upon the conversion of a CRPS the number of Shares allotted to the relevant CRPS Holder will represent the same proportion as it did before the Reorganisation Event occurred and that CRPS Holders will not receive a benefit as a result of a CRPS Reorganisation Event that holders of Shares do not receive and vice versa;
- (M) without the prior consent of the CRPS Holders, the Company must not:
  - (i) issue equity (other than Shares), hybrid equity or instruments convertible into equity or hybrid equity (other than as contemplated by the Restructuring Deed);

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- (ii) issue Shares at a discount of more than 25% of the volume weighted average sale price on the ASX of Shares during the 10 trading days prior to the relevant offer; or
- (iii) undertake any action which will or may adjust the terms of Shares in the Company or reduce the Company's Share capital.

Separate to the CRPS terms (and CNRPS terms), the Company has also agreed with the Existing Lender and the New Lender that it will not issue Shares at a price that implies, prior to the issue of those Shares, a total equity value of the Company (on a fully diluted, as converted basis) of less than \$90 million. This agreement is personal to the Existing Lender Group and New Lender Group and will continue to operate until both the Existing Lender Group and New Lender Group cease to hold CPS.

The issue of the CRPS to the Existing Lender Group is subject to Shareholder approval in accordance with Resolution 2.

## (c) **Copper Price Participation Payment**

The Company is required to pay the Copper Price Participation Payment to the Existing Lender every three calendar months (**Quarter**), as follows:

**Copper Price Participation Payment = Interim Price Participation Payment + WHT Amount**

Where:

**Interim Price Participation Payment** is calculated by reference to the volume weighted average copper price in that Quarter expressed in Australian dollars (**Copper Price**) multiplied by the metric tonnes of payable copper sold in that Quarter (**Sales Volume**).

**WHT Amount** is any Tax (other than Excluded Tax) which the Company is required to indemnify and pay to the Existing Lender in respect of any amount deducted or withheld by the Company, or paid by the Existing Lender in respect of the Copper Price Participation Payment.

**Excluded Tax** means a Tax imposed by any jurisdiction on the net income of the Existing Lender, but not a Tax calculated on or by reference to the gross amount of any payment (without allowance for any deduction) derived by the Existing Lender.

The Interim Price Participation Payment is calculated as follows:

- (1) if the Copper Price for the Quarter is less than or equal to AUD\$8,000, the Interim Price Participation Payment is nil;
- (2) if the Copper Price for the Quarter is more than AUD\$8,000 but less than or equal to AUD\$8,750, the Interim Price Participation Payment is X;
- (3) if the Copper Price for the Quarter is more than AUD\$8,750 but less than or equal to AUD\$9,500, the Interim Price Participation Payment is the aggregate of X and Y; and
- (4) if the Copper Price for the Quarter is more than AUD\$9,500, the Interim Price Participation Payment is the aggregate of X, Y and Z,

where:

- (5) X = (lesser of 750 and (the Copper Price minus 8000)) multiplied by 0.05 multiplied by the Sales Volume;
- (6) Y = (lesser of 750 and (the Copper Price minus 8750)) multiplied by 0.1 multiplied by the Sales Volume; and

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(7)  $Z = (\text{the Copper Price minus } 9500) \text{ multiplied by } 0.15 \text{ multiplied by the Sales Volume.}$

The following examples assume that the Sales Volume for the Quarter is 5,000 tonnes.

## Example 1

The Copper Price for the Quarter is AUD\$7,450.

The Interim Price Participation Payment is nil.

## Example 2

The Copper Price for the Quarter is AUD\$8,200.

The Interim Price Participation Payment is X, where:

$$\begin{aligned} X &= \text{the (lesser of } 750 \text{ and } (8,200 - 8,000)) \times 0.05 \times 5,000 \\ &= \text{the (lesser of } 750 \text{ and } 200) \times 0.05 \times 5,000 \\ &= 200 \times 0.05 \times 5,000 \\ &= 50,000. \end{aligned}$$

## Example 3

The Copper Price for the Quarter is AUD\$9,000.

The Interim Price Participation Payment is X + Y, where:

$$\begin{aligned} X &= \text{the (lesser of } 750 \text{ and } (9,000 - 8,000)) \times 0.05 \times 5,000 \\ &= \text{the (lesser of } 750 \text{ and } 1,000) \times 0.05 \times 5,000 \\ &= 750 \times 0.05 \times 5,000 \\ &= 187,500. \end{aligned}$$

$$\begin{aligned} Y &= \text{the (lesser of } 750 \text{ and } (9,000 - 8,750)) \times 0.1 \times 5,000 \\ &= \text{the (lesser of } 750 \text{ and } 250) \times 0.1 \times 5,000 \\ &= 250 \times 0.1 \times 5,000 \\ &= 125,000. \end{aligned}$$

$$\begin{aligned} X + Y &= 187,500 + 125,000 \\ &= 312,500 \end{aligned}$$

## Example 4

The Copper Price for the Quarter is AUD\$10,000.

The Interim Price Participation Payment is X + Y + Z; where:

$$\begin{aligned} X &= \text{the (lesser of } 750 \text{ and } (10,000 - 8,000)) \times 0.05 \times 5,000 \\ &= \text{the (lesser of } 750 \text{ and } 2,000) \times 0.05 \times 5,000 \\ &= 750 \times 0.05 \times 5,000 \end{aligned}$$



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$$= 187,500.$$

$$Y = \text{the (lesser of 750 and (10,000 - 8,750))} \times 0.1 \times 5,000$$

$$= \text{the (lesser of 750 and 1,250)} \times 0.1 \times 5,000$$

$$= 750 \times 0.1 \times 5,000$$

$$= 375,000.$$

$$Z = (10,000 - 9,500) \times 0.15 \times 5,000$$

$$= 500 \times 0.15 \times 5,000$$

$$= 375,000.$$

$$X+Y+Z = 187,500 + 375,000 + 375,000$$

$$= 937,500.$$

Total payments under the Copper Price Participation are capped at US\$19.23 million (**Payment Cap**). However, if an Existing Lender Group Member is the holder of all of the CRPS at the time at which the Company redeems the CRPS, then the Payment Cap falls away, and the Company will continue to pay the Copper Price Participation Payment indefinitely.

## 2.6 New Lender Group Restructuring

The US\$25 million New Funding is structured as an issuance of loan notes by the Borrower to the New Lender. The Company intends to use the New Funding to fund its working capital and growth projects at its Tritton Copper Operations. The terms of the New Funding are set out below in 2.6(a).

The New Lender will also be issued with CNRPS, with a five year term, convertible to Shares equivalent to 15% of the Company's post-Restructuring and post-Consolidation equity.

The CNRPS mirror the CRPS in as far as is possible save that they are redeemable only in limited circumstances.

### (a) New Funding

The terms of the New Funding are as follows:

- (1) of the US\$25 million:
  - (A) US\$15 million is available on Financial Close (being the date on which all conditions precedent have been satisfied or waived by the New Lender Agent and a portion of the New Funding has been provided) for general working capital purposes and certain approved Capital Expenditure (**Tranche 1**); and
  - (B) US\$10 million is available (subject to evidence to the satisfaction of the New Lender that resource drilling on the Tritton Deeps has been successful and both the Company and the New Lender have approved capital expenditure for the development of Tritton Deeps) for general working capital purposes (**Tranche 2**);
- (2) the New Funding must be repaid on the 3 year anniversary from Financial Close (**New Funding Term**);
- (3) the New Funding will be secured by the same security and guarantee arrangements as provided for the Existing Lender Group Restructuring (see section 2.5(a)). The Security Interests and guarantees held by the Security Trustee will also secure the

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obligations of the Security Providers under the New Funding Documents and will be held by the Security Trustee for the benefit of all Finance Parties, including the New Lender;

- (4) the Intercreditor Deed will regulate the payment and enforcement priorities as between, among others, the Company Group, the Existing Lender Group and the New Lender Group. For the purposes of the Intercreditor Deed, amounts owing to the New Lender Group under the Priority Loan Agreement generally have priority over those amounts owing to the Existing Lender Group under the New SSFA. Subject to certain limitations, the New Lender will generally be able to control enforcement action following the occurrence of an event of default under the Finance Documents;
- (5) the cash flows (including principal and interest repayments) are subject to the agreed cash waterfall structure set out in the Intercreditor Deed with the Existing Lender until the New Funding is repaid in full;
- (6) cash interest accrues at a rate of 5% per annum;
- (7) PIK interest accrues at a rate of 6% per annum (which compounds every 3 months);
- (8) an establishment fee of 2% (calculated by reference to the total commitments under the facilities) is payable on Financial Close;
- (9) a line fee of 1.5% per annum (calculated by reference to the total undrawn commitment under each tranche) is payable at the end of each financial quarter for the period from (i) Financial Close (in the case of Tranche 1) and (ii) the date of satisfaction of the conditions applicable to funding under Tranche 2 (in the case of Tranche 2), in each case, until the end of the availability period applicable to that tranche;
- (10) the New Funding can be prepaid or cancelled, provided that no cancellation will be permitted where the total commitments would fall below US\$10m as a result of such cancellation and that, in the case of a prepayment the New Lender receives a minimum return of US\$4 million over the New Funding Term (including all fees and interests received); and
- (11) other covenants, undertakings and events of default substantially similar to those contained in the New SSFA.

## (b) **CNRPS**

The CNRPS mirror the CRPS to be issued to the Existing Lender in as far as is possible (for example, in respect of dividends, voting rights, and general rights), save that they are redeemable only in very limited circumstances, and save for the further differences noted below.

### (1) **CNRPS**

The CNRPS are fully paid cumulative convertible preference shares in the capital of the Company.

The CNRPS will be issued with an aggregate face value of US\$1 (**CNRPS Aggregate Face Value**).

### (2) **Holder Conversion**

The Company has no right of redemption upon receipt of a conversion notice from a CNRPS Holder.

If prior to the date of CNRPS Mandatory Conversion a CNRPS Holder is a New Lender Group Member, that CNRPS Holder may not convert CNRPS into Shares if it

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would result in the New Lender Group having a Voting Power in the Company of 50 percent or more.

## (3) Conversion

If any Shareholder approval (or other regulatory approval) (**CNRPS Relevant Approval**) is required to permit conversion of a CNRPS held by a New Lender Group Member at any time or held by any other person (**CNRPS Prescribed Person**) on the Mandatory Conversion Date (provided that the CNRPS Prescribed Person would hold then less than 35% of the Company on an as converted basis) (**CNRPS Relevant Circumstances**), then the Company must use reasonable endeavours to obtain such approvals (including calling a meeting of Shareholders and obtaining required expert reports).

Where the CNRPS Relevant Approval is not obtained within three months of the Mandatory Conversion Date or receipt by the Company of a CNRPS Holder Conversion Notice from a New Lender Group Member, then the Company must convert such number of the CNRPS as is permitted without approval and:

- (A) if the SSFA Term has not expired or there are outstanding moneys under the New SSFA, then the Company must seek the written consent of the Existing Lender Agent to redeem the remaining CNRPS for the Redemption Amount. If the Existing Lender Agent provides their written consent, the Company must redeem the CNRPS for the Redemption Amount. If the Existing Lender Agent does not provide its written consent:
- (i) where the CNRPS Holder has given the Company a CNRPS Holder Conversion Notice, the CNRPS Holder Conversion Notice will cease to have effect; or
  - (ii) in respect of conversion on the Mandatory Conversion Date, then the Company must redeem the remaining CNRPS for the CNRPS Reduced Redemption Amount; or
- (B) if the SSFA Term has expired or there are no outstanding moneys the New SSFA, then the Company must redeem the remaining CNRPS for the CNRPS Redemption Amount.

Where the CNRPS Relevant Approval is not obtained within three months of:

- the receipt by the Company of a CNRPS Holder Conversion Notice from a CNRPS Holder other than a New Lender Group Member, then the CNRPS Holder Conversion Notice will cease to have effect; or
- the Mandatory Conversion Date in circumstances outside of CNRPS Relevant Circumstances, then the Company must convert such number of the CNRPS as is permitted without approval and redeem the remaining CNRPS for the CNRPS Reduced Redemption Amount.

## (4) Redemption

The CNRPS are only redeemable in the limited circumstances referred to above where the CNRPS Relevant Approval cannot be obtained.

## (5) Transferability

The CNRPS may be transferred by a CNRPS Holder to an Affiliate and also to external parties (but only where the number of CNRPS transferred to that external party, if converted on completion of the transfer, would result in that party holding voting power of less than 20% of the Company). In the event that a CNRPS Holder (**CNRPS Original Holder**) transfers their CNRPS to an Affiliate (**CNRPS Transferee**), and that CNRPS Transferee ceases to be an Affiliate of the CNRPS

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Original Holder at a point in the future, the CNRPS Transferee must transfer back to the CNRPS Original Holder (or another member of the CNRPS Original Holder's corporate group) such number of CNRPS as is necessary to ensure that the CNRPS Transferee does not hold voting power of more than 20% of the Company (on an as converted basis).

The issue of the CNRPS to the New Lender Group is subject to Shareholder approval in accordance with Resolutions 4.

## 2.7 Credit Suisse Restructuring

Credit Suisse holds the Convertible Notes (which have a current aggregate face value of approximately USD\$ 7,000,000). The Restructuring is subject to the Company reaching agreement with Credit Suisse on the extinguishment of the Convertible Notes on or before completion of the Restructuring.

The Company and Credit Suisse have now agreed that:

- (a) the Company will redeem from Credit Suisse Convertible Notes having a face value of US\$1.0472 million (**Redemption Notes**) for a cash payment to Credit Suisse of US\$1.0472 million on the Business Day following completion of the Restructuring;
- (b) five Business Days after completion of the Restructuring, the Company will convert, on a post-Consolidation basis, the balance of the Convertible Notes (**Conversion Notes**) and will issue 24,500,000 Shares to the holder of the Conversion Notes; and
- (c) Straits will pay to Credit Suisse \$US200,946.54 on account of accrued and unpaid interest at completion of the redemption of the Redemption Notes.

The Company understands that Credit Suisse proposes to enter into an arm's length agreement for the sale of the Conversion Notes to a third party which will complete shortly following completion of the Restructuring.

The redemption of the Redemption Notes, the conversion of the Conversion Notes and the payment of interest above will be in full and final satisfaction of the Company's obligations in respect of the Notes (including as to interest).

After the redemption of the Redemption Notes and the Conversion of the Conversion Notes, the Convertible Notes will be cancelled and no further ordinary shares will be able to be issued pursuant to the Convertible Notes.

## 2.8 Management Restructuring

Both of the Lenders have requested and made the Restructuring conditional upon the Relevant Managers staying with the Company to deliver on the Company's stated business plan and growth strategy. As part of the Restructuring, the Relevant Managers in aggregate can earn, through the exercise of Management Options over five years (subject to vesting conditions), a total of up to 10% of the Company's post-Restructuring and post-Consolidation fully diluted capital, split between the Relevant Managers as follows:

- (a) Andre Labuschagne – (4% of the Company's post-Restructuring and post-Consolidation fully diluted capital);
- (b) Ian Sheppard (2.4% of the Company's post-Restructuring and post-Consolidation fully diluted capital);
- (c) Rob Brainsbury (2.4% of the Company's post-Restructuring and post-Consolidation fully diluted capital); and
- (d) John Miller (1.2% of the Company's post-Restructuring and post-Consolidation fully diluted capital).

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The issue of the Management Options is conditional on, amongst other matters, all Shares (**ESAP Shares**) issued pursuant to the existing incentive plan for the senior management of the Company (the Employee Share Acquisition Plan, **ESAP**) being bought back and cancelled by the Company in accordance with the Corporations Act (**Buy-Back**).

The buy-back price per ESAP Share has been set at \$0.0105 per ESAP Share and determined by the Board with reference to an independent valuation, which takes into account matters such as the remaining term of the relevant loans and the Share price volatility.

In accordance with the ESAP rules, the sale proceeds of the Buy-Back will be applied first towards the repayment of the non-recourse loans which were made to each participant to fund the acquisition of the ESAP Shares to which the participant is entitled. Any surplus funds resulting from the Buy-Back will then be paid to each relevant ESAP participant having a vested entitlement (**Relevant Participants**).

The table below shows the number of ESAP shares, loan amount and surplus proceeds of each Relevant Participant, who are currently employed by the Company Group.

Participant	Number of Shares	Date acquired	Price Purchased (per ESAP Share)	Loan Balance	Buy-Back Price (per ESAP Share)	Buy-Back Price (total)	Net Proceeds
Andre Labuschagne	24,354,606	23/12/13	\$0.008702	\$211,933.78	\$0.01050	\$255,723.36	\$43,789.58
Robert Brainsbury	14,612,764	23/12/13	\$0.008702	\$127,160.27	\$0.01050	\$153,434.02	\$26,273.75
Ian Sheppard	14,612,764	23/12/13	\$0.008702	\$127,160.27	\$0.01050	\$153,434.02	\$26,273.75
<b>Total</b>	<b>53,580,134</b>			<b>\$466,254.33</b>		<b>\$562,591.41</b>	<b>\$96,337.08</b>

The Management Options have a \$Nil issue price. Subject to the Relevant Manager remaining an employee of the Company Group for at least 12 months from the Completion Date (or to any earlier vesting as contemplated by the Option Terms and Conditions), their portion of the Management Options will vest and become exercisable for a \$Nil exercise price as follows:

- (a) 30% of their Management Options on the first anniversary of the Completion Date;
- (b) 17.5% of their Management Options on the second anniversary of the Completion Date;
- (c) 17.5% of their Management Options on the third anniversary of the Completion Date;
- (d) 17.5% of their Management Options on the fourth anniversary of the Completion Date; and
- (e) 17.5% of their Management Options on the fifth anniversary of the Completion Date.

The Shares issued upon exercise of the Options will be subject to voluntary escrow (each of the Relevant Managers, or their respective nominees, will enter into voluntary escrow agreements to give effect to this) (**Restricted Shares**), with the Restricted Shares only being released from escrow upon the expiry of set time periods (or earlier as contemplated by the Option Terms and Conditions, such as where the Board exercises its discretion in limited circumstances to permit some or all of the Restricted Shares to become unrestricted Shares, or upon the occurrence of a Change of Control Event).

The full details of the Management Options are set out in Annexure A below.

The issue of the Management Options to the Relevant Managers is subject to Shareholder approval in accordance with Resolutions 5 and 6.

# Explanatory Memorandum

As a consequence of the voluntary escrow arrangements over the Restricted Shares, the Company is deemed to hold a Relevant Interest in the Restricted Shares, the receipt of which is subject to Shareholder approval in accordance with Resolution 7.

## 2.9 Proforma Capital Structure

The capital structure of the Company following completion of the Restructuring is set out in Annexure B.

## 2.10 Proforma Statement of Financial Position

The financial position of the Company following completion of the Restructuring is set out in Annexure C.

## 3. Why is Shareholder approval required for the purposes of Section 611 Item 7 of the Corporations Act (Resolutions 2, 4 and 7)?

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### 3.1 Section 611 Item 7 of the Corporations Act

Section 606 of the Corporations Act contains a prohibition on a person acquiring a Relevant Interest in issued voting shares in a listed company through a transaction which results in the person's Voting Power in the Company increasing from below 20% to more than 20%, or from a starting point of more than 20% to a higher percentage. However, an acquisition is not prohibited if it has been approved by a resolution of the listed entity under section 611 item 7 of the Corporations Act.

A "Relevant Interest" arises if (among other things) the person has the ability to exercise, or control the exercise of, a right to vote attached to shares.

For the purposes of Resolution 7 a Relevant Interest can also arise pursuant to section 608(3) of the Corporations Act where a person has the power to control the disposal of securities (for example, as a result of escrow arrangements). In addition to this, section 608(9) of the Corporations Act provides that a body corporate can have a Relevant Interest in its own securities.

A person's "Voting Power" for these purposes means the total number of votes that the person and its associates has a Relevant Interest in, expressed as a percentage of total votes attaching to all shares in the entity.

Accordingly, Shareholder approval under section 611 item 7 of the Corporations Act is being sought:

- (a) to permit the conversion of the CRPS to the Existing Lender Group (which may result in the Existing Lender Group holding a Relevant Interest in more than 20% of the Company's voting Shares) (Resolution 2);
- (b) to permit the conversion of the CNRPS to the New Lender Group (which may result in the New Lender Group holding a Relevant Interest in more than 20% of the Company's voting Shares) (Resolution 4); and
- (c) to permit the Company to obtain more than a 20% Relevant Interest in its own Shares (which may arise as a result of the Company's entry into and potential enforcement of, the Voluntary Restriction Agreements with the Relevant Managers in respect of the Shares issued upon the exercise of the Management Options) (Resolution 7).

For the exemption in section 611 item 7 of the Corporations Act to apply, Shareholders must be given all information known to the person proposing to make the acquisition or their associates, or known to the Company, that is material to the decision of how to vote on the resolutions. In ASIC Regulatory Guide<sup>74</sup> (RG74), ASIC have indicated what additional information should be provided to Shareholders in these circumstances. Neither the Company nor the Directors are aware of any additional information not set out in this Explanatory Memorandum, or the Independent Expert's Report attached as Appendix 1, that would be relevant to Shareholders in deciding how to vote on the Resolutions.

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## 3.2 ASX Listing Rule 7.1

Under ASX Listing Rule 7.1, the Company must not, without the approval of Shareholders, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as the CPS), if the number of those securities exceeds 15% of the number of securities in the same class that the Company had on issue at the commencement of that 12 month period (**15% Capacity**).

Typically, approval under Listing Rule 7.1 is not required where approval is being sought for the purposes of section 611 item 7 of the Corporations Act as a result of the operation of ASX Listing Rule 7.2 Exception 16.

However, approval under section 611 item 7 of the Corporations Act is only necessary in this instance for the purposes of the conversion of the CPS into Shares and does not extend to the issue of the CPS themselves. Accordingly, under Resolutions 2 and 4 the Company is also seeking shareholder approval under Listing Rule 7.1 for the purposes of permitting the initial issue of the CPS.

## 3.3 ASX Listing Rule 10.11

ASX Listing Rule 10.11 provides that, unless an exception applies, an entity must not issue or agree to issue securities to a Related Party without shareholder approval. As a result of the potential Shareholding that both the Existing Lender Group and the New Lender Group may acquire upon conversion of the CPS, there may be an argument that the Existing Lender Group and the New Lender Group are Related Parties of the Company (as the Company may have reasonable grounds to believe that they are likely to become a Related Party by virtue of controlling the Company at a point in the future). However, ASX Listing Rule 10.12 Exception 6 provides an exception to the rule in ASX Listing Rule 10.11 where the person is a Related Party by reason only of the transaction which is the reason for the issue of the securities and the application to it of section 228(6).

It is the view of the Directors that the Restructuring is the reason for the issue of the securities and the application to it of section 228(6) of the Corporations Act and accordingly, Shareholder approval is not being sought for the purposes of ASX Listing Rule 10.11.

## 3.4 Chapter 2E of the Corporations Act

Section 208(1)(a) of the Corporations Act prohibits a public company from giving a financial benefit to a Related Party of that company without the approval of shareholders passed at a general meeting at which no votes are cast in relation to the resolution in respect of any shares held by the Related Party, or by an Associate of the Related Party.

As noted above, although the Company does not consider this to be the case it may be that as a result of the potential Shareholding that either, or both of, the Existing Lender Group and the New Lender Group may be considered to be a Related Party of the Company by virtue of the potential Shareholding which may be acquired upon conversion of the CPS (that is, either, or both of, the Existing Lender Group and the New Lender Group may, as a result of their Shareholding, control the Company at a point in the future).

Section 229(3)(e) of the Corporations Act provides that the issue of securities to a Related Party is an example of giving a Financial Benefit to a Related Party.

However, Chapter 2E Division 2 of the Corporations Act provides a number of exceptions to the requirement to obtain member approval, including relevantly that Shareholder Approval is not needed to give a Financial Benefit on terms that would be reasonable in the circumstances if the entity and the Related Party were dealing at arm's length, or on terms that are less favourable to the Related Party than those terms.

With reference to Resolutions 2 and 4, given all of the following factors, the Company has formed the view that any Financial Benefit provided to the Existing Lender Group and New Lender Group, was on arm's length terms:

- (a) the lack of alternative transactions open to the Company that were not with Related Parties;

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- (b) the prevailing economic conditions and the Company's inability to otherwise raise capital;
- (c) the Company's financial distress and lack of bargaining power; and
- (d) the protracted and robust nature of negotiations, structuring and documentation of the Restructuring.

## 4. Resolution 1 - Consolidation of capital

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### (a) Section 254H of the Corporations Act

Section 254H of the Corporations Act provides that a company may convert all or any of its shares into a larger or smaller number of shares by resolution passed at a general meeting. In accordance with section 254H(2) of the Corporations Act and Appendix 7A of the ASX Listing Rules, the Consolidation will take effect on the Consolidation Date. If Resolution 1 is passed, the Company will lodge a copy of the resolution with ASIC within 1 month of it being passed in accordance with section 254H(4) of the Corporations Act.

### (b) Effect of Share Consolidation

Subject to Resolution 1 being passed, the number of Shares on issue will be reduced from 1,217,730,293 Shares to approximately 121,773,029 Shares (depending on the number of Shares issued as a result of rounding). On the Consolidation Date, all holding statements for Shares will cease to have any effect, except as evidence of an entitlement to a certain number of post-consolidation Shares. After the Share Consolidation becomes effective, the Company will arrange for new holding statements to be issued to Shareholders.

The effect the Share Consolidation will have on the capital structure of the Company *prior to* the other aspects of the Restructuring occurring is as follows:

	Shares on issue <sup>1</sup>
<b>Pre-Consolidation</b>	1,217,730,293
<b>Post-Consolidation<sup>2</sup></b>	121,773,029

<sup>1</sup> This table does not take into account any rounding discrepancies or fractional entitlement occurrences.

<sup>2</sup> This reflects the effect of consolidation only. Shareholders should refer to the table set out in section 2.3 which sets out the maximum number of Shares that will be issued to various parties post-Restructuring, post-Consolidation and on a fully diluted basis.

Where the consolidation results in a fraction of a Share being held by a Shareholder, that fraction of a Share will be rounded up to the nearest whole Share.

The Share Consolidation will not result in any change to the substantive rights and obligations of existing Shareholders.

### (c) Reasons for the Share Consolidation

The Company has a very large number of Shares on issue (1,217,730,293 at the date of this Notice) due to historical equity-based capital raisings and corporate transactions. This large number of Shares may create a negative perception associated with a low Share price. The Share Consolidation will result in a more appropriate and effective capital structure for the Company and potentially, a Share price that is more appealing to a wider range of investors within Australia and globally, particularly institutional investors.

### (d) Taxation consequences of Share Consolidation

It is not expected that any taxation consequences will arise for Shareholders arising from the Share Consolidation. However, Shareholders are advised to seek their own tax advice on the effect of the Share Consolidation, and neither the Company, nor the Directors (or the



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Company's advisers) accept any responsibility for the individual taxation consequences arising from the Share Consolidation.

(e) **Reorganisation of Convertible Securities**

It is not anticipated that at the time of the Consolidation that the Company will have any convertible securities on issue, as the Convertible Notes on issue to Credit Suisse will be converted into Shares or redeemed by the Company and cancelled.

In addition to this, the number of Management Options and CPS to be issued, have been calculated on a post-Consolidation basis (and will in any event, be issued after the Consolidation becoming effective).

(f) **Key dates**

If approved by Shareholders, the proposed Share Consolidation will take effect on the Consolidation Date (or such other subsequent date that is notified to the ASX by the Company). The following is an indicative timetable (subject to change) of the key events:

Key Event	Indicative Date
EGM	Tuesday 15 December 2015
Notification to ASX that Share Consolidation is approved	Tuesday 15 December 2015
Last day for trading in pre-consolidated securities	Wednesday 16 December 2015
Trading in the consolidated securities on a deferred settlement basis commences	Thursday 17 December 2015
Last day to register transfers on a pre-consolidation basis	Monday 21 December 2015
Share consolidation effective Registration of securities on a post-consolidation basis	Tuesday 22 December 2015
Despatch of new holding statements Deferred settlement trading ends	Wednesday 30 December 2015
Normal trading starts	Thursday 31 December 2015

(g) **Recommendation of Directors**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 1.

## 5. Resolution 2 – Approval to undertake Existing Lender Group Restructuring

The background and key terms of the Existing Lender Group Restructuring is set out above in section 2.5 of the Explanatory Memorandum.

### 5.1 Why is Shareholder approval required for the Existing Lender Group Restructuring?

(a) **Shareholder approval under Item 7 Section 611 of the Corporations Act**

Please see section 3 of the Explanatory Memorandum.

The acquisition by the Existing Lender Group by the conversion of the CRPS into Shares will result in the Existing Lender Group's Voting Power in the Company increasing from a starting point that is:

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- (1) below 20% to more than 20%; or
- (2) from a starting point that is above 20% and below 90% (where the CRPS are not converted in full at one time).

Accordingly, Resolution 2 seeks Shareholder approval for the conversion by the Existing Lender Group of the CRPS into Shares under section 611 item 7 of the Corporations Act.

## (b) **Shareholder approval required under ASX Listing Rule 10.1**

ASX Listing Rule 10.1 provides that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, amongst other persons, a substantial holder or one of its associates, without the prior approval of holders of the entity's ordinary shares.

For the purposes of ASX Listing Rule 10.1:

- (1) A substantial holder is a person who has a Relevant Interest (either directly or through its Associates), or had at any time in the six months before the transaction, in at least 10% of the total votes attaching to Voting Securities.

The Company understands that the ultimate ownership and control of SC Private Equity is the same entity that ultimately owns and controls the Existing Lender (and the Security Trustee). Accordingly, the Company considers that SC Private Equity is an Associate of the Existing Lender Group. As at the last practicable date prior to the date of finalising this document, SC Private Equity had a Relevant Interest in the Company of 17.63% of the Shares on issue. As a result of the deeming provisions in relation to Associates contained in Listing Rule 10.1.4, the Existing Lender is caught by ASX Listing Rule 10.1.

However, as noted in section 3.3 of the Explanatory Memorandum, the Company is of the view that the Existing Lender is not a Related Party of the Company by virtue of Listing Rule 10.12 Exception 6.

- (2) "Dispose" is defined as meaning to dispose of something, or agree to dispose of something by any means, whether directly or through another person, and includes the use of an asset as collateral. Accordingly, the granting of security to the Existing Lender under the Existing Lender Group Restructuring is considered to be a disposal of an asset of the Company for the purposes of ASX Listing Rule 10.1.
- (3) An asset is "substantial" if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the ASX Listing Rules. The grant by the Company to the Existing Lender of security over all of its (and a number of its Subsidiaries) assets likely constitutes the disposal of a substantial asset for the purposes of ASX Listing Rule 10.1.

## (c) Shareholder approval under ASX Listing Rule 7.1

Please see section 3 of the Explanatory Memorandum.

## 5.2 **Specific information required in respect of the Existing Lender Group Restructuring**

### ***Section 611 Item 7 of the Corporations Act***

#### (a) **Item 7(b)(i) – The identity of persons proposing to make the acquisition and their Associates**

It is proposed that the CRPS will be issued to the Existing Lender, and approval is sought for the conversion of the CRPS into Shares by one or more of the Existing Lender and the Existing Lender Permitted Acquirers and the Existing Lender Group potentially increasing its voting power in the Company to a maximum of 83.1%. As at the date of this Explanatory

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Memorandum, the Associates of the Existing Lender and the Existing Lender Permitted Acquirers in relation the Company are set out in Annexure D.

SCB Singapore is a branch of Standard Chartered Bank that operates out of Singapore. It is the same legal entity as Standard Chartered Bank.

Standard Chartered Bank (previously called The Chartered Bank) was incorporated in England with limited liability by Royal Charter in 1853. It is a direct and wholly owned subsidiary of Standard Chartered Holdings Limited, a company incorporated in England and Wales in 1989 as a company limited by shares. Standard Chartered Holdings Limited is a direct and wholly owned subsidiary of Standard Chartered PLC. Standard Chartered Bank's core business is wholesale banking and consumer banking.

Standard Chartered PLC, was incorporated and registered in England and Wales in 1969 as a company limited by shares. Its ordinary shares are listed on the London and Hong Kong Stock Exchanges, and it has Indian Depository Receipts listed on the Bombay and National Stock Exchanges in India. Standard Chartered PLC is consistently ranked among the top 25 companies in the FTSE-100 by market capitalisation.

The Security Trustee is a company incorporated in Hong Kong and is a wholly owned subsidiary of Standard Chartered Bank.

(b) **Item 7(b)(ii) – The maximum extent of the increase in that person's Voting Power in the company that would result from the acquisition**

There are currently 1,217,730,293 Shares on issue in the Company.

SC Private Equity currently holds 214,663,735 Shares, representing 17.63% of the issued capital. The Company understands that the ultimate ownership and control of SC Private Equity is the same entity that ultimately owns and controls the Existing Lender and the Security Trustee. Accordingly, the Company considers that SC Private Equity is an Associate of the Existing Lender.

Accordingly, the Existing Lender Group currently has Voting Power of 17.63% of the Company.

The maximum extent of the increase in Voting Power in the Company that would result from the acquisition of Shares upon conversion of the CRPS (assuming no additional Shares are issued, no CNRPS are converted and no Management Options are exercised) is, 83.1%.

Please see the Voting Power Tables in section 2.3 of the Explanatory Memorandum for a full overview of the potential Voting Power of the Existing Lender Group in a number of scenarios related to the Restructuring.

(c) **Item 7(b)(iii) – The Voting Power that the person would have as a result of the acquisition**

The Existing Lender Group would have a maximum Voting Power in the Company of 83.1% immediately following the acquisition of Shares upon conversion of the CRPS (assuming no additional Shares are issued, no CNRPS are converted and no Management Options are exercised).

Please see the Voting Power Tables in section 2.3 of the Explanatory Memorandum for a full overview of the potential Voting Power of the Existing Lender Group in a number of scenarios related to the Restructuring.

(d) **Items 7(b)(iv) and 7(b)(v): The maximum extent of the increase in the Voting Power of each of that person's Associates that would result from the acquisition and the Voting Power that each of that person's Associates would have as a result of the acquisition.**

The maximum extent of the increase in Voting Power in the Company for the Associates that would result from the acquisition of Shares upon conversion of the CRPS (assuming no

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additional Shares are issued, no CNRPS are converted and no Management Options are exercised) is, 83.1%. The Associates would have a maximum Voting Power in the Company of 83.1% immediately following the acquisition of Shares upon conversion of the CRPS (assuming no additional Shares are issued, no CNRPS are converted and no Management Options are exercised).

Shareholder approval is being sought for the purposes of section 611 item 7 of the Corporations Act in respect of the acquisition by the Existing Lender Group (irrespective of the fact that the CRPS are likely to be issued only to the Existing Lender initially). The Company understands that, as at the date of this Notice, no persons other than members of the Existing Lender Group would acquire a Relevant Interest in any Shares issued upon conversion of the CRPS.

Approval is being sought for the conversion of the CRPS into Shares by the Existing Lender Group. As set out in further detail at section 2.5(b)(7) of the Explanatory Memorandum, the CRPS are transferable within the Existing Lender Group.

## **ASIC RG 74.25**

In accordance with ASIC RG 74.25, the Company advises that:

### **(a) Reasons for the proposed acquisition**

At a high level, the proposed acquisition by way of the issue of Shares to one or more of the Existing Lender and the Existing Lender Permitted Acquirers upon conversion of CRPS relates to the agreement by the Existing Lender to restructure their Senior Debt into the Restructured Senior Debt. Please see section 2 of the Explanatory Memorandum for further information.

### **(b) When the proposed acquisition is to occur**

The CRPS will be issued on the Completion Date (which will occur following Consolidation becoming effective). The issue of the CRPS does not increase the Existing Lender's Voting Power in the Company as there are limited voting rights attached to each CRPS. However, an Existing Lender Group Member will acquire a Relevant Interest in Shares issued to Existing Lender Group Members on conversion of the CRPS. The CRPS may be converted into Shares at any time prior to the CRPS Mandatory Conversion (being the date which is the fifth anniversary of the date of issue of the CRPS), at which time they will mandatorily convert into Shares. Please see section 2.5 of the Explanatory Memorandum for further information in respect of the Restructuring.

### **(c) Material terms of the proposed acquisition**

Please see section 2.5 of the Explanatory Memorandum.

Apart from as already set out in the balance of this Explanatory Memorandum there are no other material terms.

### **(d) Details of any other relevant agreement between the acquirer and the Company that is conditional or depends on members' approval of the proposed acquisition**

The following relevant agreements between the Existing Lender Group and the Company are conditional upon (or depend on) Shareholder approval of the proposed acquisition (or are otherwise conditional upon the Completion of the Restructuring Deed, which itself contains a condition precedent requiring Shareholder approval of the issue of the CRPS and resultant Shares on conversion, to the Existing Lender Group):

- (1) Restructuring Deed; and
- (2) the Finance Documents (comprising the Existing Debt Restructuring Documents, the New Funding Documents and the New Security Documents).

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As set out in further detail at section 2.8, the Relevant Managers are parties to the Option Deeds and Share Buy-Back Agreement, which are also conditional upon Shareholder Approval for the Restructuring occurring.

All of the documents referred to above are necessary to give effect to the Restructuring and are inherently interlinked. Further details in respect of the documents are set out in section 2.5(a) of the Explanatory Memorandum.

Please see section 2.5 of the Explanatory Memorandum.

(e) **Acquirer's intentions regarding the future of the target entity if members approve the acquisition**

This section sets out the intentions of the Existing Lender regarding the future of the Company if CRPS are issued to the Existing Lender. The statements of intention in this section must be read subject to the following:

- (1) the statements are based on the information concerning the Company and the circumstances affecting the business of the Company that are known to the Existing Lender Group at the date of this Explanatory Memorandum;
- (2) no member of the Existing Lender Group is aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below – accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- (3) any director nominated by the Existing Lender to the board of directors of the Company (**Board**) would have a duty to act in good faith in the best interests of the Company for a proper purpose, and in doing so would need to have regard to the interests of all Shareholders. He or she would also have a duty to avoid conflicts of interest; and
- (4) laws regarding related party transactions (in particular under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of the Company to enter into certain transactions with members of the Existing Lender Group.

The Existing Lender Group has advised the entity that their current intentions are to support the Company Group's stated business plan and growth strategy.

Other than as described in this Explanatory Memorandum, the Existing Lender Group has advised that it does not currently have an intention of:

- changing the business of the Company Group;
- requesting the Company Group to change its strategic direction or operational priorities;
- seeking to change the Company Group's current employment arrangements or board structure;
- transferring any of the Company Group's property to the Existing Lender Group;
- seeking to acquire any of the Company Group's assets or otherwise redeploy the assets of the Company Group;
- using its increased voting power to attempt to secure additional Board positions or vary the current balance of nominee and independent directors (other than as described in this Explanatory Memorandum); or
- providing further funding to the Company Group.

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(f) **Intention of the acquirer to significantly change the financial or dividend distribution policies of the entity**

Where there is a Deferred Amount in respect of the CPS, the Company is prohibited without the consent of the CPS holders from declaring or paying a dividend on Shares.

In addition, it is a condition of the Finance Documents that the Company cannot make any distribution of funds, including as a payment of dividends.

Other than as disclosed in this Explanatory Memorandum, the Board is not aware of any intention by the Existing Lender Group to seek a change to the financial or dividend distribution policies of the Company.

(g) **The interests that any director has in the acquisition or any relevant agreement disclosed above**

Other than as disclosed in this Notice in respect of the issue of the Management Options to the Relevant Managers and the operation of the Share Buy-Back Agreement (in which the Managing Director is also included) which are conditional upon Completion of the Restructuring Deed, no Directors have any interests in the acquisition or other relevant agreements.

(h) **Intended directors if members approve the acquisition**

Under the Restructuring Deed, the Existing Lender has the right to nominate one person to be appointed to the Board of the Company. This right ceases should the Existing Lender or its Related Bodies Corporate cease to hold at least 10% of the Company's Shares (on an as-converted and fully diluted basis) for a period of more than one month.

The Existing Lender has yet to nominate a nominee director. When a nominee director has been nominated and approved by the Board, an announcement will be made on the ASX.

## 5.3 Independent Expert's Report

To assist Shareholders in their consideration of the Restructuring (and how to vote on, amongst other Resolutions, Resolution 2), the Board engaged BDO Corporate Finance (QLD) Ltd (**Independent Expert**) to prepare an Independent Expert's Report to provide an opinion on whether or not the Restructuring, incorporating the Existing Lender Group Restructuring, is 'fair and reasonable to Shareholders' who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the IER.

The Independent Expert's Report has been prepared in order to satisfy the requirements for Shareholder approval under section 611 item 7 of the Corporations Act and ASX Listing Rule 10.1, and sets out a detailed independent examination of the Restructuring to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 2 (and Resolutions 4 and 7). To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the Restructuring.

**The Independent Expert has concluded that the Restructuring, incorporating the Existing Lender Group Restructuring, is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

The Independent Expert has also opined on the proposed provision of security to the Existing Lender as part of the Restructuring. **The Independent Expert has concluded that the provision of the security to the Existing Lender Group is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

A complete copy of the Independent Expert Report is provided as Appendix 1 of this Notice of Meeting and is also available on the Company's website at [www.straits.com.au](http://www.straits.com.au). Shareholders may

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request a hard copy of the Independent Expert's Report from the Company at no cost by contacting the Company by telephone on +61 7 3034 6200.

Shareholders are urged to carefully read the Independent Expert's Report to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

## Restructuring - Fairness

To assess the fairness of the Restructuring, the Independent Expert calculated and compared:

- (a) the value of a share in Straits on a controlling interest basis prior to the Restructuring; and
- (b) the value of a share in Straits on a minority interest basis following the Restructuring.

The Independent Expert determined a value of a controlling interest prior to Restructuring of nil against a value range of \$0.026 - \$0.041 of a minority interest following the Restructuring. The Independent Expert noted that the Restructuring facilitates a reduction of the Company's debt to a level that result in a positive net asset value and that, whilst there is significant dilution as a result of the issue of the CRPS, CNRPS and Management Options, post-Restructuring there is some positive value which can be attributed to the ordinary shareholders.

Having regard to the above assessment of the Restructuring, the Independent Expert has determined that in the absence of any other information or a superior offer, **the Restructuring is fair to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

## Restructuring - Reasonableness

To assess the reasonableness of the Restructuring, the Independent Expert compared the advantages and disadvantages of the Restructuring on the basis of a number of quantitative and qualitative factors together with the potential position of Shareholders if the Restructuring is not approved.

The advantages and disadvantages of the Restructuring are as follows:

Advantages	Disadvantages
The Restructuring is fair	The Restructuring results in significant dilution of interests held by ordinary shareholders and loss of control
The Restructuring provides a more sustainable debt position relative to the current debt position	If the Restructuring proceeds, it may be possible for a small number of shareholders to pass or block a special resolution
The Restructuring provides additional funding	If the Restructuring is approved, then the Company will have restrictions on certain elements of the Company's operations
The Restructuring removes the immediate risk of being placed into receivership	The Restructuring may reduced the possibility of a future takeover offer occurring
The Restructuring is the best option available to the Company at the current time	Even in circumstances where the Restructuring is approved, the Company will continue to have a significant amount of debt
The Restructuring is potentially less dilutive than other capital raising options	If the Restructuring is approved, there is potential for a significant number of shares in the Company to be sold on the open market

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The Independent Expert also considered some other factors regarding the potential position of Shareholders if the Restructuring is not approved including:

- (a) The Company may not be able to meet its obligation to pay the Senior Debt. If the Company is issued with a notice of default by the Existing Lender, it will be required to immediately find an alternative source of funding. Given the current economic climate and the Company's inability to otherwise raise capital, the Company may have trouble finding an alternative lender;
- (b) If the Company is issued with a notice of default by the Existing Lender, the Existing Lender has the right to appoint a receiver and manager for the purpose of recovering the debt owed (as the Existing Lender has a first ranking security over the assets of the Company). If a receiver or other external insolvency administrator is appointed, the secured assets may be disposed in order to satisfy its facility obligations. Under these circumstances, the Company's Shareholders will lose control of the secured assets (including the Tritton Copper Operations – the Company's only producing asset) and the Directors are of the view that there will likely be no economic interest remaining for existing Shareholders; and
- (c) the Company's share price may fall materially, particularly in circumstances where the Company is unable to find an alternative source of funding. There is also a risk that the Company will have insufficient liquidity for any Shareholder wanting to sell their shares.

Having considered the advantages, disadvantages and other considerations, the Independent Expert has determined that **the Restructuring is reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

## Provision of Security - Fairness

To assess the fairness of the provision of security to the Existing Lender Group, the Independent Expert:

- (a) compared:
  - (1) the proceeds flowing to the Existing Lender Group from the sale of the Company's assets in the event of a default on the Senior Debt; and
  - (2) the principal and capitalised interest owing to the Existing Lender Group in the event of a default on the Senior Debt; and
- (b) considered other factors considered by the Independent Expert to be relevant to Shareholders in the assessment of the providing of security to the Existing Lender Group.

After considering the information summarised above and set out in detail in the Independent Expert's Report, the Independent Expert has determined that, in the absence of any further information, the provision of security to the Existing Lender Group **is fair to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

## Provision of Security - Reasonableness

To assess the reasonableness of the provision of security to the Existing Lender Group, the Independent Expert compared the advantages and disadvantages of the provision of security to the Existing Lender Group on the basis of a number of quantitative and qualitative factors.

The advantages and disadvantages of the Restructuring are as follows:

Advantages	Disadvantages
The provision of security to the Existing Lender	There may be a limited ability to secure alternative sources of funding from non-related



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Group is fair	third parties and the grant of first ranking security may make it more difficult to obtain an alternative form of finance
It is not unusual for companies to grant security over their assets when raising debt finance and granting security over the assets of the Company is a condition of the Restructuring to proceed	Straits may lose control over its assets

Having considered the advantages and disadvantages, the Independent Expert has determined that the provision of security to the Existing Lender Group **is reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

## 5.4 Specific information required by ASX Listing Rule 10.1 in respect of the Existing Lender Restructuring

ASX Listing Rule 10.10 provides that a notice of meeting under ASX Listing Rule 10.1 must include:

- (c) a voting exclusion statement; and
- (d) a report on the transaction from an independent expert.

A voting exclusion statement is included in the Voting Exclusion Table above in section 14 of the Notice. The Independent Expert's Report is attached to this Notice of Meeting as Appendix 1.

## 5.5 Information requirements - ASX Listing Rule 7.3

In compliance with the information requirements of ASX Listing Rule 7.3, Shareholders are advised of the following particulars in relation to the Existing Lender Group Restructuring:

### (a) The maximum number of securities the Company is to issue

The Company will issue 560,463,653 CRPS to the Existing Lender Group.

### (b) The date by which the Company will issue the securities

It is anticipated that the Company will issue the CRPS upon completion of the Restructuring, which will occur shortly following Shareholder approval. However, in any event, the Company will issue the CRPS by no later than 3 months after the date of the Meeting.

### (c) The issue price of the securities

The CRPS will be issued for an issue price of \$Nil.

### (d) The names of the persons to whom the Company will issue the securities

It is envisaged that the CRPS will be issued to the Existing Lender Group.

### (e) The terms of the securities

The terms of the CRPS are set out in section 2.5(b) of this Explanatory Memorandum.

### (f) The intended use of the funds raised

No funds will be raised as a result of the issue of the CRPS.

### (g) Issue date

All CRPS will be issued at the same time at the time contemplated in sub-clause (b).

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## (h) **Voting Exclusion Statement**

A voting exclusion statement is set out above in section 14 of the Notice.

## 5.6 **Recommendation of Directors**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 2, on the basis that should the Company not be able to undertake the Restructuring and restructure its debt, there will likely be no economic interest remaining for existing Shareholders.

## **6. Resolution 3 – Variation of Credit Suisse Convertible Note terms**

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### 6.1 **Background**

As set out in the details of the Company's existing debt in section 2.1, the Company has issued the Convertible Notes to Credit Suisse having a value of US\$7 million and a conversion price of AU\$0.03. One of the conditions precedent to the Restructuring, as set out in section 0, is for the Company to execute an agreement with Credit Suisse for the extinguishment of the Notes.

### 6.2 **Variation of the Note terms**

The Company has entered into the Note Variation Deed with Credit Suisse under which Credit Suisse has agreed to vary the Notes so that:

- (a) the "Maturity Date" for the Notes is amended to the date being 5 Business Days after the date of completion of the Restructuring;
- (b) the Company will redeem from Credit Suisse Convertible Notes having a face value of US\$1.0472 million (the Redemption Notes) for a cash payment to Credit Suisse of US\$1.0472 on the Business Day following completion of the Restructuring;
- (c) on the date being five Business Days after completion of the Restructuring, the Company will convert the balance of the Convertible Notes (the Conversion Notes) and will issue, on a post-Consolidation basis, 24,500,000 Shares to the holder of the Conversion Notes;
- (d) Straits will pay Credit Suisse \$US200,946.54 on account of accrued and unpaid interest at completion of the redemption of the Redemption Notes;
- (e) the redemption of the Redemption Notes, the conversion of the Conversion Notes and the payment of interest above will be in full and final satisfaction of the Company's obligations in respect of the Notes (including as to interest); and
- (f) upon redemption of the Redemption Notes and conversion of the Conversion Notes, the Notes will be cancelled.

This variation of the Notes is subject to completion of the Restructuring.

The Company understands that Credit Suisse proposes to enter into an arm's length agreement for the sale of the Conversion Notes to a third party which will complete shortly following completion of the Restructuring.

### 6.3 **Shareholder approval - Listing Rule 7.1**

Shareholder approval for the issue of the Notes was obtained under Listing Rule 7.1 at the annual general meeting of the Company on 21 October 2013. This approval was for the issue of the Notes on the terms as contained in the explanatory memorandum attached to the notice for that meeting.

Consequently, the Company seeks shareholder approval for the purposes of Listing Rule 7.1 to the variation of the terms of the Note as summarised in this Explanatory Memorandum.

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Approval of the variation of the Notes will enable the Company to redeem and cancel the Notes upon completion of the Restructuring so that Credit Suisse will no longer be entitled to receive any Shares under the Notes.

## 6.4 Board recommendation

Resolution 3 must be passed in order to ensure completion of the Restructuring. Accordingly, the Board recommends that shareholders vote in favour of Resolution 3.

## 7. Resolution 4 – Approval to undertake New Lender Group Restructuring

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The background and key terms of the New Lender Group Restructuring is set out above in section 2.6 of the Explanatory Memorandum.

### 7.1 Why is Shareholder approval required for the New Lender Group Restructuring?

Please see section 3 of the Explanatory Memorandum in respect of why Shareholder Approval is required in respect of the New Lender Group Restructuring for the purposes of:

- (a) item 7 section 611 of the Corporations Act; and
- (b) Listing Rule 7.1.

### 7.2 Specific information required by Section 611 Item 7 of the Corporations Act in respect of the New Lender Restructuring

#### (a) Item 7(b)(i) – The identity of persons proposing to make the acquisition and their Associates

It is proposed that the CNRPS will be issued to the New Lender, and approval is sought for the conversion of the CNRPS into Shares by the New Lender and the New Lender Group potentially increasing its Voting Power in the Company to a maximum 50.0% as a result of such conversion. As at the date of this Explanatory Memorandum, the following entities are Associates of the New Lender in relation to the Company:

- (1) PAG Asia Special Situations Fund II LP (**Fund II**);
- (2) PAG Special Situations Management II Limited;
- (3) Pacific Alliance Investment Management Limited;
- (4) PAG Special Situations Limited;
- (5) Pacific Alliance Group Limited; and
- (6) PAG Holdings Limited,

each of which would be taken to acquire a relevant interest in Shares upon conversion of the CNRPS by operation of section 608(3) of the Corporations Act.

The New Lender is a special purpose vehicle incorporated under the laws of the British Virgin Islands and is a wholly owned subsidiary of Fund II.

PAG (formerly Pacific Alliance Group) is one of Asia's largest alternative investment management firms with approximately US\$11 billion in capital under management across private equity, real estate and absolute returns.

PAG was founded in 2002 and has a team of over 300 employees working across cities in Asia and Australia. Since 2002, PAG has invested over US\$28 billion in markets across Asia.

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(b) **Item 7(b)(ii) – The maximum extent of the increase in that person’s Voting Power in the company that would result from the acquisition**

As at the date of this Notice, no member of the New Lender Group has any Voting Power in the Company.

The maximum extent of the increase in the New Lender Group’s Voting Power in the Company that would result from the acquisition of Shares upon conversion of the CNRPS (assuming no additional Shares are issued, no CRPS are converted and no Management Options are exercised) is 50.0%.

Please see the Voting Power Tables in section 2.3 of the Explanatory Memorandum for a full overview of the potential Voting Power of the New Lender Group in a number of scenarios related to the Restructuring.

(c) **Item 7(b)(iii) – The Voting Power that the person would have as a result of the acquisition**

The New Lender Group would have a maximum Voting Power in the Company of 50.0% immediately following the acquisition of Shares upon conversion of the CNRPS (assuming no additional Shares are issued, no CRPS are converted and no Management Options are exercised).

Please see the Voting Power Tables in section 2.3 of the Explanatory Memorandum for a full overview of the potential Voting Power of the New Lender Group in a number of scenarios related to the Restructuring.

(d) **Items 7(b)(iv) and 7(b)(v): The maximum extent of the increase in the Voting Power of each of that person’s Associates that would result from the acquisition and the Voting Power that each of that person’s Associates would have as a result of the acquisition.**

The maximum extent of the increase in Voting Power in the Company for the Associates of the New Lender that would result from the acquisition of Shares upon conversion of the CNRPS (assuming no additional Shares are issued, no CRPS are converted and no Management Options are exercised) is, 50.0%. These Associates would have a maximum Voting Power in the Company of 50.0% immediately following the acquisition of Shares upon conversion of the CNRPS (assuming no additional Shares are issued, no CRPS are converted and no Management Options are exercised).

Shareholder Approval is being sought for the purposes of section 611 item 7 of the Corporations Act in respect of the acquisition of Relevant Interests in Shares by members of the New Lender Group (irrespective of the fact that the CNRPS are likely to be issued only to the New Lender initially). As at the date of this Notice, no person other than members of the New Lender Group would acquire a Relevant Interest in Shares issued upon conversion of the CNRPS into Shares.

Approval is being sought for the issue of the CNRPS to, and the subsequent conversion by, the New Lender Group. As set out in further detail at section 2.6(b)(5) of the Explanatory Memorandum, the CNRPS are transferable within the New Lender Group.

## **ASIC RG 74.25**

In accordance with ASIC RG 74.25, the Company advises that:

(a) **Reasons for the proposed acquisition**

At a high level, the proposed issue of CNRPS to the New Lender (and their potential conversion into Shares) is the New Lender Group’s equity participation in conjunction with the provision of the New Funding. Please see section 2 of the Explanatory Memorandum for further information in respect of the Restructuring.

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(b) **When the proposed acquisition is to occur**

The CNRPS will be issued on the Completion Date (which will occur following the Consolidation becoming effective). The issue of the CNRPS does not increase the New Lender's Voting Power in the Company as there are limited voting rights attached to each CNRPS. However, members of the New Lender Group may acquire a Relevant Interest in Shares which are issued to the New Lender on conversion of the CNRPS. The CNRPS may be converted into Shares at any time prior to their mandatory conversion date (being the date which is the fifth anniversary of the date of issue of the CNRPS), at which time they will mandatorily convert into Shares. Please see section 2.5 of the Explanatory Memorandum for further information.

(c) **Material terms of the proposed acquisition**

Please see section 2.5 of the Explanatory Memorandum.

Apart from as already set out in the balance of this Explanatory Memorandum there are no other material terms.

(d) **Details of any other relevant agreement between the acquirer and the Company that is conditional or depends on members' approval of the proposed acquisition**

The following relevant agreements between the New Lender Group and the Company are conditional upon (or depend on ) Shareholder approval of the proposed acquisition (or are otherwise conditional upon the Completion of the Restructuring Deed, which itself contains a condition precedent requiring Shareholder approval of the issue of the CNRPS and resultant Shares on conversion, to the New Lender Group):

- (1) Restructuring Deed; and
- (2) the Finance Documents (comprising the Existing Debt Restructuring Documents, the New Funding Documents and the New Security Documents).

As set out in further detail at 2.8, the Relevant Managers are parties to the Option Deeds and Share Buy-Back Agreements, which are also conditional upon Shareholder Approval for the Restructuring occurring.

All of the documents referred to above are necessary to give effect to the Restructuring and are inherently interlinked. Further details in respect of the documents are set out in section 2.5(a) of the Explanatory Memorandum.

Please see section 2.5 of the Explanatory Memorandum.

(e) **Acquirer's intentions regarding the future of the target entity if members approve the acquisition**

This section sets out the intentions of PAG and the New Lender regarding the future of the Company if CNRPS are issued to the New Lender. The statements of intention in this section must be read subject to the following:

- (1) the statements are based on the information concerning the Company and the circumstances affecting the business of the Company that are known to PAG and the New Lender at the date of this Explanatory Memorandum;
- (2) PAG and the New Lender are not aware of all of the material information, facts and circumstances that are necessary to assess the financial, operational, commercial, taxation and other implications of the intentions set out below – accordingly, the statements reflect current intentions only and are subject to change as new information becomes available or as circumstances change;
- (3) any director nominated by the New Lender to the board of directors of the Company (**Board**) would have a duty to act in good faith in the best interests of the Company

# Explanatory Memorandum

for a proper purpose, and in doing so would need to have regard to the interests of all Shareholders. He or she would also have a duty to avoid conflicts of interest; and

- (4) laws regarding related party transactions (in particular under the Corporations Act and ASX Listing Rules) may place restrictions on the ability of the Company to enter into certain transactions with members of the New Lender Group.

## *Nature and conduct of business:*

To the extent that PAG and the New Lender will have influence over the nature and conduct of the business of Straits, they do not intend to make any changes to it other than where this would be consistent with the commercial strategy of the Board.

## *Injection of further capital:*

To the extent that PAG and the New Lender will have influence over the capital management of Straits, they do not intend to inject further capital into Straits, other than in accordance with the terms of the Restructuring and the New Funding Documents.

## *Future employment of employees:*

To the extent that PAG and the New Lender will have influence over the employment of the present employees of Straits, they do not intend to make any changes to the workforce other than where this would be consistent with the commercial strategy of the Board.

## *Transfers of assets:*

PAG and the New Lender do not intend to propose any transfer of assets between Straits and any member of the New Lender Group.

## *Redeployment of fixed assets:*

To the extent that PAG and the New Lender will have influence over the deployment of the fixed assets of Straits, they do not intend to redeploy any of those assets.

## *Financial or dividend policies:*

Please refer to paragraph (f) immediately below.

- (f) **Intention of the acquirer to significantly change the financial or dividend distribution policies of the entity**

Where there is a Deferred Amount in respect of the CPS, the Company is prohibited without the consent of the CPS holders from declaring or paying a dividend on Shares.

In addition, it is a condition of the Finance Documents that the Company cannot make any distribution of funds, including as a payment of dividends.

To the extent that PAG and the New Lender will have influence over the financial or dividend policies of Straits, they intend to support the continuation of Straits' efforts to build a healthy balance sheet, the maintenance of appropriate levels of debt capital, and dividend levels commensurate with the health and cash flow generation of the Company (and any necessary changes to the Company's financial and dividend policies to give effect to these things).

- (g) **The interests that any director has in the acquisition or any relevant agreement disclosed above**

Other than as disclosed in this Notice in respect of the issue of the Management Options to the Relevant Managers and the operation of the Share Buy-Back Agreement (in which the Managing Director is also included) which are conditional upon Completion of the

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Restructuring Deed, no Directors have any interests in the acquisition or other relevant agreements.

## (h) **Intended directors if members approve the acquisition**

Under the Restructuring Deed, the New Lender Group has the right to nominate one person to be appointed to the Board of the Company. This right ceases should the New Lender or its Associates cease to hold at least 10% of the Company's Shares (on an as-converted and fully diluted basis) for a period of more than one month.

The New Lender has yet to nominate a nominee director. When a nominee director has been nominated and approved by the Board, an announcement will be made on the ASX.

## 7.3 **Independent Expert's Report**

To assist Shareholders in their consideration of the Restructuring (and how to vote on, amongst other Resolutions, Resolutions 4), the Board engaged BDO Corporate Finance (QLD) Ltd (**Independent Expert**) to prepare an Independent Expert's Report to provide an opinion on whether or not the Restructuring, incorporating the New Lender Group Restructuring, is 'fair and reasonable to Shareholders' who will not participate in the Restructuring (other than via the consolidation of capital).

The Independent Expert's Report has been prepared in order to satisfy the requirements for Shareholder approval under section 611 item 7 of the Corporations Act, and sets out a detailed independent examination of the Restructuring to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 4. To the extent that it is appropriate, the Independent Expert's Report sets out further information with respect to the Restructuring.

**The Independent Expert has concluded that the Restructuring, incorporating the New Lender Group Restructuring, is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

A complete copy of the Independent Expert Report is provided as Appendix 1 of this Notice of Meeting and is also available on the Company's website [www.straits.com.au](http://www.straits.com.au). Shareholders may request a hard copy of the Independent Expert's Report from the Company at no cost by contacting the Company by telephone on +61 7 3034 6200.

Shareholders are urged to carefully read the Independent Expert's Report to understand its scope, the methodology of the valuation and the sources of information and assumptions made.

### **Fairness**

To assess the fairness of the Restructuring, the Independent Expert calculated and compared:

- (a) the value of a share in Straits on a controlling interest basis prior to the Restructuring; and
- (b) the value of a share in Straits on a minority interest basis following the Restructuring.

The Independent Expert determined a value of a controlling interest prior to Restructuring of nil against a value range of \$0.0026 - \$0.0041 of a minority interest following the Restructuring. The Independent Expert noted that the Restructuring facilitates a reduction of the Company's debt to a level that result in a positive net asset value and that, whilst there is significant dilution as a result of the issue of the CRPS, CNRPS and Management Options, post-Restructuring there is some positive value which can be attributed to the ordinary shareholders.

Having regard to the above assessment of the Restructuring, the Independent Expert has determined that in the absence of any other information or a superior offer, the Restructuring is fair to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.

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## Reasonableness

To assess the reasonableness of the Restructuring, the Independent Expert compared the advantages and disadvantages of the Restructuring on the basis of a number of quantitative and qualitative factors.

The advantages and disadvantages of the Restructuring are as follows:

Advantages	Disadvantages
The Restructuring is fair	The Restructuring results in significant dilution of interests held by ordinary shareholders and loss of control
The Restructuring provides a more sustainable debt position relative to the current debt position	If the Restructuring proceeds, it may be possible for a small number of shareholders to pass or block a special resolution
The Restructuring provides additional funding	If the Restructuring is approved, then the Company will have restrictions on certain elements of the Company's operations
The Restructuring removes the immediate risk of being placed into receivership	The Restructuring may reduced the possibility of a future takeover offer occurring
The Restructuring is the best option available to the Company at the current time	Even in circumstances where the Restructuring is approved, the Company will continue to have a significant amount of debt
The Restructuring is potentially less dilutive than other capital raising options	If the Restructuring is approved, there is potential for a significant number of shares in the Company to be sold on the open market

The Independent Expert also considered some other considerations including:

- (a) The Company may not be able to meet its obligation to pay the Senior Debt. If the Company is issued with a notice of default by the Existing Lender, it will be required to immediately find an alternative source of funding. Given the current economic climate, and the Company's inability to otherwise raise capital the Company may have trouble finding an alternative lender;
- (b) If the Company is issued with a notice of default by the Existing Lender, the Existing Lender has the right to appoint a receiver and manager for the purpose of recovering the debt owed (as the Existing Lender has a first ranking security over the assets of the Company). If a receiver or other external insolvency administrator is appointed, the secured assets may be disposed in order to satisfy its facility obligations. Under these circumstances, the Company's Shareholders will lose control of the secured assets (including the Tritton Copper Operations – the Company's only producing asset) and the Directors are of the view that there will likely be no economic interest remaining for existing Shareholders; and
- (c) the Company's share price may fall materially, particularly in circumstances where the Company is unable to find an alternative source of funding. There is also a risk that the Company will have insufficient liquidity for any Shareholder wanting to sell their shares.

Having considered the advantages, disadvantages and other considerations, the Independent Expert has determined that **the Restructuring is reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**



# Explanatory Memorandum

## 7.4 Information requirements - ASX Listing Rule 7.3

In compliance with the information requirements of ASX Listing Rule 7.3, Shareholders are advised of the following particulars in relation to the New Lender Group Restructuring:

(a) **The maximum number of securities the Company is to issue**

The Company will issue 140,115,913 CNRPS to the New Lender Group.

(b) **The date by which the Company will issue the securities**

It is anticipated that the Company will issue the CNRPS upon completion of the Restructuring shortly following Shareholder approval. However, in any event, the Company will issue the CNRPS by no later than 3 months after the date of the Meeting.

(c) **The issue price of the securities**

The CNRPS will be issued for an issue price of \$Nil.

(d) **The names of the persons to whom the Company will issue the securities**

It is envisaged that the CNRPS will be issued to the New Lender Group.

(e) **The terms of the securities**

The CNRPS are set out in section 2.6(b) of this Notice.

(f) **The intended use of the funds raised**

No funds will be raised as a result of the issue of the CNRPS.

(g) **Issue date**

All CNRPS will be issued at the same time at the time contemplated in sub-clause (b).

(h) **Voting Exclusion Statement**

A voting exclusion statement is set out above in section 14 of the Notice.

## 7.5 Recommendation of Directors

The Directors unanimously recommend that Shareholders vote in favour of Resolution 4, on the basis that should the Company not be able to undertake the Restructuring and restructure its debt, there will likely be no economic interest remaining for existing Shareholders.

## 8. Resolution 5 – Issue of Options to Mr Andre Labuschagne

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### 8.1 Background

The Company proposes to issue 37,364,244 Options, to Mr Andre Labuschagne (or his nominees) pursuant to his Option Deed (**Labuschagne Options**) as an incentive to stay with the Company and deliver on the Company's stated business plan and growth strategy. Mr Andre Labuschagne is a Director of the Company, and accordingly, a Related Party of the Company. Further details in relation to the context and background of the Labuschagne Options proposed to be issued to Mr Andre Labuschagne are set out above in section 2.8 of this Explanatory Memorandum.

ASX Listing Rule 10.11 requires Shareholder approval for the issue of securities (including Options) to a Related Party of the Company. Further, Chapter 2E of the Corporations Act prohibits a public company from giving a Financial Benefit to a Related Party of a public company unless either the giving of the Financial Benefit falls within one of the nominated exceptions or shareholder approval is obtained prior to the giving of the Financial Benefit.

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The granting of the Labuschagne Options to Mr Andre Labuschagne constitutes the giving of a Financial Benefit to a Related Party of the Company within the meaning of Chapter 2E of the Corporations Act. Accordingly, Shareholder Approval is being sought for the grant of Labuschagne Options to Mr Andre Labuschagne.

In accordance with section 219 of the Corporations Act, specified information is provided below to Shareholders to allow them to assess the proposed issue of Labuschagne Options to Mr Labuschagne.

Approval for the issue of the Labuschagne Options is sought in accordance with Listing Rule 10.11 and Part 2E of the Corporations Act. As approval is being sought under Listing Rule 10.11, approval will not be required under Listing Rule 7.1.

## 8.2 **Option Terms and Conditions**

A summary of the Terms and Conditions of the Management Options (which includes the Labuschagne Options) are set out in Annexure A to this Explanatory Memorandum.

## 8.3 **Relevant Legislation – Chapter 2E of the Corporations Act and Listing Rule 10.11**

### ***Chapter 2E of the Corporations Act***

Chapter 2E of the Corporations Act prohibits a public company from giving a Financial Benefit to a Related Party of the public company unless providing the benefit falls within a prescribed exception to the general prohibition. Relevantly, there is an exception to this prohibition if the company first obtains the approval of its shareholders in a general meeting in circumstances where certain requirements specified in Chapter 2E in relation to the convening of that meeting have been met (**Shareholder Approval Exception**).

A “Related Party” is defined widely in section 228 of the Corporations Act and includes, relevantly, a director (or proposed director) of a public company, any entity that controls (or is reasonably likely to control) a public company, and any entity that is controlled by a person or entity which is otherwise a Related Party, or there are reasonable grounds to believe that a person/entity is likely to become a Related Party of the public company. Mr Labuschagne is a Director of the Company, and accordingly, a Related Party of the Company

A “Financial Benefit” for the purposes of the Corporations Act has a very wide meaning. It includes the public company paying money or issuing securities to the Related Party. In determining whether or not a Financial Benefit is being given, it is necessary to look to the economic and commercial substance and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the Financial Benefit is to be disregarded, even if it is full or adequate.

### ***Listing Rule 10.11***

Listing Rule 10.11 requires that an entity must obtain the approval of Shareholders to issue Securities to a Related Party and in doing so must provide the information specified in Listing Rule 10.13, unless an exception applies.

### ***Listing Rule 7.1 - Issues exceeding 15% of capital***

Listing Rule 7.1 prohibits a listed company, except in certain cases, from issuing in any 12 month period new Equity Securities equivalent in number to more than 15% of the total number of ordinary securities on issue at the beginning of the twelve month period (**15% Capacity**) without the prior approval of a majority of disinterested shareholders, or the issue otherwise comes within one of the exceptions to Listing Rule 7.1 (**15% Rule**). However, under Listing Rule 7.2 (Exception 14), if approval is being sought under Listing Rule 10.11, approval will not be required under Listing Rule 7.1. Therefore the Labuschagne Options will not count towards the Company’s 15% Capacity under Listing Rule 7.1.

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## 8.4 Shareholder Approval Requirement

This proposed Resolution, if passed, will confer Financial Benefits and involve the issue of Securities (namely, the Labuschagne Options to a Related Party), Mr Andre Labuschagne. Mr Andre Labuschagne is a Related Party of the Company because he is a Director of the Company.

Therefore the Company seeks to obtain Shareholder approval in accordance with the requirements of Chapter 2E of the Corporations Act and Listing Rule 10.11.

As approval is being sought under Listing Rule 10.11, in accordance with Listing Rule 7.2 (Exception 14) approval will not be required under Listing Rule 7.1. Therefore the Labuschagne Options will not count towards the Company's 15% Capacity under Listing Rule 7.1.

Further, the issue of Shares upon conversion of the Labuschagne Options (**Conversion Shares**) will involve a further issue of Securities (namely, the Conversion Shares) to a Related Party, Mr Labuschagne). However, Listing Rule 10.12 provides that shareholder approval is not required for the issue of Equity Securities upon conversion of Convertible Securities where the Company complied with the Listing Rules when it issued the convertible securities (ie, the Labuschagne Options).

Similarly, under Exception 4 in Listing Rule 7.2, an issue of Equity Securities on the conversion of convertible securities does not count towards the 15% Capacity provided that the Company complied with the Listing Rules when it issued the convertible securities (or issued the convertible securities before it was listed).

Therefore the Company is seeking Shareholder approval in accordance with Chapter 2E to confer a Financial Benefit to a Related Party and under Listing Rule 10.11 to issue Labuschagne Options (and any Equity Securities issued upon conversion of the Labuschagne Options) to a Related Party and so that the Labuschagne Options and any Equity Securities issued upon conversion of the Labuschagne Options do not count towards the Company's 15% Capacity.

## 8.5 Information for Shareholders

### ***Chapter 2E of the Corporations Act***

For the purposes of Chapter 2E of the Corporations Act and for all other purposes the following information is provided to shareholders:

(a) **The Related Parties to whom Resolution 5 would permit the Financial Benefit to be given (section 219(1)(a))**

The proposed Financial Benefit will be given to Mr Andre Labuschagne (or his nominees), who is a Related Party of the Company because Mr Labuschagne is a Director of the Company.

(b) **The nature of the Financial Benefit (section 219(1)(b))**

The nature of the proposed Financial Benefit to be given is the issue of the Labuschagne Options.

(c) **Directors' Recommendation (section 219(1)(c))**

In accordance with the guidance provided by ASIC in Guidance Note 74, the Directors do not consider it appropriate to make a recommendation in respect of Resolution 5 given the material personal interest which Mr Labuschagne has in its outcome.

(d) **Directors' Interest and other remuneration (section 219(1)(d))**

Mr Labuschagne has a material personal interest in the outcome of Resolution 5, as it is proposed that the Labuschagne Options be issued to him (or his nominee) as set out in Resolution 5.

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Excluding the Labuschagne Options, Mr Labuschagne (and entities associated with him) is entitled to the benefit of 24,354,606 Shares pursuant to the ESAP. However, as noted above, these Shares will all be bought back by the Company pursuant to the Buy-Back. Where the sale proceeds of the Shares sold pursuant to the Buy-Back exceed the loan amount used to originally purchase those Shares, the balance will be paid to the relevant participant. In the case of Mr Labuschagne, it is anticipated that he will receive \$255,723 (at a price of \$0.0105 per ESAP Share) as a result of this process.

Mr Labuschagne also receives a base salary of \$500,000, plus superannuation of 10% of the base salary, and the ability to participate in both the Company's short term incentive plan and the ESAP.

No other Director has any interest in the outcome of Resolution 5 or any other relevant agreement.

(e) **Directors' Interests in Shares**

24,354,606 Shares are held by the ESAP Trustee pursuant to the Company's ESAP. Under the proposed Buy-Back (see section 2.8), Mr Labuschagne will have all of the ESAP Shares to which he is entitled bought back (and cancelled) at a price of \$0.0105 per ESAP Share. Mr Labuschagne will then have no interest in those ESAP Shares (and will lose the correlative potential future benefit of holding those shares in the Company). Please see the table set out in section 2.3, which sets out the post-Restructuring and post-Consolidation share structure of the Company in a number of scenarios.

If all of the Labuschagne Options are issued (and assuming that no other Management Options are issued, no CPS are converted and no other Shares are issued) it will have the following effect on their holdings in the Company and the dilutionary impact on current Shareholders of the Company:

Shareholder	Current Share Holding (on a pre-Consolidation basis)	% of Total Share Capital Shares on issue	Shares held Upon conversion of the Labuschagne Options (on a post-Consolidation basis)	% of Total Share Capital Shares on issue
Current Shareholders (other than Mr Labuschagne)	1,191,975,687	97.9%	139,975,913	78.9%
Mr Labuschagne	25,754,606	2.1%	37,504,244	21.1%
Total	1,217,730,293	100%	177,480,157	100%

**Notes:**

The above table is a simplistic example of the potential dilution which may occur. Shareholders should refer to section 2.3 for further information.

As demonstrated in the table above, Mr Labuschagne can potentially obtain Voting Power in the Company greater than 20% if he exercises all of the Labuschagne Options and no other Management Options are exercised, no CPS are converted and no additional Shares are issued, the Company is also seeking approval for the issue of the Labuschagne Options (and any Equity Securities issued upon conversion of the Labuschagne Options).

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Section 606 of the Corporations Act contains a prohibition on a person acquiring a Relevant Interest in issued Voting Shares in a listed company through a transaction which results in the person's Voting Power in the Company increasing from below 20% to more than 20%, or from a starting point of more than 20% to a higher percentage.

Accordingly, the issue of any Shares to Mr Labuschagne which would give Mr Labuschagne Voting Power in excess of 19.99% would require approval under section 611 item 7 of the Corporations Act.

Mr Labuschagne has advised the Company that he will not exercise any Labuschagne Options at a time or in a manner which would result in him increasing his Voting Power in excess of 19.99%. Accordingly, the Company is not seeking shareholder approval under section 611 item 7 of the Corporations Act and Mr Labuschagne's Voting Power in the Company will not exceed 19.99%.

## (f) **Valuation**

The Labuschagne Options are not currently quoted (and will not be quoted) on the ASX and as such have no market value. The Labuschagne Options each grant the holder a right of grant of one ordinary Share (subject to any variation as a result of capital events as contemplated by the terms of the Options) in the Company upon exercise of the Labuschagne Options. Accordingly, the Labuschagne Options may have a present value at the date of their grant.

The Labuschagne Options will (given their \$Nil exercise price) likely acquire future value dependent upon the extent to which the Shares exceed the exercise price of the Labuschagne Options during the term of the Labuschagne Options. Shareholders should note that the Labuschagne Options vest in five separate tranches annually and even once exercised, are subject to a period of voluntary escrow (please see Annexure A for further information).

As a general proposition, options to subscribe for ordinary fully paid shares in a company have a value. Various factors impact upon the value of options including:

- (A) the period outstanding before the expiry date of the options;
- (B) the exercise price of the options relative to the underlying price or value of the securities into which they may be converted;
- (C) the proportion of the issued capital as expanded consequent upon exercise represented by the shares issued upon exercise (ie whether or not the shares that might be acquired upon exercise of the options represent a controlling or other significant interest);
- (D) the value of the shares into which the options may be converted; and
- (E) whether the options are listed (ie readily capable of being liquidated).

There are various formulae which can be applied to determining the theoretical value of options (including the formula known as the Black-Scholes Model option valuation formula and the Binomial Model option valuation formula).

The Company has commissioned an independent valuation of the Labuschagne Options, for the purposes of disclosing to Shareholders such information required to decide whether or not it is in the Company's interest to pass Resolution 5 and disclosing expenses in the Company's Financial Statements in accordance with AASB 2 Share Based Payments, using both the Black-Scholes Model, which is the most widely used and recognised model for pricing options, and the Binomial Model. The value of an option calculated by the Black-Scholes Model or the Binomial Model is a function of the relationship between a number of variables, being the price of the underlying Share at the time of issue, the exercise price, the time to expiry, the risk-free interest rate, the volatility of the Company's underlying Share price and expected dividends.

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Inherent in the application of the Black-Scholes Model and the Binomial Model are a number of inputs, some of which must be assumed. The key assumptions relied upon in applying the Black-Scholes Model and the Binomial Model were:

- (A) The Share price (as at 19 October 2015) being \$0.006.
- (B) A Nil exercise price for all five tranches:
- (C) a dividend yield of nil; and
- (D) a discount for lack of marketability determined having regard to the relevant escrow periods.

Based on the independent valuation of the Labuschagne Options, the Company agrees that the respective value of the Labuschagne Options to be issued pursuant to Resolution 5 are as follows:

**Mr Andre Labuschagne:**

- first tranche of 11,209,273 Options - \$50,442;
- second tranche of 6,538,743 Options - \$31,386;
- third tranche of 6,538,743 Options - \$33,348;
- fourth tranche of 6,538,743 Options - \$35,039; and
- fifth tranche of 6,538,742 Options - \$39,232.

On that basis the total value of the Labuschagne Options to be issued pursuant to Resolution 5 is \$189,447.

- (i) **Any other information that is reasonably required by Shareholders to make a decision and that is known to the Company or any of its Directors (section 219(1)(e) and 219(2))**

There is no other information known to the Company or any of its Directors save and except as follows:

***Market Price movements:***

The valuation of the Labuschagne Options noted above is based on an issue price per Share of \$0.006 cents which is the share price as at 19 October 2015.

There is a possibility that the market price of the Shares will change which would alter the valuation.

***Trading history***

In the 12 months prior to and including 6 November 2015, the Company's trading history is as follows:

- the highest trading price was \$0.0164 on 16 June 2015;
- the lowest trading price was \$0.0030 on 11 and 12 March 2015; and
- The VWAP per Share over the 12 month period prior to 6 November 2015 was \$0.0069.

The trading price of the Shares on the close of trading on 6 November 2015 (being the last trading day before this Notice of Meeting was issued) was \$0.0060.

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## ***Opportunity Costs***

The opportunity costs and benefits foregone by the Company issuing the Labuschagne Options is the potentially dilutionary impact on the issued share capital of the Company. To the extent that the dilutionary impact caused by the issue of Labuschagne Options will be detrimental to the Company, this is considered to be more than offset by the advantages accruing from the Company securing and retaining the services of an experienced and skilled Managing Director on appropriate incentive terms. An increase in the value of the Shares issued upon the exercise of the Labuschagne Options is dependent upon a concomitant increase in the value of the Company generally.

## ***Taxation Consequences***

No stamp duty will be payable in respect of the grant of the Labuschagne Options or any Shares issued on conversion of the Labuschagne Options. No GST will be payable by the Company in respect of the grant of the Labuschagne Options or any Shares issued on conversion of the Labuschagne Options (or if it is then it will be recoverable as an input credit).

AASB 2 "Share Based Payments" requires that these payments shall be measured at the more readily determinable fair value of the equity instrument. Under the accounting standards this amount will be expensed in the statement of comprehensive income. Where the issue date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

## ***Dilutionary Effect***

Refer to section 8.5(e) in relation to the dilutionary effect that the issue of the Labuschagne Options will have on other shareholders of the Company, assuming that exercise of all the Labuschagne Options is effected, and that no other Management Options or CPS are exercised or converted (as the case may be).

Save as set out in this Explanatory Memorandum, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to the benefits contemplated by Resolution 5.

## ***Listing Rule 10.13***

For the purposes of Listing Rule 10.13 and for all other purposes the following information is provided to Shareholders:

(a) **10.13.1 and 10.13.4: Name and relationship of the Related Party**

The Related Party is Mr Andre Labuschagne, a Director of the Company.

(b) **10.13.2: Maximum Number of Securities to be issued (if known) or the formula for calculating the number of Securities to be issued**

The maximum number of Equity Securities to be issued is 37,364,244 (with a resultant number of Shares issued upon exercise).

(c) **10.13.3: Date by which the Securities will be issued**

The Company will issue the Labuschagne Options as soon as possible following the Completion Date, but in any event within one month following this Meeting.

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(d) **10.13.4: Issue price and terms of the Securities**

The Labuschagne Options are being issued at an issue price of \$Nil per Options. Shares issued upon exercise of the Labuschagne Options will rank pari passu with all of the other Shares on issue in the Company.

(e) **10.13.6A: Intended use of funds raised**

No funds are being raised by the issue of the Labuschagne Options (and the resultant Shares issued upon their exercise).

(f) **10.13.6: Voting exclusion statement**

A voting exclusion statement is set out in Resolution 5.

## 8.6 Acceleration of vesting

Under sections 200B and 200E of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a management or executive office in the Company if it is approved by shareholders or an exemption applies (such as where the benefit does not exceed one year's average base salary).

The term "benefit" is open to a wide interpretation and may include the early vesting of short term incentive entitlements. As explained in section 2.8 and Annexure A, the Labuschagne Options may vest early upon the occurrence of a Change of Control Event.

Early vesting of the Labuschagne Options may amount to the giving of a termination benefit requiring shareholder approval under the Corporations Act.

Accordingly, shareholder approval is also sought for the purposes of sections 200B and 200E of the Corporations Act for any such benefit which Mr Labuschagne may receive from the early vesting of the Labuschagne Options upon Mr Labuschagne ceasing to be an employee of the Company upon the occurrence of a Change of Control Event.

The maximum number of Labuschagne Options (and Conversion Shares upon exercise of the Labuschagne Options) is 37,364,244. The Company is not presently able to determine the value of any consequential benefit that may be received as a result of the accelerated vesting of the Labuschagne Options as a consequence of cessation of employment upon occurrence of a Change of Control Event. The Company will calculate the value of the benefit as being equal to the value of the number of Labuschagne Options that convert early, where that value is determined on the basis of the prevailing share price of the Company at that time.

## 9. Resolution 6 – Issue of Other KMP Options to Other KMP

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### 9.1 Background

Please see section 2.8 of this Explanatory Memorandum for the Background in respect of the issue of the Options to the Other KMP.

A total of 29,225,528 Shares are held by the ESAP Trustee on behalf of the Other KMP pursuant to the Company's ESAP (see section 2.8 for further details). Under the proposed Buy-Back (see section 2.8), the Other KMP will have all of the ESAP Shares to which they are entitled bought back (and cancelled) at a price of \$0.0105 per ESAP Share. The Other KMP will then have no interest in those ESAP Shares (and will lose the correlative potential future benefit of holding those shares in the Company).

### 9.2 ASX Listing Rule 7.1

Under ASX Listing Rule 7.1, the Company must not, without the approval of Shareholders, issue or agree to issue during any 12 month period any equity securities, or other securities with rights to conversion to equity (such as the Other KMP Options), if the number of those securities exceeds



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15% of the number of securities in the same class that the Company had on issue at the commencement of that 12 month period (**15% Capacity**).

Accordingly, the Company is seeking Shareholder approval so that:

- (a) the Other KMP Options do not reduce or otherwise exceed (as the case may be) the Company's 15% Capacity; and
- (b) upon the exercise of the Other KMP Options (if applicable), so as to allow the Company to rely upon Exception 4 of ASX Listing Rule 7.2 (which provides that ASX Listing Rules 7.1 and 7.1A do not apply to an issue on the conversion of convertible securities).

## 9.3 Information requirements - ASX Listing Rule 7.3

In compliance with the information requirements of ASX Listing Rule 7.3, Shareholders are advised of the following particulars in relation to the Other KMP Options:

(c) **The maximum number of securities the Company is to issue**

In aggregate, the Company will issue 56,046,365 Other KMP Options (and if applicable, 56,046,365 Shares upon exercise). The KMP Options and the Labuschagne Options together represent 10% of the post-Restructuring fully diluted capital of the Company.

(d) **The date by which the Company will issue the securities**

It is anticipated that the Company will issue the Other KMP Options immediately following Shareholder approval. However, in any event, the Company will issue the Other KMP Options by no later than 3 months after the date of the Meeting.

(e) **The issue price of the securities**

The Other KMP Options will be issued for an issue price of \$Nil.

(f) **The names of the persons to whom the Company will issue the securities**

It is envisaged that the Other KMP Options will be issued as follows:

- (1) Ian Sheppard (or nominees) 22,418,546 (2.4% of the Company's post-Restructuring and post-Consolidation fully diluted capital);
- (2) Robert Brainsbury (or nominees) 22,418,546 (2.4% of the Company's post-Restructuring and post-Consolidation fully diluted capital); and
- (3) John Miller (or nominees) 11,209,273 (1.2% of the Company's post-Restructuring and post-Consolidation fully diluted capital).

(g) **The terms of the securities**

The Option Terms and Conditions are set out in Annexure A of this Notice.

(h) **The intended use of the funds raised**

No funds will be raised as a result of the issue of the Other KMP Options.

(i) **Issue date**

It is anticipated that the Company will issue the Other KMP Options immediately following Shareholder approval. However, in any event, the Company will issue the Other KMP Options by no later than 3 months after the date of the Meeting.

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## (j) **Voting Exclusion Statement**

A voting exclusion statement is set out above in section 14 of the Notice.

## 9.4 **Acceleration of vesting**

Under sections 200B and 200E of the Corporations Act, a company may only give a person a benefit in connection with their ceasing to hold a management or executive office in the Company if it is approved by shareholders or an exemption applies (such as where the benefit does not exceed one year's average base salary).

The term "benefit" is open to a wide interpretation and may include the early vesting of short term incentive entitlements. As explained in section 2.8 and Annexure A, the Other KMP Options may vest early upon the occurrence of a Change of Control Event.

Early vesting of the Other KMP Options may amount to the giving of a termination benefit requiring shareholder approval under the Corporations Act.

Accordingly, shareholder approval is also sought for the purposes of sections 200B and 200E of the Corporations Act for any such benefit which a member of the Other KMP may receive from the early vesting of Other KMP Options upon them ceasing to be an employee of the Company upon the occurrence of a Change of Control Event.

The maximum number of Other KMP Options (and Shares issued upon exercise of the Other KMP Options) is 56,046,365. The Company is not presently able to determine the value of any consequential benefit that may be received as a result of the accelerated vesting of the Other KMP Options as a consequence of cessation of employment upon occurrence of a Change of Control Event. The Company will calculate the value of the benefit as being equal to the value of the number of Other KMP Options that convert early, where that value is determined on the basis of the prevailing share price of the Company at that time.

## 9.5 **Directors recommendation**

The Directors unanimously recommend that Shareholders vote in favour of Resolution 6.

## 10. **Resolution 7 – Approval for Company to hold Relevant Interest in own securities in excess of 19.99%**

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### 10.1 **Background and legal basis for Resolution**

Please see section 3 of the Explanatory Memorandum for the legal basis behind Resolution 7.

Broadly, and as noted above in section 2.8 of the Explanatory Memorandum and summarised in Annexure A, Shares issued upon exercise of the Management Options (**Management Shares**) are subject to voluntary restriction for a period of time (**Restricted Shares**). While the Restricted Shares become unrestricted Shares in progressive tranches onwards from the Third Anniversary (as set out below in Annexure A), at a point in time between the Second Anniversary and the Third Anniversary, and subject to a number of assumptions (including the point in time at which other parties convert their convertible securities), there is the potential for the Company to acquire a Relevant Interest in its own Shares in excess of 19.99%.

As set out above, section 606 of the Corporations Act contains a prohibition on a person acquiring a Relevant Interest in issued Voting Shares in a listed company through a transaction which results in the person's Voting Power in the Company increasing from below 20% to more than 20%, or from a starting point of more than 20% to a higher percentage. However, an acquisition is not prohibited if it has been approved by a resolution of the listed entity under section 611 item 7 of the Corporations Act.

A "Relevant Interest" arises if (among other things) the person has the ability to exercise, or control the exercise of, a right to vote attached to shares. A person's "Voting Power" for these purposes

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means the total number of votes that the person and its associates has a Relevant Interest in, expressed as a percentage of total votes attaching to all shares in the entity.

Accordingly, although, as a result of the voluntary restriction arrangements the Company does not have any actual ownership interest in any of the Restricted Shares, the Company will, for the purposes of Part 6.2 of the Corporations Act, be deemed to acquire a Relevant Interest in all of the Restricted Shares, by virtue of the enforceable undertakings as to their disposal given in favour of the Company under the terms of the Voluntary Restriction Agreements.

## 10.2 Material terms of the Voluntary Escrow Agreements

During the Escrow Period, the Restricted Shareholder:

- (a) must not do any of the following (other than in limited circumstances, such as upon the acceptance of a takeover bid under Chapter 6 of the Corporations Act, in connection with a scheme of arrangement under Part 5.1 of the Corporations Act or as a party to a capital reduction or buy-back under Part 2J of the Corporations Act):
  - (1) dispose of, or agree to dispose of, the Restricted Shares;
  - (2) create, or agree or offer to create, any Security Interest in that Restricted Share;
  - (3) do, or omit to do, any act if the act or omission would have the effect of transferring effective ownership or control of, any legal, beneficial or economic interest in, that Restricted Share,
- (b) may exercise in its discretion all voting rights attached to the Restricted Shares;
- (c) is entitled to, and may receive, any dividend, return of capital or other distributions attaching to the Restricted Shares; and
- (d) may receive or participate in any right or bonus issue in connection with the Restricted Shares.

## 10.3 Company's Relevant Interest in its own securities

As noted above, there is the potential for the Company, at a point in time (subject to a number of assumptions, including that no CPS are converted into Shares, there are no further issues of Shares and all Management Options are immediately exercised once vested), to acquire a Relevant Interest in its own Shares in excess of the threshold of 19.99%.

The table below sets out the maximum Relevant Interest that the Company may acquire as a result of the entry into the Voluntary Restriction Agreements with the Relevant Managers (post-Consolidation and post-Restructuring and assuming that that all Options are exercised immediately upon vesting and that no CPS are converted and no other Shares have been issued).

	<b>First Anniversary</b>	<b>Second Anniversary</b>	<b>Third Anniversary</b>	<b>Fourth Anniversary</b>	<b>Fifth Anniversary</b>
Number of Management Shares issued	28,023,182	16,346,857	16,346,857	16,346,857	16,346,856
Accumulated aggregate of Management Shares	28,023,182	44,370,039	60,716,896	77,063,753	93,410,609
Total Shares on issue	168,139,096	184,485,953	200,832,810	217,179,667	233,526,523

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	First Anniversary	Second Anniversary	Third Anniversary	Fourth Anniversary	Fifth Anniversary
Management Shares released from being Restricted Shares	Nil	Nil	37,130,716	Nil	56,279,893
Accumulated aggregate of Management Shares released from restrictions	Nil	Nil	37,130,716	37,130,716	93,410,609
Accumulated Restricted Shares giving the Company a Relevant Interest	28,023,182	44,370,039	23,586,180	39,933,037	Nil
<b>Maximum Relevant Interest held by the Company in its own shares</b>	<b>16.7%</b>	<b>24.1%</b>	<b>11.7%</b>	<b>18.4%</b>	<b>Nil</b>

### 10.4 Specific information required by Item 7 Section 611 of the Corporations Act and ASIC Regulatory Guide 74

Specific information is required to be provided to Shareholders under the Corporations Act and ASIC RG 74 when seeking to obtain approval under Item 7 of Section 611 of the Corporations Act.

Some of the information usually relevant to a proposal to acquire Relevant Interests in voting shares, is not relevant to an escrow arrangement under which the Company is deemed to be acquiring a Relevant Interest in its own Shares (but will not obtain any power to influence the exercise of any voting rights attached to the Shares).

In particular, item 7 of Section 611 of the Corporations Act and ASIC RG 74 require that the following information be provided to shareholders:

- (a) the identity of the person proposing to make the acquisition and their associates; and
- (b) the maximum extent of the increase in that person's voting power in the company that would result from the acquisition; and
- (c) the voting power that person would have as a result of the acquisition; and
- (d) the maximum extent of the increase in the voting power of each of that person's associates that would result from the acquisition; and
- (e) the voting power that each of that person's associates would have as a result of the acquisition.

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Due to the circumstances in which the Company is acquiring a Relevant Interest in the Share capital of the Company, the above information will not be relevant. The Company (and its associates) will not increase its Voting Power in the Company as a result of entry by the Company into the Voluntary Escrow Agreements. This is because the Relevant Interest held by the Company arises from enforcement rights in relation to the disposal of Shares the subject of the Voluntary Escrow Agreements. Under the Voluntary Escrow Agreements, the Company's rights do not extend to exercising the Voting Power attached to the Shares.

## 10.5 Independent Expert's Report

The Independent Expert's Report prepared for the purposes of Resolutions 2 and 4 also considers this Resolution 7 in order to satisfy the requirements for Shareholder approval under section 611 item 7 of the Corporations Act, and sets out a detailed independent examination of the Restructuring to enable non-associated Shareholders to assess the merits and decide whether to approve Resolution 7 (and Resolutions 2 and 4).

The Independent Expert has determined that the Restructuring, including the potential Relevant Interest obtained by the Company, **is fair and reasonable to Shareholders who will not participate in the Restructuring (other than via the consolidation of capital) as at the date of the Independent Expert's Report.**

Further details of the Independent Expert's Report are contained in sections 5.3 and 7.3 of this Explanatory Memorandum.

## 10.6 Board recommendation

Resolution 7 must be passed in order to ensure completion of the Restructuring. Accordingly, the Board recommends that shareholders vote in favour of Resolution 7.

## 11. Resolutions 8 and 9 – Attachment of additional rights to SRL Preference Shares (CRPS and CNRPS)

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### 11.1 Background

The Company's Constitution provides that subject to the Corporations Act, the Listing Rules and the Constitution:

- (a) the Board may allot and issue securities in the Company to any person on such terms and with such rights as the Board determines (clause 7.1 of the Constitution); and
- (b) the Board may issue any security with any preferred, deferred or other special rights or restrictions as to dividends, voting, return of capital, payment of calls or otherwise as the Board determines (clause 7.2 of the Constitution).

Further, the Constitution specifically permits the Company to issue SRL Preference Shares, which may, at the Company's option, be redeemable (clause 7.3(a) of the Constitution). Clause 7.3(b) of the Constitution then provides the basic terms of the SRL Preference Shares.

The Company has not issued any SRL Preference Shares as at the date of this EGM. As part of the Restructuring, the Company proposes to issue SRL Preference Shares under the Constitution, namely the CRPS and CNRPS (refer to sections 2.5 and 2.6 of the Explanatory Memorandum for further details regarding the proposed issue of the CRPS and CNRPS (CPS)).

### 11.2 Approval being sought

Section 254A(2) specifies that a company can only issue preference shares if the rights attached to them are set out in the company's constitution or have otherwise been approved by special resolution of the company.

The Board is seeking shareholder sanction, by Special Resolution, to attach certain rights to the Company's unissued SRL Preference Shares, so that SRL Preference Shares issued by the Board in

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the future will be issued on the terms and with the rights provided for in the terms of the CRPS or CNRPS (as applicable) set out in further detail above in sections 2.5(b) and 2.6(b) of the Explanatory Memorandum) (**Preference Share Terms**). Accordingly, Resolutions 8 and 9 seek approval to attach the rights contemplated by the Preference Share Terms to the CPS which are not already provided for in clause 7.3 of, or otherwise in, the Constitution.

The rights to be attached to the unissued SRL Preference Shares, that is, the rights which are in addition to the rights broadly provided in clause 7.3 of, or otherwise applying to the SRL Preference Shares under, the Constitution are summarised below.

## 11.3 Rights to be attached to SRL Preference Shares

The following rights (in general terms) are to be attached to the SRL Preference Shares (which are those rights contemplated by the Preference Share Terms which are not already provided for in the Constitution):

- (a) **Deferred Amount (clause 3.7(b)):** The Preference Share Terms provide that if an amount calculated to be paid under the dividend clause is not paid on the relevant payment date, the holder of the CPS has a deferred liability in respect of that unpaid amount, referred to as a "Deferred Amount".
- (b) **Deferred Amount Interest (clause 3.7(b)):** Interest will accrue at the rate of 5% per annum on the Deferred Amount.
- (c) **Ranking in winding up (clause 9.5):** Each holder of the CPS will rank in priority to ordinary Shareholders for the Deferred Amount and any Deferred Amount Interest in addition to the amount paid up on the preference share and any Dividend determined to be paid but unpaid (not otherwise comprising the Deferred Amount).
- (d) **Issue of securities by the Company (clause 9.15):** the Company is restricted from issuing securities which would rank in priority to the CPS or permit the variation of any rights of existing shares to shares ranking equally or in priority to the CPS in respect of a return of capital or on winding up of the Company.
- (e) **Reserved Matters (clause 9.18):** the Company is restricted from issuing ordinary shares in certain circumstances. Refer to section 2.5(b)(8)(M) for further details.

## 11.4 Consequences of Resolutions being passed

If Shareholder approval of Resolutions 8 and 9 is obtained, the Company will lodge with ASIC a copy of Resolutions 8 and 9 in accordance with section 246F of the Corporations Act. The effect of doing so will be that if and when the Company subsequently issues the CRPS and CNRPS, as contemplated by and in accordance with the Restructuring Deed, the issue of those new SRL Preference Shares will not constitute a variation of the rights of any other Shareholders under section 246C(5) or 246C(6) of the Corporations Act on the basis that:

- (a) the rights attaching to the new shares (the CRPS and CNRPS) will have been provided for in a notice, document or resolution that is lodged with ASIC; and
- (b) the terms of both the CRPS and the CNRPS authorise the issue of each other.

## 11.5 Board recommendation

Resolutions 8 and 9 must be passed in order to ensure completion of the Restructuring. Accordingly, the Board recommends that shareholders vote in favour of Resolutions 8 and 9.

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## 12. Resolutions 10 and 11 – Financial Assistance to the Existing Lender and New Lender

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### 12.1 Background

This section of the Explanatory Memorandum is given to members of the Company for the purposes of section 260B(4) of the Corporations Act and contains all the information known to the Company that is material to a Shareholder in determining whether to approve Resolutions 10 and 11 (the **Financial Assistance Resolutions**).

Pursuant to the terms of the Restructuring Deed, the Company proposes to issue on completion of the Restructuring the CPS, comprising the CRPS and the CNRPS, as follows:

- (a) 560,463,653 CRPS to the Existing Lender in accordance with the Existing Lender CPS Subscription Agreement; and
- (b) 140,115 913 CNRPS to the New Lender in accordance with the New Lender CPS Subscription Agreement.

These transactions (including the terms of the CRPS and the CNRPS) are described in greater detail above at sections 2.5 and 2.6 of this Explanatory Memorandum.

The Financial Assistance Resolutions seek the approval of Shareholders with respect to the giving of financial assistance by the Company in connection with the issue of the CPS. The Directors of the Company consider that the factors relevant for Shareholders in determining how to vote are common to both the Financial Assistance Resolutions. Therefore, this section of the Explanatory Memorandum is intended to apply equally to both the Financial Assistance Resolutions.

### 12.2 Section 260A of the Corporations Act

Under section 260A of the Corporations Act, a company may financially assist a person to acquire shares (or units of shares) in the company or a holding company of the company only if:

- (a) giving the assistance does not materially prejudice:
  - (1) the interests of the company or its shareholders; or
  - (2) the company's ability to pay its creditors;
- (b) the assistance is approved by shareholders under section 260B of the Corporations Act; or
- (c) the assistance is exempted under section 260C of the Corporations Act.

A company may be regarded as giving financial assistance if it provides or does something needed in order that a transaction be carried out or something in the nature of aid or help. Common examples of financial assistance include giving security over the company's assets and giving a guarantee or indemnity in respect of another person's liability.

### 12.3 The financial assistance

In consideration for:

- (a) the Existing Lender agreeing to reduce the Senior Debt (the terms of the Existing Lender Group Restructuring and the New SSFA are described in greater detail in section 2.5(a) of the Explanatory Memorandum; and
- (b) the New Lender agreeing to provide the Company with the New Funding (the terms of the New Lender Group Restructuring and the Priority Loan Agreement are described in greater detail in section 2.6 of the Explanatory Memorandum),

the Company has agreed to issue the CPS and the Security Providers (including the Company) have agreed to enter into the following security and guarantee transactions:

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- (a) to guarantee the repayment of money owing by the Borrower from time to time under, among other Finance Documents, the New SSFA, the Existing Lender CPS Subscription Agreement and the Priority Loan Agreement, granting an interlocking guarantee and indemnity (which is contained in the Intercreditor Deed);
- (b) to secure all amounts payable under, among other Finance Documents the New SSFA, the Existing Lender CPS Subscription Agreement and the Priority Loan Agreement by:
  - (1) (in the case of the Company and SML) granting a new general security deed in favour of the Security Trustee over all of its present and after-acquired property of the Company and SML, respectively;
  - (2) (in the case of the Security Providers) varying the terms of certain existing security arrangements (these arrangements are discussed in greater detail at section 2.5 of this Explanatory Memorandum),(together the **Security and Guarantee Transactions**); and
- (c) to execute any document ancillary to, or in connection with, the New SSFA and the Priority Loan Agreement, including the Intercreditor Deed which regulates the priorities of the Lenders and the procedures which must be followed if there is a default under the Finance Documents.

The Company, SML and the Borrower must also execute, or continue as a party to, the other Finance Documents, to (among other things) regulate the rights of the parties under, or deriving rights in connection with, the Finance Documents.

The obligations of the Security Providers under each Finance Document are significant. These obligations include:

- (a) the assets of the Security Providers securing, and the Company and SML unconditionally and irrevocably guaranteeing all amounts payable under the New SSFA, the Existing Lender CPS Subscription Agreement and the Priority Loan Agreement; and
- (b) indemnifying each Finance Party against any liability, loss or cost incurred by them under, or in connection with certain Finance Documents.

In addition to executing the guarantee and granting security interests over its assets, each Security Provider may, or may be required to:

- (a) execute, or accede or consent to, any instrument referred to in, or incidental or related to, the Finance Documents (including any document to be entered into at any time for the purpose of amending, varying, replacing, restating, novating or supplementing such instruments);
- (b) subordinate its intercompany claims;
- (c) transfer assets to, or assume other liabilities of, the Company or other subsidiaries of the Company;
- (d) make available directly or indirectly its cash flows or other resources in order to enable other Security Providers to comply with their obligations under the Finance Documents; and
- (e) provide additional support (which may include incurring additional obligations, giving new guarantees or new security interests) in connection with the Finance Documents, including in connection with any refinancing of amounts owing under or in respect of the Finance Documents.

The entry by the Security Providers into the Security and Guarantee Transactions may constitute the provision of financial assistance by the Security Providers to a person (the Existing Lender Group and the New Lender Group) to acquire shares in a company or a holding company of that company (in the context of the issue of the CRPS and CNRPS). Accordingly, the approval of Shareholders of



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those Security Providers under section 260B(1) of the Corporations Act to the provision of that financial assistance prior to the financial assistance being given is required.

## 12.4 Reasons for the financial assistance

The Company and the other Security Providers require a restructuring of the existing Senior Debt as well as the provision of further finance (to be provided under the New SSFA and the Priority Loan Agreement) for the reasons set out in sections 2.1 and 2.2 of this Explanatory Memorandum.

## 12.5 Effects of the financial assistance

The substantial effect of the financial assistance on the Security Providers will be that each of them will have guaranteed the amounts payable under certain Finance Documents, and granted one or more security interests over all of their assets and undertakings to secure all obligations under such Finance Documents.

The principal advantages to the Company and the other Security Providers is to ensure that the Company and its subsidiaries continue to have the benefit of the facilities provided under the Finance Documents and so the Company may benefit from the working capital facilities provided under the Finance Documents.

However, the execution of the Finance Documents in connection with the Restructuring brings with it certain disadvantages. The entry into these arrangements may impact on the Company's ability to borrow more money in the future, and it is possible that this could prejudice the interests of the Company and its Shareholders. This is because a potential lender may be deterred by the existence of the Finance Documents from making finance facilities available to the Company unless it could totally refinance the Restructured Senior Debt and New Funding or otherwise reach an agreement with the Company Group, the Existing Lender and the New Lender as to its payment and enforcement of priority.

The Directors of the Company have agreed to the new arrangements because they believe them to be in the best interests of the Security Providers and each other member of the Company Group for the following reasons:

- (a) the Directors consider that the acquisition by the relevant entities of the CPS and their conversion to Shares in the Company are for the benefit of the Company and will promote the interests of the Company and the Company Group;
- (b) the Directors believe that the Company will have committed financiers and potential shareholders who will be focussed on the performance of the Company, the Company Group and the business; and
- (c) the Directors believe that the Restructuring will result in a stronger and financially more viable Company and the Company Group, able to better capitalise on growth opportunities (refer generally to section 2.2 of this Explanatory Memorandum.).

## 12.6 Material Prejudice

The assessment of prejudice and the extent to which the prejudice may be "material" for the purposes of section 260A(1)(a) of the Corporations Act, necessarily involves consideration of the Restructuring as a whole and so brings into account its immediate consequences. The assessment of material prejudice has quantitative and qualitative elements.

The quantitative element involves an assessment of the impact of the Finance Documents on the Company's balance sheet, future profits and future cash flows. The prejudice to the Company's ability to pay its creditors relates to the guarantees and indemnities and security interests to be provided by the Company under the Finance Documents. If the Borrower or any other Security Provider defaults under the Finance Documents, then (subject to the procedures to be followed in accordance with the Intercreditor Deed) one or more of the Finance Parties may decide to make a demand under the Finance Documents (including by a call on a guarantee and indemnity or enforcement of security given by the Company (or both)). Accordingly, the Company will be liable for the default of the Borrower or the relevant Security Provider under the Finance Documents.

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The Directors of the Company do not currently have any reason to believe that Tritton (or any other Security Provider) is likely to default in its obligations under the Finance Documents.

However, if a Finance Party becomes entitled to enforce any of its rights under a Finance Document because Tritton or another Security Provider defaults, the enforcement may materially prejudice the interests of the Company or its shareholders. On enforcement, among other rights, a Finance Party may become entitled to sell the assets of the Security Providers or appoint a receiver or other external insolvency administrator. The sale of assets on enforcement may yield a return to the Company Group (and ultimately the Shareholders) significantly lower than could have been achieved by the Company had those assets been sold in the ordinary course by the Security Provider itself. This may materially prejudice the interests of the Company and its Shareholders.

The issue of the CRPS and the CNRPS and potential dilution of the interests of Shareholders is also a relevant factor in determining “material prejudice”.

The Directors have also taken into account the potential consequences to Shareholders of the Restructuring not proceeding and the potential detriment to them of the enforcement of the existing securities held for the repayment of the Existing Lender’s debt (refer to section 2.1 of this Explanatory Memorandum).

Finally, the Directors undertook a qualitative and quantitative assessment of the potential financial assistance arising from the Restructuring and concluded that, in their opinion the Restructuring would not result in any financial assistance which would be materially prejudicial to the interests of the Company, its Shareholders, its creditors or each Security Provider on the basis of:

- (a) the risk to the Company and each Security Provider if the Restructuring is not completed, having regard to its current cash position, low commodity prices and poor market sentiment;
- (b) the absence of a more favourable funding alternative;
- (c) the improvement in the Company’s financial position with the reduction in Senior Debt and access to New Funding, allowing working capital to support mining operations and allowing the company to pursue future funding; and
- (d) certain terms of the New Funding are relatively beneficial to the Company and may not be available in other debt markets without incurring significant additional cost.

## 12.7 Recommendation of Directors

The Directors unanimously recommend that Shareholders vote in favour of Resolutions 10 and 11 for the reasons set out above in sections 12.4, 12.5 and 12.6.

## 12.8 Approval of financial assistance

For the purposes of section 260B(1)(b) of the Corporations Act, shareholder approval for financial assistance by a company must be given by:

- (a) a Special Resolution passed at a general meeting of the company, with no votes being cast in favour of the resolution by the person acquiring the shares or by their associates; or
- (b) a resolution agreed to, at a general meeting, by all ordinary shareholders.

## 12.9 Notice to ASIC

Copies of this Notice and Explanatory Memorandum were lodged with ASIC before being sent to the Shareholders, in accordance with section 260B(5) of the Corporations Act.

## 12.10 Disclosure of information

The Directors consider that this Explanatory Memorandum contains all material information known to the Company that could reasonably be required by Shareholders in deciding how to vote on proposed Resolutions 10 and 11, other than information that it would be unreasonable to require the

# Explanatory Memorandum

Company to disclose because the Company has previously disclosed the information to its Shareholders.

## 13. Resolution 12 – Change of Company Name

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Resolution 12 seeks approval for the change of the name of the Company to *Aeris Resources Limited*.

With the Restructuring marking a significant milestone for the Company, the Board considered it an opportune time refresh and rebrand the Company, with the proposed new name being an important part of that process.

The name “Aeris” is taken from the latin word “aes” meaning copper, reflecting the focus of the Company.

In accordance with Section 157(1) of the Corporations Act, a company may change its name by special resolution of members. If Resolution 12 is passed, the change of name will take effect from the day on which ASIC alters the details of the Company’s registration.

The Company also seeks approval under Section 136(2) of the Corporations Act to amend the Company’s constitution to reflect the change of name.

The Directors unanimously recommend that Shareholders vote in favour of Resolution 12.

## 14. Voting entitlement

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For the purposes of determining voting entitlements at the Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 7pm (Sydney time) on Sunday 13 December 2015. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

## 15. Interpretation

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The following terms used in the Notice of Meeting and the Explanatory Memorandum are defined as follows:

**Affiliates** means in respect of a person (the **First Person**) a Related Body Corporate of that First Person or any other person that directly or indirectly through one or more intermediaries:

- (a) Controls the First Person;
- (b) is Controlled by the First Person; or
- (c) is under common Control with the First Person;

**ASIC** means the Australian Investments and Securities Commission;

**Associate** has the meaning given to that term in the ASX Listing Rules;

**ASX** means the ASX Limited;

**ASX Listing Rules** or **Listing Rules** means the official listing rules of the ASX as amended from time to time;

**ASX Settlement Operating Rules** means the official ASX Settlement Operating Rules of ASX;

**Board** means the board of Directors of the Company;

**Borrower** or **Tritton** means Tritton Resources Pty Ltd ACN 100 095 494 (a wholly owned subsidiary of the Company);

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**Chair, Chairman or Chairperson** means the chairperson of the Meeting;

**Change of Control Event** occurs where a person (or persons acting in concert) obtains Voting Power in excess of 35% of the Company or otherwise obtains the ability to appoint or remove a majority of the directors of the Company, in each case, other than as a result of the exercise or conversion of:

- (a) the CNRPS by any member(s) of the New Lender Group; or
- (b) the CRPS by any member(s) of the Existing Lender Group,

in each case, into Shares;

**CI Fronting Bank** means Standard Chartered Bank, Sydney Branch (ARBN 097 571 778) of 345 George Street, Sydney, New South Wales, Australia;

**CI Facility** has the meaning given to that term in section 2.1 of the Explanatory Memorandum;

**Class A Notes** means 3,750,000 Class A Notes (each with a Face Value of US\$1.00 and with an Aggregate Face Value of US\$3.75 million) and as further described in the Conditions attached to the 2013 EGM as Schedule 1;

**Class B Notes** means 3,250,000 Class B Notes (each with a Face Value of US\$1.00 and with an Aggregate Face Value of US\$3.25 million) and as further described in the Conditions attached to the 2013 EGM as Schedule 1;

**Closely Related Party** (as defined in the Corporations Act) of a member of the Key Management Personnel for an entity means:

- (a) a spouse or child of the member; or
- (b) a child of the member's spouse; or
- (c) a dependant of the member or the member's spouse; or
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealings with the entity; or
- (e) a company the member controls; or
- (f) a person prescribed by regulation under the Corporation Act for the purposes of the definition of closely related party under the Corporations Act;

**CNRPS** means the SRL Preference Shares to be issued pursuant to the New Lender CPS Subscription Agreement;

**CNRPS Aggregate Face Value** has the meaning given to that term in section 2.6(b)(1);

**CNRPS Holder** means a holder of CNRPS;

**CNRPS Mandatory Conversion** means the fifth anniversary of the issue of the CNRPS;

**CNRPS Prescribed Person** has the meaning given to that term in Section 2.6(b)(3);

**CNRPS Redemption Amount** means an amount equal to the Market Value multiplied by the number of CNRPS that are required to be redeemed;

**CNRPS Reduced Redemption Amount** means an amount equal to the face value of each CNRPS held by the relevant CNRPS Holder;

**CNRPS Relevant Approval** has the meaning given to that term in Section 2.6(b)(3);

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**CNRPS Relevant Circumstance** has the meaning given to that term in Section 2.6(b)(3);

**Company** or **Straits** or **SRL** means Straits Resources Limited ABN 30 147 131 977 (ASX: SRQ);

**Company Group** means the Company and its Subsidiaries;

**Company Group Member** means any member of the Company Group;

**Completion Date** means the date that is ten Business Days after the date on which the conditions precedent (other than those which rely upon an event or circumstances not occurring) under the Restructuring Deed are satisfied or waived, or such other date as may be agreed by the Existing Lender, the New Lender and the Company;

**Consolidation** means the consolidation of the Company's capital on a 10 for 1 basis as contemplated by Resolution 1;

**Consolidation Date** means 22 December 2015;

**Constitution** means the constitution of the Company from time to time;

**Control** (including the terms **Controlled** by and **under common Control with**) means the capacity, direct or indirect, to determine the outcome of decisions in relation to the financial and operating policies of a person, whether through the ownership of securities or other interests, by contract or agency or otherwise and the term person is deemed to include a partnership;

**Convertible Notes or Notes** means the Class A Notes and the Class B Notes;

**Conversion Notes** has the meaning given to that term in section 2.7 of the Explanatory Memorandum;

**Copper Price Participation** has the meaning given to that term in section 2.5 of the Explanatory Memorandum;

**Corporations Act** means the *Corporations Act 2001* (Cth);

**CPS** means the CNRPS and the CRPS;

**CS, Credit Suisse** or **Credit Suisse International** means Credit Suisse International of One Cabot Square, London E14 4QJ, England;

**Credit Suisse Restructuring** has the meaning given to that term in section 2.2 of the Explanatory Memorandum;

**CRPS** means the SRL Preference Shares to be issued pursuant to the Existing Lender CPS Subscription Agreement;

**CRPS Aggregate Face Value** has the meaning given to that term in section 2.5(b)(1) of the Explanatory Memorandum;

**CRPS Deferred Amount** has the meaning given to that term in section 2.5(b)(2) of the Explanatory Memorandum;

**CRPS Deferred Amount Interest** has the meaning given to that term in section 2.5(b)(2) of the Explanatory Memorandum;

**CRPS Dividend** has the meaning given to that term in section 2.5(b)(2) of the Explanatory Memorandum;

**CRPS Face Value** means US\$0.086;

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**CRPS Holders** has the meaning given to that term in section 2.5(b)(2) of the Explanatory Memorandum;

**CRPS Holder Conversion Notice** has the meaning given to that term in section 2.5(b)(4) of the Explanatory Memorandum;

**CRPS Liquidation Sum** has the meaning given to that term in section 2.5(b)(6) of the Explanatory Memorandum;

**CRPS Mandatory Conversion** has the meaning given to that term in section 2.5(b)(3) of the Explanatory Memorandum;

**CRPS Original Holder** has the meaning given to that term in section 2.5(b)(7) of the Explanatory Memorandum;

**CRPS Prescribed Person** has the meaning given to that term in section 2.5(b)(5) of the Explanatory Memorandum;

**CRPS Redemption Amount** has the meaning given to that term in section 2.5(b)(6) of the Explanatory Memorandum;

**CRPS Redemption Period** has the meaning given to that term in section 2.5(b)(4) of the Explanatory Memorandum;

**CRPS Reduced Redemption Amount** means an amount equal to \$0.0001 multiplied by the number of CRPS held by the relevant CRPS Holder that are required to be redeemed;

**CRPS Relevant Approval** has the meaning given to that term in section 2.5(b)(5) of the Explanatory Memorandum;

**CRPS Relevant Circumstance** has the meaning given to that term in section 2.5(b)(5) of the Explanatory Memorandum;

**CRPS Transferee** has the meaning given to that term in section 2.5(b)(7) of the Explanatory Memorandum;

**Deed of Amendment and Restatement (Senior Secured Facilities Agreement)** means the document titled 'Deed of Amendment and Restatement – Senior Secured Facilities Agreement' entered into by the Borrower, the Existing Lender, the Company and others on 31 July 2015;

**Deed of Amendment (Security Trust Deed)** means the document titled 'Deed of Amendment – Security Trust Deed' entered into by the Security Trustee, the Company, SML and the Existing Lender on or about 31 July 2015;

**Directors** means the board of directors of the Company as at the date of the Notice of Meeting;

**ESAP Trustee** means Pacific Custodians Pty Limited ACN 009 682 866;

**Escrow Period** has the meaning given to that term in Annexure A;

**Existing Debt Restructuring Documents** means:

- (a) the New SSFA;
- (b) the Existing Lender CPS Subscription Agreement; and
- (c) the Price Participation Deed;

**Existing Lender** or **SCB Singapore** means Standard Chartered Bank, Singapore Branch of 8 Marina Boulevard, Level 24, Singapore;

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**Existing Lender Agent** means Standard Chartered Bank (Hong Kong) Limited incorporated in Hong Kong with registration number 875305 of 32/F, 4-4A Des Voeux Road, Central, Hong Kong;

**Existing Lender Group** means the Existing Lender and its Related Bodies Corporate (from time to time), including SC Private Equity;

**Existing Lender Group Member** means a member of the Existing Lender Group;

**Existing Lender Permitted Acquirers** means Standard Chartered Holdings Limited and Standard Chartered PLC, while those entities remain Related Bodies Corporate of the Existing Lender;

**Existing Lender CPS Subscription Agreement** means the deed entered into by the Company and the Existing Lender on 31 July 2015;

**Existing Lender Group Restructuring** has the meaning given to that term in section 2.2 of the Explanatory Memorandum;

**Explanatory Memorandum** means the explanatory memorandum accompanying this Notice;

**Finance Documents** means all or any of:

- (a) the Existing Debt Restructuring Documents;
- (b) the New Funding Documents; and
- (c) the New Security Documents;

**Finance Party** means each of the Lenders, the Security Trustee and any other financier, underwriter, agent, hedging counterparty or security trustee which is a party to the Finance Documents from time to time;

**General Security Deed** means the general security deed granted by the Company and SML, in favour of the Security Trustee;

**Holding Lock** has the meaning in Section 2 of the ASX Settlement Operating Rules;

**Independent Expert** means BDO Corporate Finance (QLD) Ltd;

**Independent Expert's Report** means the independent expert report prepared by BDO Corporate Finance (QLD) Ltd attached as Appendix 1 to this Explanatory Memorandum;

**Intercreditor Deed** means the deed entered into by the Existing Lender, the New Lender, the Company, the Security Trustee and others on 4 August 2015;

**Key Management Personnel** or **KMP** has the definition given in the accounting standards as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly and indirectly, including any director (whether executive or otherwise) of that entity;

**Labuschagne Options** means the Options issued to Andre Labuschagne;

**Lenders** means the Existing Lender and the New Lender;

**LIBOR** means the London Interbank Offered Rate;

**Management Options** means the Options issued to Andre Labuschagne and the Other KMP (or their nominees);

**Management Restructuring** has the meaning given to that term in section 2.2 of the Explanatory Memorandum;

# Explanatory Memorandum

**Market Value** means the average of the daily volume weighted average price of all sales of fully paid ordinary Shares recorded on ASX during the period of 30 trading days ending on the Business Day immediately prior to the date of the redemption of the relevant CNRPS, not including:

- (a) any transaction classified under the ASX Operating Rules as a “Special Crossing”;
- (b) crossings prior to the commencement of normal trading or during the closing phase and after hours adjust phase;
- (c) any overseas trades or trades pursuant to the exercise of options over Shares; or
- (d) any overnight crossings;

**Meeting** or **EGM** means the Extraordinary General Meeting to be held on Tuesday 15 December 2015 as convened by the accompanying Notice of Meeting;

**New Funding** has the meaning given to that term in section 2.2 of the Explanatory Memorandum;

**New Funding Documents** means:

- (a) the Priority Loan Agreement;
- (b) the New Lender CPS Subscription Agreement; and
- (c) the Intercreditor Deed;

**New Lender** or **SPOV** means Special Portfolio Opportunity V Limited, a limited liability company incorporated under the laws of the British Virgin Islands, of Commerce Chambers, P.O. Box 2208, Road Town, Tortola, British Virgin Islands;

**New Lender Agent** means PAG Special Situations IV Limited, a limited liability company incorporated under the laws of the British Virgin Islands of Commerce Chambers, P.O. Box 2208, Road Town, Tortola, British Virgin Islands;

**New Lender CPS Subscription Agreement** means the deed entered into by the Company and the New Lender on 31 July 2015;

**New Lender Group** means the New Lender and its Affiliates (from time to time);

**New Lender Group Member** means a member of the New Lender Group;

**New Lender Restructuring** has the meaning given to that term in section 2.2 of the Explanatory Memorandum;

**New Security Documents** means the:

- (a) General Security Deed;
- (b) Security Variation Documents;
- (c) Variation Deed (ANZ Account Control Deed); and
- (d) Variation Deed (SCB Account Control Deed);

**New SSFA** means the SSFA as amended and restated by the Deed of Amendment and Restatement – (Senior Secured Facilities Agreement);

**Note Variation Deed** means the Note Variation Deed between the Company and Credit Suisse dated 5 November 2015 in relation to the variation of the Convertible Notes;



# Explanatory Memorandum

**Notice of Meeting** or **Notice** means the notice of meeting giving notice to shareholders of the Meeting, accompanying this Explanatory Memorandum;

**Option** means an option to acquire a Share;

**Ordinary Resolution** means a resolution passed by more than 50% of the votes at a general meeting of shareholders;

**Other KMP** means:

- (a) Robert Brainsbury (Chief Financial Officer of the Company);
- (b) Ian Sheppard (Chief Operating Officer of the Company); and
- (c) John Miller (General Manager, Tritton Operations);

**Other KMP Options** means the Options issued to the Other KMP;

**PPS Act** means the *Personal Property Securities Act 2009* (Cth);

**PPS Security Interest** means a security interest as defined in the PPS Act;

**Price Participation Deed** means the deed entered into by the Borrower and the Existing Lender on 31 July 2015;

**Priority Loan Agreement** means the agreement entered into by the New Lender and each Security Provider on 31 July 2015;

**Redemption Notes** has the meaning given to that term in section 2.7 of the Explanatory Memorandum.

**Related Body Corporate** has the meaning given in the Corporations Act;

**Related Party** has the meaning in section 228 of the Corporations Act.

**Relevant Interest** has the meaning given to that term in the Corporations Act;

**Relevant Managers** means Andre Labuschagne and the Other KMP (and each is a **Relevant Manager**);

**Resolution** means the resolution set out in the Notice of Meeting;

**Restricted Shares** has the meaning given to that term in section 10.1 of the Explanatory Memorandum;

**Restricted Shareholder** means a holder of Restricted Shares;

**Restructuring** means:

- (a) the extinguishment of USD\$61,128,723.01 of debt owed to the Existing Lender;
- (b) the provision by the New Lender to the Borrower of a new priority facility of USD\$25,000,000;
- (c) the extinguishment of all Convertible Notes;
- (d) the grant of the Management Options to the Relevant Managers; and
- (e) the Consolidation;

**Restructuring Deed** means the Deed entered into by the Existing Lender, the New Lender, Tritton and the Company on 31 July 2015 to give effect to the Restructuring;

# Explanatory Memorandum

**Restructured Senior Debt** has the meaning given to that term in section 2.2;

**SC Private Equity** means Standard Chartered Private Equity Limited, a company having the same ultimate ownership as the Existing Lender, SCB Singapore;

**SCB Group** means the Existing Lender, the Security Trustee and the CI Fronting Bank;

**SCB Group Member** means a member of the SCB Group;

**Securities** has the meaning in section 92(1) of the Corporations Act;

**Security Interest** means:

- (a) any third party rights or interests including a mortgage, bill of sale, charge, lien, pledge, trust, encumbrance, power or title retention arrangement, right of set-off, assignment of income, garnishee order or monetary claim and flawed deposit arrangements or any arrangement having a similar effect; and
- (b) a PPS Security Interest,

and includes any agreement to create any of them or allow them to exist;

**Security Provider** means the Company, SML and the Borrower;

**Security Variation Documents** means:

- (a) Deed of Amendment (Security Trust Deed);
- (b) Tritton Charge Variation Deed;
- (c) Tritton Mortgage Variation Deed;
- (d) SRL Featherweight Charge Variation Deed;
- (e) SML Featherweight Charge Variation Deed;
- (f) SRL Share Mortgage Variation Deed;
- (g) SML Share Mortgage Variation Deed;
- (h) Variation Deed (ANZ Account Control Deed);
- (i) Variation Deed (SCB Singapore Account Charge); and
- (j) Water Rights Mortgage Variation Deed;

**Security Trustee** means Standard Chartered Bank (Hong Kong) Limited incorporated in Hong Kong with registration number 875305 of 32/F, 4-4A Des Voeux Road, Central, Hong Kong;

**Senior Debt** has the meaning given to that term in section 2.1 of the Explanatory Memorandum;

**SML** means Straits Mining Limited ACN 055 020 614 of Level 2 HQ South Tower, 520 Wickham Street, Fortitude Valley, Queensland, Australia;

**SML Featherweight Charge Variation Deed** means the variation deed varying the featherweight charge dated 5 December 2011 granted by SML in favour of the Security Trustee entered into by SML and the Security Trustee on 31 July 2015;

**SML Share Mortgage Variation Deed** means the variation deed varying the share mortgage dated 5 December 2011 granted by SML in favour of the Security Trustee entered into by SML and the Security Trustee on 31 July 2015;

# Explanatory Memorandum

**Shares** means fully paid ordinary shares in the Company from time to time;

**Share Buy-back Agreement** means the Share Buy-Back Agreement to be entered into prior to completion under the Restructuring Deed between the Company, Pacific Custodians Pty Limited, Andre Labuschagne, Robert Brainsbury and Ian Sheppard to restructure the current share entitlements and on-going incentive arrangements of management;

**Share Consolidation** means the consolidation of the Company's existing Shares on a 10:1 basis as contemplated by Resolution 1;

**Share Transferee** has the meaning given to that term in section 2.7 of the Explanatory Memorandum;

**Shareholder** means a shareholder of the Company;

**Shareholder Approval** means the approval by the requisite number of Shareholders of either an Ordinary Resolution or a Special Resolution (as the case may be);

**Special Resolution** means a resolution passed by more than 75% of the votes at a general meeting of shareholders;

**SRL Preference Share** means a convertible preference share in the capital of SRL;

**SRL Featherweight Charge Variation Deed** means the variation deed varying the featherweight charge dated 5 December 2011 granted by SRL in favour of the Security Trustee entered into by SRL and the Security Trustee on 31 July 2015;

**SRL Share Mortgage Variation Deed** means the variation deed varying the share mortgage dated 5 December 2011 granted by SRL in favour of the Security Trustee entered into by SRL and the Security Trustee on 31 July 2015;

**SSFA** means the agreement titled 'Amended and Restated Senior Secured Facilities Agreement' dated 2 December 2011 between the Borrower, the Existing Lender, the Company and others as amended from time to time;

**SSFA Term** has the meaning given to that term in clause 2.5(a)(1);

**Subsidiary** has the meaning given in the Corporations Act;

**Terms and Conditions** means the terms and conditions of the Options as summarised in Annexure A;

**Trading Day** has the meaning ascribed to that term in the ASX Listing Rules;

**Tritton** or **Borrower** means Tritton Resources Pty Ltd ACN 100 095 494 (a wholly owned subsidiary of the Company);

**Tritton Charge Variation Deed** means the variation deed varying the share mortgage granted by the Company in favour of the Security Trustee entered into by the Borrower and the Security Trustee on 31 July 2015;

**Tritton Copper Operations** means Tritton's copper operations located near Nyngan in New South Wales, Australia;

**Tritton Deeps** means the area of the Tritton Mine (being the copper and gold mine) between RL4200m and RL4000m;

**Tritton Mortgage Variation Deed** means the variation deed varying the real property mortgage deed dated 5 December 2011 granted by the Borrower in favour of the Security Trustee, entered into by the Borrower and the Security Trustee on or about 31 July 2015;

# Explanatory Memorandum

**Variation Deed (ANZ Account Control Deed)** means the deed varying the account control deed dated 2 December 2011 between the Borrower, the Security Trustee and ANZ proposed to be entered into by the Borrower, the Security Trustee and ANZ;

**Variation Deed (SCB Singapore Account Charge)** means the deed varying the bank account control deed between the Borrower and the Security Trustee entered into by the Borrower and the Security Trustee on or about 31 July 2015;

**Voting Power** has the meaning given to that term in the Corporations Act;

**Voting Power Resolutions** means Resolutions 2, 4 and 7; and

**Water Rights Mortgage Variation Deed** means the variation deed varying the water rights mortgage deed dated 5 December 2011 granted by the Borrower in favour of the Security Trustee entered into by the Borrower and the Security Trustee on or about 31 July 2015.

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Any inquiries in relation to the Resolutions or the Explanatory Memorandum should be directed to Mr Robert Brainsbury, Company Secretary:

Office: Suite 1, Level 2, HQ South Tower, 520 Wickham Street, Fortitude Valley QLD Australia 4006

Phone: +61 7 3034 6200

## **Annexure A – Summary of option terms and conditions**

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### **Summary of Option Terms and Conditions**

Terms not defined in this summary of the Option Terms and Conditions shall take their meaning from the definitions in the Explanatory Memorandum of the Notice of Meeting.

#### **1. Entitlement**

Each Management Option is an Option to subscribe for one Share.

#### **2. Issue Price**

The issue price of each Management Option is \$Nil.

#### **3. Exercise Price**

The exercise price of each Management Option is \$Nil (**Exercise Price**).

#### **4. Vesting**

Subject to the Relevant Manager remaining an employee of the Company Group for at least 12 months from the Completion Date, the Relevant Manager's Management Options will vest and become exercisable for a \$Nil exercise price as follows:

- (a) 30% of the Management Options (**Tranche 1 Options**) on the first anniversary of the Completion Date (**First Anniversary**);
- (b) 17.5% of the Management Options (**Tranche 2 Options**) on the second anniversary of the Completion Date (**Second Anniversary**);
- (c) 17.5% of the Management Options (**Tranche 3 Options**) on the third anniversary of the Completion Date (**Third Anniversary**);
- (d) 17.5% of the Management Options (**Tranche 4 Options**) on the fourth anniversary of the Completion Date (**Fourth Anniversary**); and
- (e) 17.5% of the Management Options (**Tranche 5 Options**) on the fifth anniversary of the Completion Date (**Fifth Anniversary**).

All Management Options will immediately vest upon the occurrence of a Change of Control Event.

#### **5. Escrow**

The Shares issued upon exercise of the Management Options (**Restricted Shares**) shall be restricted from trading and subject to a Holding Lock until:

- (a) the Board in its reasonable discretion provides its written consent to allow for some or all of the Restricted Shares to become unrestricted Shares and to be traded (with such Board discretion not to be exercised without the consent of the Lenders (or Lender, as the case may be) while the Restructured Senior Debt or New Funding (or both, as the case may be) are outstanding);
- (b) upon the occurrence of a Change of Control Event; or
- (c) in accordance with Table 1 below  
**(Escrow Period)**.

	% of Restricted Shares removed from Holding Lock on the First Anniversary	% of Restricted Shares removed from Holding Lock on the Second Anniversary	% of Restricted Shares removed from Holding Lock on the Third Anniversary	% of Restricted Shares removed from Holding Lock on the Fourth Anniversary	% of Restricted Shares removed from Holding Lock on the Fifth Anniversary
Restricted Shares issued upon exercise of the Tranche 1 Options	Nil	Nil	80%	80%	100%
Restricted Shares issued upon exercise of the Tranche 2 Options	N/A	Nil	60%	60%	100%
Restricted Shares issued upon exercise of the Tranche 3 Options	N/A	N/A	30%	30%	100%
Restricted Shares issued upon exercise of the Tranche 4 Options	N/A	N/A	N/A	Nil	100%
Restricted Shares issued upon exercise of the Tranche 5 Options	N/A	N/A	N/A	N/A	100%

## 6. Restriction on exercise

A holder of Management Options may only exercise so many of their vested Management Options so as to not result in that holder having a Voting Power in the Company in excess of 19.99%. If a holder is unable to exercise their remaining vested Management Options in these circumstances, the Company must use its best and all reasonable endeavours to obtain any approval or consent to allow such exercise.

## 7. Expiry

A Relevant Manager's Management Options will expire (unless earlier exercised) on the earlier of the following to occur:

- (a) the date of the Relevant Manager giving the relevant Company Group Member notice terminating his employment with that Group Company;
- (b) the Business Day after the Relevant Manager ceases to be an employee of the relevant Company Group Member in circumstances other than with cause;
- (c) the date on which the Relevant Manger is terminated with cause; or
- (d) Six years after the Completion Date

### (Expiry Date).

However, if during the last 5 Trading Days prior to the Expiry Date, the holder of the Management Options was unable to exercise the Management Options as a result of that holder or the Relevant Manager (as the case may be) being in the possession of inside information, or where the exercise would be in breach of the Company's Securities Trading Policy (**Relevant Event**), then the Expiry Date is automatically extended for a further period of 5 Trading Days after the expiry of the Relevant Event.

8. **Options to remain unencumbered**

The Management Options must not be encumbered with a Security Interest over them.

9. **Options not transferable**

The Management Options are not transferable (other than by force of law upon the death of the holder to that person's legal personal representative).

10. **Notice of exercise**

The Management Options may be exercised by delivering a duly completed exercise form (**Exercise Notice**) to the Company at any time after they vest and before they expire. The Management Options may be exercised in whole or in part (however there is a minimum exercise limit).

11. **Shares issued on exercise**

Shares will be issued within 10 Business Days after the Company receives an Exercise Notice. Shares issued on exercise of the Management Options will rank pari passu with the then issued Shares of the Company (but subject to the voluntary escrow restrictions noted above).

12. **Participation in new issues and dividends**

There are no participation rights or entitlements inherent in the Management Options and holders will not be entitled to participate in new issues of capital or dividends offered to Shareholders during the currency of the Options. The Company will, where required by the ASX Listing Rules, provide the holder with notice of any new issue of securities prior to the record date of such issue in accordance with the requirements of the ASX Listing Rules.

13. **Quotation of Management Options**

The Management Options will not be listed on ASX.

14. **Adjustment for reconstruction**

In the event of any reconstruction of the issued capital of the Company, the number of Management Options will be reconstructed in a manner consistent with the ASX Listing Rules and with the intention that holders will not receive any benefit which is not conferred on Shareholders.

15. **Adjustment for bonus issue**

If the Company makes a bonus issue of Shares to Shareholders, the number of Shares issued to the holder of a Management Option upon exercise, will include the number of Shares that would have been issued to the holder if that Management Option had been exercised before the record date for the bonus issue.

## Annexure B – Proforma capital structure

	Before Restructuring (fully diluted)		After Restructuring (fully diluted)	
	Number of Shares	Voting Power	Number of Shares	Voting Power
<b>Relevant Managers<sup>1</sup></b>	58,479,136	4.0%	93,900,508	10.1%
<b>SC Private Equity<sup>2</sup></b>	214,663,734	14.7%	21,466,374	2.3%
<b>Credit Suisse<sup>3,4</sup></b>	245,000,000	16.7%	24,500,000	2.6%
<b>Other Shareholders<sup>5</sup></b>	944,587,422	64.6%	93,659,640	10.0%
<b>New Lender Group<sup>6</sup></b>	Nil	Nil	140,115,913	15.0%
<b>Existing Lender Group<sup>7,8</sup></b>	Nil	Nil	560,463,653	60.0%
<b>Total</b>	1,462,730,292	100%	934,106,088	100%

<sup>1</sup> Assuming all ESAP shares are bought back and cancelled and all Management Options are exercised. The Management Options vest annually in tranches, and upon exercise, the Shares issued are also subject to voluntary restriction. Accordingly, this is the maximum number of Shares which can be held by the Relevant Managers.

<sup>2</sup> A company having the same ultimate parent company as the Existing Lender.

<sup>3</sup> Assumes the conversion of part of the Convertible Notes and redemption of the balance of the Convertible Notes in accordance with Resolution 3.

<sup>4</sup> These shares will be issued to the holder of the Conversion Notes. Whilst Credit Suisse is the holder of these Conversion Notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these Conversion Notes to a third party under an arm's length transaction, prior to the date of conversion.

<sup>5</sup> Excluding the Relevant Managers, SC Private Equity, the Existing Lender Group and the New Lender Group.

<sup>6,7</sup> Assuming that all CPS are converted.

<sup>8</sup> Excluding SC Private Equity.



## Annexure C – Pro forma statement of financial position

### Pro forma statement of financial position

Set out below is the audited consolidated statement of financial position of the Company as at 30 June 2015 and the un-audited pro forma consolidated statements of financial position of the Company. The pro forma statement of financial position has been prepared on the basis of the accounting policies normally adopted by the Company and reflect the changes to its financial position resulting from the binding debt restructuring agreement signed by the company on 31 July 2015.

The historical and pro-forma financial information is presented in abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements. The significant accounting policies upon which the consolidated statement of financial position as the pro forma consolidated statements of financial position are based are contained in the audited financial report for the year ended 30 June 2015.

	Notes	Audited 30 June 2015 \$'000	Audited 30 June 2015 revalued <sup>(i)</sup> \$'000	Adjustments \$'000	Unaudited Pro Forma Balance sheet 30 June 2015 \$'000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	1	24,022	24,183	4,740	28,923
Trade and other receivables		9,475	9,769	-	9,769
Inventories		13,073	13,073	-	13,073
Other financial assets		2,126	2,126	-	2,126
<b>Total current assets</b>		<b>48,696</b>	<b>49,151</b>	<b>4,740</b>	<b>53,891</b>
<b>Non-current assets</b>					
Receivables		3,996	3,996	-	3,996
Mine properties in use		43,286	43,286	-	43,286
Property, plant and equipment		41,053	41,053	-	41,053
Deferred tax assets		21,521	21,521	-	21,521
Exploration and evaluation		19,521	19,521	-	19,521
<b>Total non-current assets</b>		<b>129,377</b>	<b>129,377</b>	<b>-</b>	<b>129,377</b>
<b>Total assets</b>		<b>178,073</b>	<b>178,528</b>	<b>4,740</b>	<b>183,268</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables		26,676	26,676	-	26,676
Interest bearing liabilities	2	159,340	167,923	(157,081)	10,842
Provisions		4,905	4,905	-	4,905
<b>Total current liabilities</b>		<b>190,921</b>	<b>199,504</b>	<b>(157,081)</b>	<b>42,423</b>
<b>Non-current liabilities</b>					
Interest bearing liabilities	2	2,717	2,786	78,638	81,424
Provisions		11,615	11,615	-	11,615
<b>Total non-current liabilities</b>		<b>14,332</b>	<b>14,401</b>	<b>78,638</b>	<b>93,039</b>
<b>Total liabilities</b>		<b>205,253</b>	<b>213,905</b>	<b>(78,443)</b>	<b>135,462</b>
<b>Net (liabilities)/assets</b>		<b>(27,180)</b>	<b>(35,377)</b>	<b>83,183</b>	<b>47,806</b>
<b>EQUITY</b>					
Contributed equity		353,300	353,300	7,350	360,650
Preference equity	3	-	-	68,644	68,644

Reserves	(7,459)	(7,459)	-	(7,459)
Retained earnings	(373,021)	(381,218)	7,189	(374,029)
<b>Total equity</b>	<b>(27,180)</b>	<b>(35,377)</b>	<b>83,183</b>	<b>(47,806)</b>

- (i) The USD balances included in the 30 June 2015 Audited balance sheet were revalued at the 9 October 2015 closing USD/AUD rate of \$0.7284 obtained from RBA website

## Notes

### 1. Cash and cash equivalents

Cash and cash equivalents will increase by A\$4.23 million (US\$3.1 million). This increase reflects the net of cash received from an initial draw down of US\$5.0 million (A\$6.9 million) of the new lender revolving facility, the payment of associated loan establishment fees of US\$0.5 million (A\$0.7 million) and the payment of US\$1.4 million (A\$1.9 million) to repurchase the Class A and Class B Convertible Notes (US\$7.0 million) previously issued to Credit Suisse International.

	<b>A\$</b>
	<b>\$'000</b>
<b>Adjustment detail</b>	
Draw down of New Funding	6,864
Payment of New Funding establishment fee	(686)
Cash settlement - Repurchase Convertible Notes from Credit Suisse International	<u>(1,438)</u>
	<u>4,740</u>

### 2. Interest bearing liabilities

Interest bearing liabilities will reduce by A\$78.4million.

The company's existing SCB debt of US\$111.11 million (A\$152.6 million) as referred in section 2.1 on page 1 of the explanatory memorandum will be retired and replaced with a Restructured Senior Debt of US\$50 million (A\$68.6 million). The existing debt at 30 June 2015, included interest of US\$1.2 million (A\$1.6 million) for the period 1 May 2015 to 30 June 2015, which will be reversed upon obtaining shareholders' approval for the debt restructure. The transaction will be offset by associated loan establishment fees of US\$0.5 million (A\$0.7 million).

The Class A and Class B Convertible Notes (US\$7.2 million/A\$9.9 million) issued to Credit Suisse International will be partially converted into 245,000,000 ordinary shares (US\$5.3 million/A\$7.3 million), with the remaining balance of notes (US\$1.9 million/A\$2.6 million) repurchased by Straits for a cash settlement of (US\$1.05 million/A\$1.4 million).

New funding in the form of a US\$25 million revolving Priority Loan Agreement will be provided by the New Lender Group, it is assumed that only \$5 million of the New funding will be drawn down initially, upon obtaining shareholders' approval.

The Restructuring includes an agreement for the Company to make a Copper Price Participation payment to SCB where the copper price exceeds certain A\$ per tonne thresholds. This liability is estimated at A\$10.9 million using broker consensus forward prices for copper as at 30 June 2015 and the AUD:USD exchange rate at 30 September 2015, over the current planned Life of Mine and using a discount rate of 12.51%.

## 2. Interest bearing liabilities (continued)

	<b>A\$ \$'000</b>
<b>Adjustment detail</b>	
<b>Current</b>	
Retirement of existing debt - Working Capital Facility	(6,750)
Retirement of existing debt - Bridging Loan	(145,829)
Reversal of interest	(1,619)
Retirement of Credit Suisse Convertible Notes	(9,979)
New Funding facility	6,864
Copper Price Participation liability	232
	<u>(157,081)</u>
<b>Non-current</b>	
Restructured Senior Debt	68,644
Copper Price Participation liability	10,680
Debt restructuring costs	(686)
	<u>78,638</u>
Total adjustment	<u>(78,443)</u>

## 3. Preference equity

Fully paid Convertible Preference Shares were issued as part of the restructure to both the existing lender (CRPS) and new lender (CNRPS). The CPRS were issued with an aggregate face value of US\$40 million (A\$54.9 million) and the CNPRS which will be equivalent to a 15% Shareholding post-Restructuring and post consolidation equity structure, if converted, of the company was valued at its notional value of US\$10.0 million (A\$13.7 million).

	<b>A\$ \$'000</b>
<b>Adjustment detail</b>	
SRL Preference shares issued to Existing Lender	54,915
SRL Preference shares issued to New Lender	13,729
	<u>68,644</u>

## Annexure D - Associates of the Existing Lender and the Existing Lender Permitted Acquirers

Company Name
American Express International Finance Corp.N.V. (In Liquidation 02/09/2011)
Amphissa Corporation Sdn Bhd
Assurance Solutions Insurance Agency Inc.
Banco Standard Chartered en Liquidacion (In Liquidation 09/09/2005)
Birdsong Limited
BWA Dependents Limited
California Rose Limited
Cartaban (Malaya) Nominees Sdn Berhad
Cartaban Nominees (Asing) Sdn Bhd
Cartaban Nominees (Tempatan) Sdn Bhd
Cerulean Investments LP
Chartered Financial Holdings Limited
Cherroots Nigeria Limited
CMB Nominees Proprietary Limited
Compass Estates Limited (In Liquidation 30/09/2011)
Double Wings Limited
Earnest Range Limited
FinVentures UK Limited
GE Capital (Hong Kong) Limited (Dissolved 07/04/2014) (Reinstated 21/07/2015 and currently in liquidation)
Gettysburg Investments LP
Golden Maestro Sdn Bhd
Grimes Golden Limited (In Liquidation 28/08/2015)
Gryphon Partners Advisory Pty Ltd (In liquidation 27/02/2015)
Harrison Lovegrove & Co. Limited (In Liquidation 20/08/2014)
Horsford Nominees Limited
Inishbrophy Leasing Limited
Inishcannon Leasing Limited
Inishcorky Leasing Limited
Inishcrean Leasing Limited
Inishdasky Leasing Limited
Inishdawson Leasing Limited
Inisherkin Leasing Limited
Inishgort Leasing Limited
Inishilra Leasing Limited
Inishlynch Leasing Limited
Inishmullen Leasing Limited
Inishoo Leasing Limited
Inishquirk Leasing Limited
Inishroe Leasing Limited
Inishtubrid Leasing Limited
Inner Mongolia Helingeer Standard Chartered Village Bank Limited
Kozagi Limited
Kwang Hua Mocatta Ltd. (Taiwan) (In Liquidation 01/01/1997)
Larne Limited (In Liquidation 28/08/2015)
Leopard Hong Kong Limited (In Liquidation 02/12/1998)

Majestic Legend Limited
Marina Acacia Shipping Limited
Marina Adella Shipping Pte. Ltd. (In Liquidation 29/08/2014)
Marina Alysse Shipping Limited
Marina Amandier Shipping Limited
Marina Amaryllis Shipping Limited
Marina Ambroisee Shipping Limited
Marina Amethyst Shipping Limited
Marina Ametrine Shipping Limited
Marina Angelica Shipping Limited
Marina Angelite Shipping Limited
Marina Aquata Shipping Pte. Ltd.
Marina Ariel Shipping Pte. Ltd. (In Liquidation 29/08/2014)
Marina Aruana Shipping Pte. Ltd.
Marina Aster Shipping Pte. Ltd.
Marina Aventurine Shipping Limited
Marina Beryl Shipping Limited
Marina Buxus Shipping Limited
Marina Carnelian Shipping Limited
Marina Celsie Shipping Limited
Marina Cobia Shipping Pte. Ltd.
Marina Daffodil Shipping Pte. Ltd.
Marina Dahlia Shipping Limited
Marina Dittany Shipping Limited
Marina Dorado Shipping Limited
Marina Emerald Shipping Limited
Marina Fatmarini Shipping Pte. Ltd.
Marina Flax Shipping Limited
Marina Frabandari Shipping Pte. Ltd.
Marina Freesia Shipping Pte. Ltd.
Marina Gardenia Shipping Limited
Marina Gazania Shipping Limited
Marina Gerbera Shipping Pte. Ltd.
Marina Gloxinia Shipping Limited
Marina Hazel Shipping Limited
Marina Honor Shipping Limited
Marina Hydrangea Shipping Limited
Marina Ilex Shipping Limited
Marina Iridot Shipping Limited
Marina Jessamine Shipping Limited
Marina Kunzite Shipping Limited
Marina Leasing Limited
Marina Lilac Shipping Limited
Marina Lolite Shipping Limited
Marina Mimosa Shipping Limited
Marina Moonstone Shipping Limited
Marina Morganite Shipping Limited
Marina Moss Shipping Limited
Marina Opah Shipping Pte. Ltd.
Marina Partawati Shipping Pte. Ltd.

Marina Peridot Shipping Limited
Marina Pissenlet Shipping Limited
Marina Poise Shipping Pte. Ltd.
Marina Poseidon Shipping Limited
Marina Protea Shipping Limited
Marina Remora Shipping Limited
Marina Ruby Shipping Limited (In liquidation)
Marina Sapphire Shipping Limited
Marina Splendor Shipping Limited
Marina Tanzanite Shipping Limited
Marina Tourmaline Shipping Limited
Marina Tuberoze Shipping Limited
Marina Watsonia Shipping Limited
Marina Zeus Shipping Limited
Marina Zinnia Shipping Limited
Merlion India Managers Limited (In Liquidation 14/01/2014)
New Group Investments Limited
Nightjar Limited
Nominees One Limited
Nominees Two Limited
Ocean Horizon Holdings East Limited
Ocean Horizon Holdings West Limited
Ori Private Limited
Pembroke 7006 Leasing Limited
Pembroke 717 Leasing Limited
Pembroke Aircraft Leasing (UK) Limited
Pembroke Aircraft Leasing 1 Limited
Pembroke Aircraft Leasing 10 Limited
Pembroke Aircraft Leasing 11 Limited
Pembroke Aircraft Leasing 12 Limited
Pembroke Aircraft Leasing 2 Limited
Pembroke Aircraft Leasing 3 Limited
Pembroke Aircraft Leasing 4 Limited
Pembroke Aircraft Leasing 5 Limited
Pembroke Aircraft Leasing 6 Limited
Pembroke Aircraft Leasing 7 Limited
Pembroke Aircraft Leasing 8 Limited
Pembroke Aircraft Leasing 9 Limited
Pembroke Aircraft Leasing Holdings Limited
Pembroke Alpha Limited
Pembroke B717 Holdings B.V.
Pembroke Capital Limited
Pembroke Capital Shannon Limited
Pembroke Funding BV
Pembroke Group Limited
Pembroke Holland B.V.
Pembroke Lease France SAS
Pembroke Leasing (Labuan) 2 Berhad
Pembroke Leasing (Labuan) 3 Berhad
Pembroke Leasing (Labuan) Pte Limited

Pembroke Nominees Limited
Pembroke Thai Aircraft II B.V.
Popular Ambience Sdn Bhd
Price Solution Pakistan (Private) Limited
Price Solutions Philippines, Inc.
Price Solutions Sdn Bhd
Price Solutions Singapore Pte. Ltd.
Prime Financial Holdings Limited
Prime Financial Limited (In Liquidation 20/03/2015)
PT Standard Chartered Securities Indonesia
PT. Price Solutions Indonesia
Raffles Nominees (Pte.) Limited
Resolution Alliance Korea Ltd
Ricanex Participations N.V. (In Liquidation 11/06/2009)
Rivendell Private Limited
S C Learning Limited
SC (Secretaries) Limited
SC Leaseco Limited
SC Overseas Investments Limited
SC Studios, LLC
SC Transport Leasing 1 LTD
SC Transport Leasing 2 Limited
SC2 Investments (Singapore) Private Limited
SCB Investment Holding Company Limited
SCB Nominees (CI) Limited
SCBMB Trustee Berhad
SCL Consulting (Shanghai) Co. Ltd
SCM Real Estate (Singapore) Private Limited
SCMB Overseas Limited
Scope International (China) Co., Ltd.
Scope International (M) Sdn Bhd
Scope International Private Limited
SCTS Capital Pte. Ltd
SCTS Management Pte. Ltd.
Sirat Holdings Limited
Skua Limited
Sky Favour Investments Limited
Sky Harmony Holdings Limited
Smart Application Investment B.V.
Sociedad Fiduciaria Extebandes S.A. (In Liquidation 18/05/1998)
Songbird Limited
St Helen's Nominees India Private Limited
St. Helens Nominees Limited
Stanchart (Australia) Holdings Pty Ltd
Stanchart Nominees Limited
StanChart Securities International, Inc.
Standard Chartered Securities (Kenya) Limited
Standard Chartered (1996) Limited
Standard Chartered (2000) Limited
Standard Chartered (Canada) Limited




Standard Chartered (CT) Limited
Standard Chartered (GCT) Limited
Standard Chartered (India) Modeling and Analytics Centre Private Limited
Standard Chartered (Thai) Asset Management Co. Ltd
Standard Chartered (Thailand) Company Limited
Standard Chartered Africa Limited
Standard Chartered APR Limited
Standard Chartered Asia Limited
Standard Chartered Asia Real Estate Fund Company Limited
Standard Chartered Asset Management Limited
Standard Chartered Assurance Limited
Standard Chartered Bank
Standard Chartered Bank (Brasil) S.A. - Banco de Investimento
Standard Chartered Bank (China) Limited
Standard Chartered Bank (Hong Kong) Limited
Standard Chartered Bank (Mauritius) Limited
Standard Chartered Bank (Pakistan) Limited
Standard Chartered Bank (Singapore) Limited
Standard Chartered Bank (Switzerland) S.A. (In Liquidation 13/08/2014)
Standard Chartered Bank (Taiwan) Limited
Standard Chartered Bank (Thai) Public Company Limited
Standard Chartered Bank (Vietnam) Limited
Standard Chartered Bank Angola S.A.
Standard Chartered Bank Botswana Insurance Agency (Proprietary) Limited
Standard Chartered Bank Botswana Investment Services (Pty) Limited
Standard Chartered Bank Botswana Limited
Standard Chartered Bank Cameroon S.A
Standard Chartered Bank Cote d' Ivoire SA
Standard Chartered Bank Gambia Limited
Standard Chartered Bank Ghana Limited
Standard Chartered Bank International (Americas) Limited
Standard Chartered Bank Kenya Limited
Standard Chartered Bank Korea Limited
Standard Chartered Bank Malaysia Berhad
Standard Chartered Bank Mozambique, S.A.
Standard Chartered Bank Nepal Limited
Standard Chartered Bank Nigeria Limited
Standard Chartered Bank Sierra Leone Limited
Standard Chartered Bank Tanzania Limited
Standard Chartered Bank Uganda Limited
Standard Chartered Bank Zambia Plc
Standard Chartered Bank Zimbabwe Limited
Standard Chartered Botswana Education Trust
Standard Chartered Botswana Nominees (Proprietary) Limited
Standard Chartered Capital & Advisory Nigeria Limited
Standard Chartered Capital (Saudi Arabia)
Standard Chartered Capital Investments, LLC
Standard Chartered Capital Management (Jersey), LLC
Standard Chartered Capital Markets Limited (In Liquidation 15/12/2011)
Standard Chartered Corporate Advisory Co. Ltd



Standard Chartered Corporate Finance (Canada) Limited (in liquidation 20/08/2015)
Standard Chartered Corporate Finance (Eurasia) Limited (in liquidation 20/08/2015)
Standard Chartered Corporate Private Equity (Cayman) Limited
Standard Chartered Debt Trading Limited
Standard Chartered Equitor Limited (In Liquidation 10/09/2015)
Standard Chartered Finance (Brunei) Bhd
Standard Chartered Finance Limited
Standard Chartered Financial Holdings
Standard Chartered Financial Investments Limited (In Liquidation 02/07/2015)
Standard Chartered Financial Services (Luxembourg) S.A. (In Liquidation 30/11/2009)
Standard Chartered Financial Services Limited
Standard Chartered Funding (Jersey) Limited
Standard Chartered FURBS Trustee Limited (Strike off requested 17.9.15)
Standard Chartered Ghana Nominees Limited
Standard Chartered Global Trading Investments Limited
Standard Chartered Grindlays Pty Limited
Standard Chartered Health Trustee (UK) Limited
Standard Chartered Holdings (Africa) B.V.
Standard Chartered Holdings (Asia Pacific) B.V.
Standard Chartered Holdings (International) B.V.
Standard Chartered Holdings (Singapore) Private Limited
Standard Chartered Holdings Inc.
Standard Chartered Holdings Limited
Standard Chartered I H Limited
Standard Chartered IL&FS Management (Singapore) Pte. Limited
Standard Chartered Insurance Agency Limited
Standard Chartered Insurance Limited
Standard Chartered International (USA) Ltd.
Standard Chartered International Partners
Standard Chartered Investment Services Limited
Standard Chartered Investment Services Limited
Standard Chartered Investments (Singapore) Private Limited
Standard Chartered Investments and Loans (India) Limited
Standard Chartered Kenya Nominees Limited
Standard Chartered Korea Limited
Standard Chartered Lease Trustee Limited (Strike off requested 29.9.15)
Standard Chartered Leasing (UK) 2 Limited
Standard Chartered Leasing (UK) 3 Limited
Standard Chartered Leasing (UK) Limited
Standard Chartered Leasing Group Limited
Standard Chartered Leasing Limited
Standard Chartered Life Insurance Agency Company
Standard Chartered Management Services Limited
Standard Chartered Masterbrand Licensing Limited
Standard Chartered MB Holdings B.V.
Standard Chartered Metropolitan Holdings SAL
Standard Chartered Modaraba
Standard Chartered NEA Limited
Standard Chartered Nominees (Nigeria) Limited
Standard Chartered Nominees (Singapore) Pte Ltd

Standard Chartered Nominees (Western Samoa) Limited
Standard Chartered Nominees Limited
Standard Chartered Nominees South Africa Proprietary Limited (RF)
Standard Chartered Nominees Zimbabwe (Private) Limited
Standard Chartered Overseas Holdings Limited
Standard Chartered Overseas Investment, Inc.
Standard Chartered Participacoes E Assessoria Economica Ltda
Standard Chartered PF Managers Pte. Limited
Standard Chartered PF Real Estate (Hong Kong) Limited
Standard Chartered Portfolio Trading (UK) Limited (In liquidation 26/09/2014)
Standard Chartered Principal Finance (Cayman) Limited
Standard Chartered Private Equity (Cayman) Limited
Standard Chartered Private Equity (Mauritius) II Limited
Standard Chartered Private Equity (Mauritius) Limited
Standard Chartered Private Equity (Mauritius) III Limited
Standard Chartered Private Equity (Singapore) Pte. Ltd
Standard Chartered Private Equity Advisory (India) Private Limited
Standard Chartered Private Equity Korea II
Standard Chartered Private Equity Limited
Standard Chartered Private Equity Managers (Hong Kong) Limited
Standard Chartered Private Equity Managers (Singapore) Pte. Ltd
Standard Chartered Private Equity Managers Korea Limited
Standard Chartered Real Estate Investment (Singapore) I Private Limited
Standard Chartered Real Estate Investment (Singapore) II Private Limited
Standard Chartered Real Estate Investment (Singapore) III Private Limited
Standard Chartered Real Estate Investment (Singapore) IV Private Limited
Standard Chartered Real Estate Investment (Singapore) V Private Limited
Standard Chartered Real Estate Investment (Singapore) VI Private Limited
Standard Chartered Real Estate Investment (Singapore) VII Private Limited
Standard Chartered Real Estate Investment (Singapore) VIII Private Limited
Standard Chartered Real Estate Investment Holdings (Singapore) Private Limited
Standard Chartered Receivables (UK) Limited (in liquidation 26/09/2014)
Standard Chartered Saadiq Berhad
Standard Chartered Saadiq Certificate Company Limited
Standard Chartered Saadiq Mudarib Company Limited
Standard Chartered Secretaries (Guernsey) Limited
Standard Chartered Securities (Africa) Holdings Limited
Standard Chartered Securities (Hong Kong) Limited
Standard Chartered Securities (India) Limited
Standard Chartered Securities (Japan) Preparation Limited
Standard Chartered Securities (North America) Inc.
Standard Chartered Securities (Singapore) Pte. Limited
Standard Chartered Securities Korea Limited
Standard Chartered Services of Pakistan (Private) Limited
Standard Chartered Sherwood (HK) Limited
Standard Chartered Tanzania Nominees Limited
Standard Chartered Trade Services Corporation
Standard Chartered Trade Support (HK) Limited
Standard Chartered Trading (Shanghai) Limited
Standard Chartered Trust (Guernsey) Limited

Standard Chartered Trust (Hong Kong) Limited
Standard Chartered Trust (Singapore) Limited
Standard Chartered Trustees (UK) Limited
Standard Chartered UK Holdings Limited
Standard Chartered Uruguay Representacion S.A. (In Liquidation 19/11/2012)
Standard Chartered Yatirim Bankasi Turk Anonim Sirketi
Standard Chartered Zambia Nominees Limited
Standard Chartered Zambia Securities Services Nominees Limited
Subcontinental Equities Limited
Taiwan Standard Chartered Insurance Agency Company
Thai Exclusive Leasing Company Limited
The SC Transport Leasing Partnership 1
The SC Transport Leasing Partnership 2
The SC Transport Leasing Partnership 3
The SC Transport Leasing Partnership 4
Union Town Limited
Union Town Limited

**LODGE YOUR VOTE** **ONLINE**  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au) **BY MAIL**  
Straits Resources Limited  
C/- Link Market Services Limited  
Locked Bag A14  
Sydney South NSW 1235 Australia **BY FAX**  
+61 2 9287 0309 **BY HAND**  
Link Market Services Limited  
1A Homebush Bay Drive, Rhodes NSW 2138; or  
Level 12, 680 George Street, Sydney NSW 2000 **ALL ENQUIRIES TO**  
Telephone: +61 1300 554 474**LODGEMENT OF A PROXY FORM**

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given above by **Sunday 13<sup>th</sup> December at 10.00am**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting. Proxy Forms may be lodged using the reply paid envelope or:

 **ONLINE**  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).

**HOW TO COMPLETE THIS SHAREHOLDER PROXY FORM****YOUR NAME AND ADDRESS**

This is your name and address as it appears on the Company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

**APPOINTMENT OF PROXY**

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a shareholder of the Company.

**DEFAULT TO CHAIRMAN OF THE MEETING**

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

**VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT**

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

**APPOINTMENT OF A SECOND PROXY**

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

**SIGNING INSTRUCTIONS**

You must sign this form as follows in the spaces provided:

**Individual:** where the holding is in one name, the holder must sign.

**Joint Holding:** where the holding is in more than one name, all shareholders must sign.

**Power of Attorney:** to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

**CORPORATE REPRESENTATIVES**

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's share registry or online at [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au).

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.  
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**

NAME SURNAME  
 ADDRESS LINE 1  
 ADDRESS LINE 2  
 ADDRESS LINE 3  
 ADDRESS LINE 4  
 ADDRESS LINE 5  
 ADDRESS LINE 6



X9999999999

## PROXY FORM

I/We being a member(s) of Straits Resources Limited and entitled to attend and vote hereby appoint:

STEP 1

### APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are NOT appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held **Tuesday 15<sup>th</sup> December at 10.00am at HoppoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane, QLD** (the Meeting) and at any postponement or adjournment of the Meeting.

Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 5 and 6 (Remuneration Resolutions) (except where I/we have indicated a different voting intention below) even though the Remuneration Resolutions are connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company (which includes the Chairman), or if the Company is part of a consolidated entity, that entity.

**The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. This statement expresses the Chairman of the Meeting's intention as at the date of issue of the Notice of Meeting and, in exceptional circumstances, the Chairman of the Meeting may change his/her voting intention for any resolution, in which case an ASX announcement will be made.**

STEP 2

### VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

Resolutions	For	Against	Abstain*	Resolutions	For	Against	Abstain*
1 Consolidation of capital	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	9 Attachment of additional rights to SRL Preference Shares (CNRPS)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Approval to undertake Existing Lender Group Restructuring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	10 Financial Assistance to the Existing Lender	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Variation of Credit Suisse Convertible Note Terms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	11 Financial Assistance to the New Lender	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Approval to undertake New Lender Group Restructuring	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	12 Change of Company Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Issue of Options to Mr Andre Labuschagne	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
6 Issue of Options to Other KMP	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
7 Approval for the Company to hold a Relevant Interest in its own securities in excess of 19.99%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
8 Attachment of additional rights to SRL Preference Shares (CRPS)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				



\* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3

### SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, all shareholders must sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).





**STRAITS RESOURCES LIMITED**  
**Independent Expert's Report**

10 November 2015

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# Financial Services Guide

## Overview

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- (a) financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- (b) arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

## General Financial Product Advice

This Report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

## The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Straits Resources Limited ('Straits' or 'the Company') in relation to a proposed debt restructure which includes Standard Chartered Bank's ('SCB') debt reducing to US\$50 million, a new US\$25 million revolving priority debt facility established with Special Portfolio Opportunity V Limited ('PAG') and the issue of convertible preference shares to SCB and PAG ('the Proposed Transaction').

Further details relating to the Proposed Transaction are set out in Section 3.0 of this Report. The scope of this Report is set out in detail in Section 4.0. This Report provides an opinion as to whether or not the Proposed Transaction is 'fair' and 'reasonable' to the non-associated shareholders of Straits and has been prepared to provide information to non-associated Straits shareholders to assist them to make an informed decision on whether to vote for or against the resolutions that comprise the Proposed Transaction.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote for or against the resolutions that comprise the Proposed Transaction is likely to be influenced by the shareholder's particular circumstances, for example, the shareholder's taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

## Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate the fee for the preparation of this Report will be approximately \$100,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of the Proposed Transaction.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

## Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has provided independent valuation services to Straits in the past two years and prepared an IER dated 8 January 2014 in relation to the granting of security to Standard Chartered Bank (Hong Kong).

BDO CFQ is not an associate of Straits. The signatory to this Report does not hold any shares in Straits and no such shares have ever been held by the signatory.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

## Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with Chartered Accountants Australia and New Zealand, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

## Contact Details

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## Glossary

Reference	Definition
ABV	Asset Based Valuation
AMC	AMC Consultants Pty Ltd
AMC Report, the	The Independent Technical Specialist's Report prepared by AMC dated 17 August 2015
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO CFQ	BDO Corporate Finance (QLD) Limited
CAPM	Capital asset pricing model
CI Facility	Contingent instrument facility
CME	Capitalised Maintainable Earnings
CNRPS	The non-redeemable convertible preference shares issued by Straits to PAG
Company, the	Straits Resources Limited
Consolidation, the	The consolidation of the Company's share capital
Copper Price Participation	A price participation structure whereby SCB will receive a small percentage of incremental revenue above a copper price of AU\$8,000 per tonne
Corporations Act, the	The Corporations Act (2001)
CRPS	The cumulative convertible preference shares issued by Straits to SCB
DCF	Discounted Cash Flow
ESAP	Employee Share Acquisition Plan
Explanatory Memorandum, the	The Explanatory Memorandum prepared by Straits dated 10 November 2015
Facility Agreement, the	The Facility Agreement entered between Straits in relation to the working capital facility and the copper prepay swap facility
Financial Model, the	A financial model which sets out the projected cash flows for the Tritton mine over the period from 1 July 2015 to 30 June 2023
FSG	Financial Services Guide
Interim Restructure Agreement	An agreement with SCB for an interim restructure of the Company's existing copper prepay swap facility
Magontec	Magontec Limited
Management Options	The options issued to key management
MBV	Market Based Valuation
MEE	Multiples of exploration expenditure
MRP	Market risk premium
Notice of Meeting, the	The Notice of Extraordinary General Meeting prepared by Straits dated 10 November 2015
Outer ETs	Exploration tenements outside the Tritton region

Reference	Definition
PAG	Special Portfolio Opportunity V Limited, a subsidiary of a fund managed by PAG (formerly Pacific Alliance Group)
Prepay Facility	The US\$85 million copper prepay facility between Straits and SCB
Proposed Restructure	Following the Second Interim Restructure Agreement, a refinancing plan within two months, and complete that plan within five months
Proposed Transaction, the	A proposed debt restructure which includes Standard Chartered Bank's debt reducing to US\$50 million, a new US\$25 million revolving priority debt facility established with Special Portfolio Opportunity V Limited and the issue of convertible preference shares to Standard Chartered Bank and Special Portfolio Opportunity V Limited
PT IMK	PT Indo Muro Kencana
Report, this	This independent expert's report prepared by BDO CFQ dated 10 November 2015
RG 111	Regulatory Guide 111: Content of Experts Reports
RGs	The regulatory guides issued by ASIC
Sandfire	Sandfire Resources
SCB	Standard Chartered Bank
SC plc	Standard Chartered PLC
SCB Private Equity	Standard Chartered Private Equity Limited, a related entity of SCB
Second Interim Restructure Agreement	A further interim restructure of the Company's existing copper prepay swap facility
Security Transaction, the	Part of the Proposed Transaction that includes providing security to SCB over Straits' assets
Senior Debt	Standard Chartered Bank debt of approximately US\$111 million
Straits	Straits Resources Limited
Straits Mineral Assets	Straits' mineral assets which include the Tritton region exploration tenements and exploration tenements outside the Tritton region
Tritton	Tritton Resources Pty Ltd
Tritton ETs	The Tritton region exploration tenements
VALMIN Code, the	The Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
We, us, our	BDO Corporate Finance (QLD) Limited
Working Capital Loan Facility	A US\$15 million working capital loan and guarantee facility provided by Standard Chartered Bank

The Shareholders  
C/- The Directors  
Straits Limited  
GPO Box 3261  
BRISBANE QLD 4001

10 November 2015

Dear Shareholders,

## Independent Expert's Report

### 1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ' or 'we', 'us' or 'our') has been engaged by the directors of Straits Resources Limited ('Straits' or 'the Company') to prepare an independent expert's report ('this Report') to the shareholders of Straits in relation to a debt restructure ('the Proposed Transaction') which includes the following:

- Standard Chartered Bank ('SCB') debt of approximately US\$111 million (referred to herein as 'the Senior Debt') being reduced to US\$50 million;
- SCB receiving redeemable convertible preference shares with a notional face value of US\$40 million convertible into 60% of Straits' post-restructuring fully diluted equity;
- A copper price participation agreement with SCB that will result in additional payments to SCB at copper prices in excess of A\$8,000/t;
- Special Portfolio Opportunity V Limited ('PAG') providing a revolving priority debt facility of up to \$US25 million;
- PAG receiving non-redeemable convertible preference shares convertible into 15% of Straits' post-restructuring fully diluted equity; and
- The issue of options to key management and the cancellation of the current equity incentive scheme.

Part of the Proposed Transaction includes providing security over Straits assets to SCB ('the Security Transaction'). In this Report we provide our opinion on whether the Proposed Transaction is fair and reasonable, and whether the Security Transaction is fair and reasonable to Straits shareholders.

A more detailed discussion of the Proposed Transaction and the Security Transaction is set out in Section 3.0 of this Report. The scope of this Report and the basis for assessing the Proposed Transaction and the Security Transaction is set out in detail in Section 4.0 of this Report.

This Report has been prepared to provide information to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) to assist them to make an informed decision on whether to vote for or against the resolutions that comprise the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Straits shareholders in conjunction with this Report, including the Notice of Extraordinary General Meeting and Explanatory Memorandum prepared by Straits and dated on or about 10 November 2015 ('the Notice of Meeting' and 'the Explanatory Memorandum').

This Report does not address circumstances specific to individual Straits shareholders. A Straits shareholders' decision to vote for or against the resolutions that comprise the Proposed Transaction is likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. Straits shareholders should obtain their own professional advice in relation to their own circumstances.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

## 2.0 Summary of Opinion

This section of this Report is a summary of our opinion and cannot substitute for a complete reading of this Report. We strongly recommend that Straits shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting and the Explanatory Memorandum, and consider their own specific circumstances before voting for or against the resolutions that comprise the Proposed Transaction.

### 2.1 The Proposed Transaction

#### 2.1.1 Fairness of the Proposed Transaction

Our assessment of the fairness of the Proposed Transaction is set out in detail in Section 6.0 of this Report. In summary, to assess whether the Proposed Transaction is fair we have:

- a) Calculated the value of a share in Straits on a controlling interest basis prior to the Proposed Transaction to be \$nil (refer to Appendix C of this Report for our valuation of Straits prior to the Proposed Transaction);
- b) Calculated the value of a share in Straits on a minority interest basis post the Proposed Transaction to be in the range of \$0.0026 to \$0.0041 (refer to Appendix D of this Report for our valuation of Straits following the Proposed Transaction); and
- c) Compared the value of a Straits share determined in (a) above (i.e. prior to the Proposed Transaction on a controlling interest basis) to the value of a Straits share determined in (b) above (i.e. following the Proposed Transaction on a minority interest basis). Our fairness assessment is set out in Section 6.0 of this Report.

The Proposed Transaction is considered to be fair if the value of a Straits share following the Proposed Transaction is equal to or greater than the value of a Straits share prior to the Proposed Transaction. Table 2.1 below summarises our assessment of the fairness of the Proposed Transaction.

To simplify the pre and post transaction analysis set out in this Report, we have not adjusted the share numbers set out in this Report for the Consolidation. We would not expect the Consolidation to impact on our valuation materially. On a pro-rata basis, a value of A\$0.0026 to A\$0.0041 implies a post consolidation value of A\$0.026 to A\$0.041.

Table 2.1: Assessment of the fairness of the Proposed Transaction

	Low Value (\$)	High Value (\$)
Value per Straits share prior to the Proposed Transaction - Controlling Interest	\$nil	\$nil
Value per Straits share following the Proposed Transaction - Minority Interest	\$0.0026	\$0.0041

Source: BDO CFQ analysis

In considering the values set out in Table 2.1 above, we note that the Proposed Transaction facilitates a reduction in Straits' debt to a level that results in a positive net asset value. While there is significant dilution as a result of the issue of the CRPS, CNRPS and Management Options, post the Proposed Transaction there is some positive value which can be attributed to the ordinary shareholders.

Having regard to the above assessment of the Proposed Transaction, it is our view that in the absence of any other information or a superior offer, the Proposed Transaction is **Fair to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

Before making a decision to vote for or against the resolutions that comprise the Proposed Transaction, we recommend that Straits shareholders consider the information set out in Sections 2.1.2 to 2.1.3 below and the balance of this Report.

#### 2.1.2 Reasonableness of the Proposed Transaction

Our assessment of the reasonableness of the Proposed Transaction is set out in detail in Section 7.0 of this Report.

To assess whether or not the advantages of the Proposed Transaction outweigh the disadvantages, we have considered a number of quantitative and qualitative factors. Having regard to those matters, we have formed a view as to whether the advantages of the Proposed Transaction outweigh the disadvantages and whether the Proposed Transaction is ‘reasonable’ to Straits shareholders.

Table 2.2 below summarises our view of the advantages and disadvantages associated with the Proposed Transaction.

**Table 2.2: Summary of Potential Advantages and Disadvantages of the Proposed Transaction**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>The Proposed Transaction mitigates the immediate risk of being placed under receivership</li> </ul>	<ul style="list-style-type: none"> <li>The Proposed Transaction results in significant dilution of interests held by ordinary shareholders and loss of control</li> </ul>
<ul style="list-style-type: none"> <li>The Proposed Transaction is fair</li> </ul>	<ul style="list-style-type: none"> <li>If the Proposed Transaction proceeds, it may be possible for a smaller number of shareholders to pass or block a special resolution</li> </ul>
<ul style="list-style-type: none"> <li>The Proposed Transaction provides a more sustainable debt position relative to the current debt position</li> </ul>	<ul style="list-style-type: none"> <li>If the Proposed Transaction is approved then Straits will have restrictions on certain elements of operations</li> </ul>
<ul style="list-style-type: none"> <li>The Proposed Transaction provides additional funding</li> </ul>	<ul style="list-style-type: none"> <li>The Proposed Transaction may reduce the possibility of a future takeover offer occurring</li> </ul>
<ul style="list-style-type: none"> <li>The Proposed Transaction is the best option available to Straits at the current time</li> </ul>	<ul style="list-style-type: none"> <li>Even in circumstances where the Proposed Transaction is approved, Straits will continue to have a significant amount of debt.</li> </ul>
<ul style="list-style-type: none"> <li>The Proposed Transaction is potentially less dilutive than other capital raising options</li> </ul>	<ul style="list-style-type: none"> <li>If the Proposed Transaction is approved, there is potential for a significant number of Straits shares to be sold on the open market</li> </ul>

Source: BDO CFQ Analysis

If the Proposed Transaction is not approved then the potential position of Straits shareholders will include the following factors:

- Straits may not be able to meet its obligation to repay the Senior Debt. If Straits is issued with a notice of default by SCB, it will be required to immediately find an alternative source of funding. Given the current economic climate and the Company’s inability to otherwise raise capital, the Company may have difficulties finding an alternative lender;
- If Straits is issued with a notice of default by SCB, SCB has the right to appoint a receiver and manager for the purpose of recovering the debt owed (as SCB holds a first ranking security over the assets of Straits). If a receiver or other external insolvency administrator is appointed, the secured assets may be disposed in order to satisfy its facility obligations. Under these circumstances, the Company’s shareholders will lose control of the secured assets (including the Tritton Copper Operations - the Company’s only producing asset) and the Directors are of the view that there will likely be no value remaining for existing shareholders; and
- The Company’s share price may fall materially, particularly in circumstances where Straits is unable to find an alternative source of funding. There is also a risk that Straits will have insufficient liquidity for any Straits shareholder wishing to sell their shares.

The above factors are discussed in Section 7.3 of this Report.



After considering the advantages, disadvantages and other considerations summarised above and set out in further detail in the balance of this Report, it is our view that, in the absence of any other information or a superior offer, the Proposed Transaction is **Reasonable to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

### 2.1.3 Other Considerations of the Proposed Transaction

Before forming a view on the Proposed Transaction, we strongly recommend that Straits shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them including this Report, the Notice of Meeting and the Explanatory Memorandum; and
- Consider their own specific circumstances and assess the way in which those circumstances might impact their decision to vote for or against the resolutions that comprise the Proposed Transaction.

In considering whether to vote in favour of or against the Proposed Transaction, Straits shareholders should also consider that the valuation work set out in this Report does not specifically consider the current financial distress of Straits.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

## 2.2 The Security Transaction

### 2.2.1 Fairness of the Security Transaction

Our assessment of the fairness of the Security Transaction is set out in detail in Section 8.0 of this Report. In summary, to assess whether the Security Transaction is fair we have:

- Compared the value of:
  - The proceeds flowing to SCB from the sale of the Company’s assets in the event of a default on the Senior Debt; and
  - The principal and capitalised interest owing to SCB in the event of a default on the Senior Debt; and
- Considered other factors which we consider to be relevant to Straits shareholders in the assessment of the Security Transaction.

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of any further information, the Security Transaction is **Fair to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

### 2.2.2 Reasonableness of the Security Transaction

Our assessment of the reasonableness of the Security Transaction is set out in detail in Section 9.0 of this Report.

To assess whether or not the advantages of the Security Transaction outweigh the disadvantages, we have considered a number of quantitative and qualitative factors. Having regard to those matters, we have formed a view as to whether the advantages of the Security Transaction outweigh the disadvantages and whether the Security Transaction is ‘reasonable’ to Straits shareholders.

Table 2.3 below summarises our view of the advantages and disadvantages associated with the Security Transaction.

**Table 2.3: Summary of Potential Advantages and Disadvantages of the Security Transaction**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>■ The Security Transaction is fair</li> </ul>	<ul style="list-style-type: none"> <li>■ There will be a limited ability to secure alternative sources of funding from non-related third parties and the grant of first ranking security may make it more difficult to obtain an alternative form of finance</li> </ul>
<ul style="list-style-type: none"> <li>■ It is not unusual for companies to grant security over their assets when raising debt finance and granting security over the Straits assets is a condition for the Proposed Transaction to proceed</li> </ul>	<ul style="list-style-type: none"> <li>■ Straits may lose control over its assets</li> </ul>

*Source: BDO CFQ Analysis*

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of any further information, the Security Transaction is **Reasonable to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

### 2.2.3 Other Considerations of the Security Transaction

Before forming a view on the Security Transaction, we strongly recommend that Straits shareholders consider the same factors noted above for the Proposed Transaction.

## 3.0 Description of the Proposed Transaction and the Security Transaction

### 3.1 Background of Debt Facilities

On 2 December 2011, the Company entered into a facility agreement with SCB, pursuant to which SCB provided Tritton Resources Pty Ltd (a wholly owned subsidiary of the Company) ('Tritton') with a US\$15 million working capital loan and guarantee facility ('Working Capital Loan Facility') and a US\$85 million copper prepay swap facility ('Prepay Facility') relating to the production of copper at the Tritton mine ('Facility Agreement').

On 9 September 2013 the Company reached an agreement with SCB for an interim restructure of the Company's existing Prepay Facility on more attractive repayment terms for the period of August 2013 to April 2014 ('Interim Restructure Agreement').

On 13 June 2014 the Company reached an agreement with SCB for a further interim restructure of the Facility Agreement in which the pre-existing Prepay Facility was closed out and replaced with a bridging loan agreement with a five month term. The amount of the closed out Prepay Facility was US\$99.9 million at this stage and the Working Capital Loan Facility had a balance of US\$13.7 million. Other key terms were set out in the announcements to the ASX on 2 June 2014 and 16 June 2014 ('Second Interim Restructure Agreement').

Under the terms of the Second Interim Restructure Agreement, the parties agreed to undertake a refinancing plan within two months, and complete that plan within five months (i.e. by no later than 13 November 2014) ('Proposed Restructure'). The time frame for the completion of the Proposed Restructure was extended on a month-by-month basis since it was originally agreed (in order to allow the parties the necessary time to negotiate and enter into an agreement).

On 11 June 2015, the Company announced that it had entered into an indicative non-binding Term Sheet with SCB and a large Asian based investment firm. The Term Sheet was negotiated in connection with a proposed restructuring of the Company's existing debt and the provision of new money.

On 31 July 2015, the Company executed binding agreements with SCB and PAG that, subject to satisfaction of various conditions precedent, provides for the following:

- SCB Senior Debt of approximately US\$111 million being reduced to US\$50 million. The Company also contingently owes SCB an additional A\$10.3 million pursuant to a contingent instrument facility ('CI Facility'); and
- PAG providing a revolving priority debt facility of up to \$US25 million.

In addition to the above amounts owed to SCB, the Company also has US\$7.0 million convertible notes ('Convertible Notes') with Credit Suisse (all with a conversion price of AU\$0.03).

SCB appears to have been a supportive lender to Straits since 2009 when an arrangement was negotiated with SCB to provide a convertible note of \$80 million. This provided liquidity when the market generally and mining company peers in particular, were experiencing extreme difficulty in accessing finance. Since then SCB has agreed to multiple debt restructurings and now, as part of the Proposed Transaction, a significant debt reduction.

### 3.2 Parties Involved in the Proposed Transaction

#### 3.2.1 Straits

Straits are an Australian base-metals mining and exploration company which is listed on the ASX. The Company primarily focuses on the production of copper from the Tritton copper mine, located near Nyngan in New South Wales, Australia. Straits also hold a number of other exploration tenements which are prospective for copper and gold, located throughout Queensland, New South Wales and South Australia.

Section 5 of this Report provides further details on the background of Straits.

#### 3.2.2 SCB

Standard Chartered Bank (previously called The Chartered Bank) was incorporated in England with limited liability by Royal Charter in 1853. It is a direct and wholly owned subsidiary of Standard Chartered Holdings Limited, a company incorporated in England and Wales in 1989 as a company limited by shares. Standard Chartered Holdings Limited is a direct and wholly owned subsidiary of Standard Chartered PLC. Standard Chartered Bank's core business is wholesale banking and consumer banking.

Standard Chartered PLC ('SC plc'), was incorporated and registered in England and Wales in 1969 as a company limited by shares. Its ordinary shares are listed on the London and Hong Kong Stock Exchanges, and it has Indian Depository Receipts listed on the Bombay and National Stock Exchanges in India. SC plc is consistently ranked among the top 25 companies in the FTSE-100 by market capitalisation.

Standard Chartered Bank's lead regulator is the UK Financial Conduct Authority and Prudential Regulation Authority.

SCB HK is a company incorporated in Hong Kong with registration number 875305 and is a wholly owned subsidiary of Standard Chartered Bank.

SCB Singapore Branch is a branch of Standard Chartered Bank that operates out of Singapore. It is the same legal entity as Standard Chartered Bank.

### 3.2.3 PAG

PAG is a large alternative investment management firm managing a diverse array of funds in private equity, real estate and absolute return strategies. PAG was founded in 2002 and is based in Hong Kong with additional offices in Asia and Australia. PAG has over US\$12 billion under management. Since 2002, PAG has invested over US\$28 billion in markets across Asia.

Special Portfolio Opportunity V Limited is an affiliate of a fund managed by PAG.

### 3.2.4 Credit Suisse

Credit Suisse, together with its subsidiaries, provides various financial services to private, corporate, institutional, government clients, and high-net-worth individuals, as well as affluent and retail clients worldwide. The company operates through two segments, Private Banking & Wealth Management and Investment Banking.

Credit Suisse was founded in 1856 and is headquartered in Zürich, Switzerland.

## 3.3 Overview of the Proposed Transaction

This section sets out an overview of the Proposed Transaction. This section is a summary only. Straits shareholders should refer to the Explanatory Memorandum for more information in relation to the Proposed Transaction.

The Proposed Transaction consists of 9 resolutions, all of which are conditional upon the passing of one another, so that each will not have effect unless and until all others are passed.

The Proposed Transaction can be broadly categorised into five components.

- The consolidation of the Company's share capital ('the Consolidation');
- The restructure of the Company's Senior Debt with SCB;
- The provision of US\$25 million in funding by PAG and the associated issue of the non-redeemable convertible preference shares ('CNRPS') by the Company to PAG;
- The redemption of the Convertible Notes held by Credit Suisse; and
- The issue of options to key management ('Management Options').

Each of these components is discussed further below.

### 3.3.1 The Consolidation

Subject to Resolution 1 being passed, the number of shares on issue will be reduced from 1,217,730,293 shares to approximately 121,773,029 shares (depending on the number of shares issued as a result of rounding). To simplify the pre and post transaction analysis set out in this Report, we have not adjusted the share numbers set out in this Report for the Consolidation. In our view, this would not materially impact the analysis set out in this Report.

### 3.3.2 Restructure of the Company's Senior Debt with SCB

Under the SCB restructure:

- The Company's outstanding Senior Debt with SCB of approximately US\$111 million will be reduced to US\$50 million;
- The CI Facility of A\$10.3 million will continue;
- SCB will be issued with redeemable cumulative convertible preference shares ('CRPS') which, when converted, will be equivalent to 60% of the Company's post-restructuring and fully diluted equity. The CRPS have a notional aggregate face value of US\$40 million; and
- The Existing Lender and the Company have agreed a price participation structure whereby SCB will receive a small percentage of incremental revenue above a copper price of AU\$8,000 per tonne ('Copper Price Participation').

Straits shareholders should refer to section 2.5 of the Explanatory Memorandum for further detail on the restructure of the Company's Senior Debt with SCB.

### 3.3.3 The Provision of Funding to the Company by PAG and the Issue of CNRPS

The US\$25 million new funding is structured as an issuance of loan notes by Straits to PAG. The Company intends to use the new funding to fund its working capital and growth projects at its Tritton Copper Operations. The terms of the new funding are set out in section 2.6 of the Explanatory Memorandum.

PAG will also be issued with CNRPS, with a five year term, convertible to Shares equivalent to 15% of the Company's post-restructuring and post-Consolidation equity structure of the Company.

Straits shareholders should refer to section 2.6 of the Explanatory Memorandum for further detail on the terms of the new funding and the issue of CNRPS.

### 3.3.4 Credit Suisse Convertible Note Restructure

Credit Suisse holds the Convertible Notes which have a current aggregate face value of approximately US\$7.0 million. The Company and Credit Suisse have agreed that:

- the Company will redeem from Credit Suisse convertible notes having a face value of US\$1.0472 million for a cash payment to Credit Suisse of US\$1.0472 million on the date being five business days after completion of the Proposed Transaction. Straits will also pay \$US200,946.54 to Credit Suisse on account of accrued and unpaid interest at completion of the redemption; and
- the Company will convert the balance of the convertible notes and will issue to Credit Suisse 245,000,000 ordinary shares on the business day after the completion of the Proposed Transaction.

Straits shareholders should refer to section 2.7 of the Explanatory Memorandum for further detail on the Credit Suisse restructuring.

### 3.3.5 Management Options

As part of the Proposed Transaction, key management can earn, through the exercise of Management Options over five years (subject to vesting conditions), a total of up to 10% of the Company's post-restructuring and post-consolidation fully diluted capital, split between management as follows:

- Andre Labuschagne - 4% of the Company's post-restructuring and post-Consolidation fully diluted capital;
- Ian Sheppard - 2.4% of the Company's post-restructuring and post-Consolidation fully diluted capital;
- Rob Brainsbury - 2.4% of the Company's post-restructuring and post-Consolidation fully diluted capital; and
- John Miller - 1.2% of the Company's post-restructuring and post-Consolidation fully diluted capital.

Straits shareholders should refer to section 2.8 of the Explanatory Memorandum for further detail on the terms and conditions associated with the Management Options.

### 3.4 Shareholder Structure Prior to and Following the Proposed Transaction

Table 3.1 sets out the equity structure of Straits prior to the issue of the Management Options, the CRPS and the CNRPS, and following the Proposed Transaction (on a fully diluted basis).

**Table 3.1: Change in Shareholder Structure**

Shareholder	Equity Holding prior to the issue of the Management Options, the CRPS and the CNRPS	Equity Holding following the Proposed Transaction on a fully diluted basis
Ordinary Shareholders	64.6% <sup>(a)</sup>	10.0% <sup>(f)</sup>
Straits Management	4.0% <sup>(b)</sup>	10.1% <sup>(g)</sup>
SCB Private Equity	14.7% <sup>(c)</sup>	2.3% <sup>(h)</sup>
Credit Suisse <sup>(e)</sup>	16.7% <sup>(d)</sup>	2.6% <sup>(i)</sup>
SCB	-	60.0% <sup>(j)</sup>
PAG	-	15.0% <sup>(k)</sup>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Source: The Explanatory Memorandum

- (a) Excluding Straits Management and SCB Private Equity
- (b) Comprising 53,580,134 Employee Share Acquisition Plan ('ESAP') shares and 4,899,002 shares
- (c) A company having the same ultimate parent company as SCB
- (d) Assumes the conversion of part of the convertible notes and redemption of the balance of the convertible notes in accordance with Resolution 3
- (e) These shares will be issued to the holder of the convertible notes. Whilst Credit Suisse is the holder of these convertible notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these convertible notes to a third party under an arm's length transaction, prior to the date of conversion
- (f) Excluding Straits Management, SCB Private Equity, SCB and PAG
- (g) Assuming all ESAP shares are bought back and cancelled and all Management Options are exercised. The Management Options vest annually in tranches, and upon exercise, the shares issued are also subject to voluntary restriction. Accordingly, this is the maximum number of shares which can be held by Straits Management. In accordance with Resolution 7, while these shares remain subject to voluntary restriction, the Company will also have a relevant interest in the shares
- (h) A company having the same ultimate parent company as SCB
- (i) These shares will be issued to the holder of the convertible notes. Whilst Credit Suisse is the holder of these Conversion Notes as at the date of this notice, the Company is aware that Credit Suisse proposes to assign these convertible notes to a third party under an arm's length transaction, prior to the date of conversion
- (j) Assuming that all CRPS are converted
- (k) Assuming that all CNRPS are converted

### 3.5 Maximum Voting Power Following the Proposed Transaction

Table 3.2 sets out the maximum voting power of each shareholder group following the Proposed Transaction.

**Table 3.2: Maximum Voting Power Following the Proposed Transaction**

	Maximum Voting Power (assuming that shares have only been issued to the benefit of the party named)
Straits Management <sup>(a)</sup>	40.2% <sup>(e)</sup>
PAG <sup>(b)</sup>	50.0% <sup>(f)</sup>
SCB <sup>(c)</sup>	80.0% <sup>(g)</sup>
SCB <sup>(h)</sup> and SCB Private Equity <sup>(d)</sup>	83.1% <sup>(g)</sup>

Source: The Explanatory Memorandum

- (a) Assuming all Management Options are exercised
- (b) Assuming that all CNRPS are converted
- (c) Assuming that all CRPS are converted
- (d) A company having the same ultimate parent company as SCB
- (e) Assuming that only the Management Options are exercised and that no convertible preference shares are converted and no other shares are issued
- (f) Assuming that only the CNRPS are converted and that no Management Options are exercised, no CRPS are converted and no other shares are issued
- (g) Assuming that only the CRPS are converted and that no Management Options are exercised, no CNRPS are converted and no other shares are issued
- (h) Excluding SCB Private Equity

### 3.6 Overview of the Security Transaction

SCB hold fixed security interests over the shares held by the Company (and subsidiaries) in Tritton, but only a ‘featherweight’ security interest over their other assets (namely, one which is only enforceable if the Company or Straits Mining Limited enters voluntary administration). The Proposed Transaction will effectively remove the limited nature of those ‘featherweight’ security interests, effectively increasing the security interests.

Regarding the Security Transaction, we note the following:

- As at the last practicable date prior to the date of finalising the Notice of Meeting, SCB Private Equity had a relevant interest in the Company of 17.63%;
- The Company has granted SCB security over all of its (and a number of its subsidiaries) assets which exceeds 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the ASX Listing Rules; and
- The granting of the security over Straits assets in favour of SCB likely constitutes the disposal of a substantial asset to a substantial holder and a related party under ASX Listing Rule 10.1. As such, the Security Transaction requires the approval of non-associated Straits shareholders.

### 3.7 Strategic Rationale for the Proposed Transaction

The Proposed Transaction is intended to provide the Company with the ability to reduce debt and provide further funds that can be deployed to equity enhancing projects. The restructured Senior Debt and the availability of the PAG priority debt facility, is planned to enable the Company to deploy its available cash to initiatives directed at lifting shareholder value. For example, the Company intends to use the PAG priority debt facility to fund its working capital and growth projects at its Tritton copper operations.

The Directors of Straits believe that the structure of the Proposed Transaction aligns the interests of SCB to that of Straits shareholders.

Should the Company not be able to undertake the Proposed Transaction or obtain any other funding or restructure, Straits may not be able to meet its obligation to repay the Senior Debt. If Straits is issued with a notice of default by SCB, it will be required to immediately find an alternative source of funding. It is the Directors view that given the current economic climate, the Company’s market capitalisation and the Company’s inability to otherwise raise capital, it is unlikely that such an alternative lender could be found.

As SCB holds a first ranking security over the assets of Straits and other members of the Straits group, it has the right to appoint a receiver and manager for the purpose of recovering the debt owed. In the event of default, the secured assets may be disposed in order to satisfy its facility obligations. Under these circumstances, the Company’s shareholders will lose control of the secured assets (including the Tritton Copper Operations - the Company’s only producing asset).

It is the Directors view that should the Company not be able to undertake the Proposed Transaction and restructure its debt, there will likely be no economic interest remaining for existing shareholders.



## 4.0 Scope of Report and Methodology for Assessment

### 4.1 Scope of the Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Sections 4.1.1 and 4.1.2 below.

The purpose of this Report is to express BDO CFQ's opinion as to whether the Proposed Transaction is fair and reasonable to Straits shareholders and whether the Security Transaction is fair and reasonable to Straits shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting and Explanatory Memorandum to be distributed to Straits shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of Straits shareholders. Before deciding whether to vote for or against the resolutions that comprise the Proposed Transaction, individual Straits shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situations and needs (including their taxation consequences). Straits shareholders should read in full the Notice of Meeting and the Explanatory Memorandum issued by Straits in relation to the Proposed Transaction.

Whether to vote for or against the resolutions that comprise the Proposed Transaction is a matter for individual Straits shareholders to consider. Straits shareholders should consider their own expectations of value, their own view of future market conditions and their own particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position, when determining the appropriate action to take in relation to the Proposed Transaction. Straits shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional adviser.

#### 4.1.1 Requirements of the Corporations Act

Section 606 of the Corporations Act states that a relevant interest in a listed company cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless one of the exceptions set out in section 611 of the Corporations Act is met. If the Proposed Transaction is approved, it may:

- Provide SCB with a stake in Straits greater than 20%;
- Provide PAG with a stake in Straits greater than 20%; and
- Provide the Company with a relevant interest in its own securities which may be more than 20%, as a result of the escrow arrangements over the Straits ordinary shares to be issued on the exercise of the Management Options.

Refer to Table 3.2 for maximum voting interests which could eventuate from the Proposed Transaction.

Section 606 would ordinarily prevent the Proposed Transaction unless it met one of the exemptions set out in Section 611 of the Corporations Act. Item 7 of Section 611 of the Corporations Act, in certain circumstances, may provide an exemption from the prohibition of the issue of securities under Section 606. Item 7 of Section 611 states that an acquisition is exempt from the regulations of Section 606 if the acquisition proposal is approved by a requisite majority of shareholders not associated with the person making the proposal or their associates by passing a resolution at a general meeting.

Non-associated shareholders voting pursuant to item 7 of Section 611 of the Corporations Act are to be provided with all information known to the person proposing to make the acquisition or their associates, or known to the company, that is material to the decision on how to vote on the resolution.

Regulatory Guide 74 'Acquisitions Agreed to by Shareholders' states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of Straits by either:

- undertaking a detailed examination of the Proposed Transaction themselves if they consider that they have sufficient expertise; or
- by commissioning an independent expert's report.



We have been requested to prepare this independent expert's report to provide additional information to the non-associated shareholders of Straits to assist them to form a view on whether to vote in favour of or against the Proposed Transaction.

#### 4.1.2 Listing Requirements

##### ASX Listing Rule 10.1

ASX Listing Rule 10.1 of Chapter 10: *Transactions with persons in a position of influence* states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial holder or a related party without the approval of holders of the entity's ordinary securities. Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral.

ASX Listing Rule 10.2 defines an asset as 'substantial' if its value or the consideration for it is, or in ASX's opinion is, 5% or more of the value of the equity interests of the entity, as set out in the latest accounts given to the ASX in accordance with the listing rules.

Having regard to the Security Transaction and the definitions contained in ASX Listing Rules 10.1 and 10.2:

- The granting of security to SCB as part of the Proposed Transaction is considered to be a disposal of an asset of the Company for the purposes of ASX Listing Rule 10.1; and
- The grant by the Company to SCB of security over all of its (and a number of its subsidiaries) assets likely constitutes the disposal of a substantial asset for the purposes of ASX Listing Rule 10.1.

##### ASX Listing Rule 10.10.2

Under ASX Listing Rule 10.10.2, where shareholder approval is sought for the purpose of complying with Listing Rule 10.1, the notice of meeting distributed to shareholders in relation to the transaction must include a report prepared by an independent expert, which states the expert's opinion as to whether the transaction is fair and reasonable to the non-associated shareholders.

This Report has been prepared to comply with the requirements of ASX Listing Rules 10.1 and 10.10.2.

#### 4.2 Assessment Methodology - The Proposed Transaction

The Corporations Act does not provide any specific guidance in relation to the principles and content of an expert's report relating to the approval of an issue of securities under item 7 of section 611 of the Act. However ASIC are of the view that the report should follow the requirements of other expert reports under the Act and ASIC have set out specific guidance in RG 111: Content of Expert Reports ('RG 111') in relation to the approval of the issue of securities under item 7 of section 611 of the Act.

RG 111 states that, in the event that a company issues securities in exchange for cash and, as a consequence, the allottee acquires over 20% of the company, the transaction should be analysed as if it was a takeover bid. In such circumstances, references to the 'target' and 'bidder' should be taken to mean the 'company' and the 'allottee' respectively.

When analysing a takeover bid, RG 111 states that an expert is required to give an opinion as to whether the Proposed Transaction is 'fair and reasonable' to the shareholders. The expert's report should explain how the particulars of the proposal were evaluated as well as the results of the examination and evaluation. RG 111 also provides guidance on common valuation methodologies and certain matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

#### 4.2.1 Step 1 - Assessment of Fairness - The Proposed Transaction

In our view, it is appropriate to assess the fairness of the Proposed Transaction by:

- a. Determining the value of a share in Straits prior to the Proposed Transaction on a controlling interest basis; and
- b. Comparing the value determined in (a) above with the value of a share in Straits post the Proposed Transaction on a minority interest basis.

In accordance with the requirements of RG 111, the Proposed Transaction can be considered 'fair' to the shareholders if the value determined in (b) above is equal to or greater than the value determined in (a).

Our assessment of the fairness of the Proposed Transaction is set out in Section 6.0.

#### 4.2.2 Step 2 - Assessment of Reasonableness - The Proposed Transaction

Reasonableness examines other significant factors which shareholders may consider prior to voting for or against the Proposed Transaction. This includes comparing the likely advantages and disadvantages of voting for or against the Proposed Transaction, with the position of the shareholders if the Proposed Transaction is not approved. This step can be classified as an assessment of whether the Proposed Transaction is 'reasonable'.

Our assessment of the reasonableness of the Proposed Transaction is set out in Section 7.0. We note that as with the assessment of fairness approach summarised above, we have considered factors that would impact on reasonableness as at the date of this Report.

#### 4.2.3 Step 3 - Expert's Opinion - The Proposed Transaction

Upon completion of steps 1 and 2 above, it may be possible to conclude whether the Proposed Transaction is 'fair' and/or 'reasonable' to Straits shareholders. We note that under RG 111, the Proposed Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Proposed Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Proposed Transaction may not be 'fair' to the Straits shareholders.

This Report will conclude by providing our opinion as to whether or not the Proposed Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or other advice in relation to the Proposed Transaction. Other advisors have provided advice on those matters to Straits in relation to the Proposed Transaction.

In the process of assessing the Proposed Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

#### 4.3 Assessment Methodology - The Security Transaction

Neither the Corporations Act nor the ASX Listing Rules provide guidance in relation to the definition of 'fair and reasonable'. In determining whether the Security Transaction is considered fair and reasonable we have had regards to the guidance provided by RG 111'. RG 111 provides guidance as to what matters an independent expert should consider to assist security holders to make an informed decision about transactions.

RG 111 suggests that where an expert is to assess whether a related party transaction is 'fair and reasonable' for the purpose of complying with ASX Listing Rule 10.1, the assessment should be applied as a composite test. That is, the expert should assess separately whether the transaction is 'fair' and 'reasonable'. The expert's report should explain how the particulars of the transaction were evaluated as well as the results of the examination and evaluation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

#### 4.3.1 Step 1 - Assessment of Fairness - The Security Transaction

RG 111 states that a related party offer is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

- Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- If the transaction is considered to be a control transaction, assuming 100% ownership of the target irrespective of whether the consideration is scrip or cash.

Our assessment of the fairness of the Security Transaction is set out in Section 8.0.

#### 4.3.2 Step 2 - Assessment of Reasonableness - The Security Transaction

Reasonableness examines other significant factors which shareholders may consider prior to voting for or against the Security Transaction. This includes comparing the likely advantages and disadvantages of voting for or against the Security Transaction, with the position of the shareholders if the Security Transaction is not approved. This step can be classified as an assessment of whether the Security Transaction is 'reasonable'.

Our assessment of the reasonableness of the Security Transaction is set out in Section 9.0.

#### 4.3.3 Step 3 - Expert's Opinion - The Security Transaction

Upon completing steps 1 and 2 above, we will conclude whether the Security Transaction is 'fair' and/or 'reasonable' to Straits shareholders. We note that under RG 111, the Security Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Security Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Security Transaction may not be 'fair' to Straits shareholders.

This Report will conclude by providing our opinion as to whether or not the Security Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any tax, legal or other advice in relation to the Security Transaction. Other advisors have provided advice on those matters to Straits in relation to the Security Transaction.

When considering the Security Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

## 5.0 Overview of Straits

This section provides a background summary of Straits and is structured as follows:

- Section 5.1 provides an overview and background information on Straits;
- Section 5.2 sets out an overview of Straits' key projects;
- Section 5.3 summarises the board of directors and executive management of Straits;
- Section 5.4 summarises the corporate structure of Straits;
- Section 5.5 summarises the equity structure of Straits;
- Section 5.6 summarises the share market performance of Straits;
- Section 5.7 summarises the liquidity of Straits shares on the ASX; and
- Section 5.8 summarises the historical financial information of Straits.

### 5.1 Background

Straits are an Australian base-metals mining and exploration company which is listed on the ASX. The Company primarily focuses on the production of copper from the Tritton copper mine, located near Nyngan in New South Wales, Australia. Straits also hold a number of other exploration tenements which are prospective for copper and gold, located throughout Queensland, New South Wales and South Australia.

### 5.2 Key Projects

This section sets out a summary of Straits' key projects. For further detail in relation to Straits' projects, refer to AMC Consultant's Independent Technical Specialist's Report, dated 17 August 2015, (set out in Appendix G).

#### 5.2.1 Production

##### Tritton Copper Mine

The Tritton copper mine, located near Nyngan in NSW is 100% owned and operated by Straits. Mining within the Tritton lease areas first commenced in 1992 at Murrawombie via open pit mining with a processing circuit comprising heap leach, solvent extraction and electrowinning. The Tritton deposit, which is the most significant at the Tritton mining complex, was discovered by a joint venture in 1995.

The Tritton underground mine has been in operation since 2004. The mine is accessed by a single decline, located in the footwall of the orebody. The orebody is mined as a single strike length of approximately 300m and a planned depth of up to 1,500m below surface.

The Tritton mine mining area comprises a concentrator, paste fill plant, administration offices, warehouses, and a number of sub-projects summarised in Table 5.1 below.

**Table 5.1: Tritton Copper Mining Operations and Other Projects**

Sub-Project	Position
Tritton Underground Mine	The mine uses the sub-level open stoping mining method, with paste fill. Production rates have been higher in the last two years than the long-term historical average despite increasing mining depth.
North East and Larsens	The North East underground mine has been in production since 2009. Larsens has been in underground production since 2014. The mines use the up-hole benching mining method, which is a variant of open stoping. No backfill is used and non-recoverable pillars of mineralised material support the open voids.
Murrawombie Underground	The upper portion of the Murrawombie orebody was previously mined by an open pit targeting oxide ore. Straits are now investigating underground mining of Murrawombie followed by an open pit push back. The proposed mining method is stoping under rock fill.

Sub-Project	Position
Murrawombie Open Pit	Mining of an approximately 50m wide pushback on the east wall of the existing Murrawombie open pit has been proposed. Mining of the open pit would occur after completion of the Murrawombie underground mine.
Avoca Tank	Mining has not yet occurred at the Avoca Tank orebody. The orebody is located 2km from the existing North East mine and 24km from the Tritton processing plant. The mining methods selected for Avoca Tank are bench stoping and sublevel stoping.
Budgery	The Budgery deposit is located 15km away from the Tritton processing plant. Budgery was the subject of a 2010 scoping study which recommended small-scale mining by open pit methods.

Source: AMC's Independent Technical Specialist's Report, dated 17 August 2015

In relation to Table 5.1 above, the Tritton mining complex currently has three projects in production, namely the Tritton underground mine, the North East underground mine and the Larsens underground mine. The target for FY2015 was 27kt, which was upgraded to 28.5kt. The actual copper production in FY2015 amounted to 30.3kt, equivalent to a new production record. This strong result was attributed to consistent performances from Tritton and the North East and Larsens mines along with better than expected copper grades. At Tritton, a change in the mining method to longitudinal stoping, has provided opportunities to reduce operating costs through lower development metres and less cement required in paste fill.

### Mt Muro Mine

Mt Muro Mine is a gold and silver mine located in Central Kalimantan on the island of Borneo, Indonesia. Straits initially acquired an interest in the Mt Muro Gold Mine on May 2003.

On 2 August 2013, Mt Muro operations were placed on care and maintenance due to unanticipated challenges such as the continual decline of precious metal prices, significant impairment losses and illegal mining in the Serujan pit by artisanal miners. These factors contributed to significant net losses in FY2013.

On 19 June 2015, the creditors of Straits' wholly owned subsidiary, PT Indo Muro Kencana ('PT IMK'), which owns the Mt Muro gold mine, concluded the sale of PT IMK to a third party. From this transaction, Straits received no consideration in relation to the sale and no longer has any interest in or ongoing liability in respect to, PT IMK or Mt Muro mine.

### 5.2.2 Exploration Projects

**Cheesemans Creek, NSW** - Cheesemans Creek comprises of two exploration licenses, EL 5979 and EL 7321, which are 100% owned by Straits. Exploration has concentrated on defining porphyry/skarn and epithermal related Cu-Au mineralisation within the area.

**Currumburrama, NSW** - Currumburrama is an earn-in joint venture agreement between Straits and Sandfire Resources ('Sandfire') with one mineral exploration licence, EL 5792. Exploration has concentrated on defining porphyry related copper-gold mineralisation within the area. As per the earn-in agreement, Sandfire can increase their interest from 65% to 80% by spending a further \$4 million.

**Temora and Gidginbung, NSW** - The Temora and Gidginbung tenements, owned by Templar Resources (a wholly owned subsidiary of Straits), comprises of two mineral exploration licences, EL6845 (Temora) and EL5864 (Gidginbung), with a total area of approximately 373 square kilometres. The tenements are considered to be prospective for epithermal gold and porphyry-related copper-gold-molybdenum mineralisation.

A JORC compliant Mineral Resource of 279Mt at 0.2 g/t Au and 0.3% Cu at a cut-off of 0.3% CuEq has been estimated to a maximum depth of 450m for the Temora tenement, and 23.8Mt at 1.0 g/t Au and 0.1% Cu has been estimated for the Gidginbung tenement.

On 6 October 2015, Straits announced that it signed a binding agreement with Sandfire for the sale of Straits' interests in the Currumburrama and Temora exploration projects for A\$2.5 million (payable in Sandfire shares). Completion of the sale is subject to standard conditions precedent including approval by the NSW Minister for Trade and Investment - Resources and Energy.

**Canbelego, NSW** - Canbelego is an earn-in joint venture agreement between Straits and Oxley Exploration Pty Ltd with one mineral exploration license, EL6105. Exploration has concentrated on defining additional mineralised systems within the area. Straits currently have a 30% interest in the project after Oxley Exploration Pty Ltd earned a 70% interest by spending \$860,000.

**Blayney, NSW** - Blayney is an earn-in joint venture agreement between Straits and Macquarie Holdings No.1 Pty Ltd with one mineral exploration license, EL5922. The tenement is considered to be prospective for porphyry related copper-gold mineralisation. There are defined mineral resources at two sub-projects within the region, Discovery Ridge and Bald Hills.

In August 2014, Macquarie Holdings signed an agreement with Straits which would allow Macquarie to gain 60% of the tenement by spending \$5 million on exploration within three years with the option of spending a further \$10 million within the following three years to increase their interest in the tenement by an additional 20%.

**Torrens, SA** - Torrens is a joint venture agreement between Straits and Kelaray Pty Ltd, a wholly owned subsidiary of Argonaut Resources NL. The Torrens Project is focused on the exploration of iron-oxide copper-gold in the Stuart Shelf region of South Australia, with one mineral exploration licence, EL 4296. Straits currently have a 70% stake in the project. The joint venture parties are in the process of trying to secure an access agreement for the tenement to continue exploration activities.

**Yandan, QLD** - Yandan comprises EPM8257 (100% owned by Straits) and two granted mining leases. Yandan is 100% owned by Straits and is considered to be prospective for gold. The area is located approximately 50km west of Mt Coolan in Queensland and prior mining operations at the site previously produced over 350 kilo ounces of gold via a heap leach and carbon in leach circuit.

### 5.3 Executive Management and Board of Directors

Table 5.2 lists the name and position title of the Board of Directors and executive management of Straits.

**Table 5.2: Straits Board of Directors and Executive Management**

Name	Position
<b>Board of Directors</b>	
Mr Willie Andre Labuschagne	Executive Chairman, Chief Executive Officer and Managing Director
Mr Alastair Morrison	Non-Executive Director
Mr Michele Muscillo	Non-Executive Director
<b>Executive Management</b>	
Mr Robert Brainsbury	Chief Financial Officer
Mr Ian Sheppard	Chief Operating Officer
Mr Dane Van Heerden	Joint Company Secretary
Mr John Miller	General Manager of Tritton Operations

Source: Straits Company Website ([www.straits.com.au](http://www.straits.com.au)) and Capital IQ

### 5.4 Corporate Structure of Straits

Table 5.3 below summarises the subsidiary companies and the ownership interests which sit within the Straits Group.

**Table 5.3: Straits Subsidiaries**

Company	Country of Incorporation	Equity Interest
Straits Mining Limited and its subsidiaries	Australia	100%
Girilambone Copper Company Pty Ltd	Australia	100%
Tritton Resources Pty Ltd	Australia	100%

Company	Country of Incorporation	Equity Interest
Straits Exploration (Australia) Pty Ltd	Australia	100%
Straits Gold Pty Ltd and its subsidiaries	Australia	100%
Straits Indo Gold Pty Ltd and its subsidiaries	Australia	100%
Straits Mine Management Pty Ltd	Australia	100%
7874987 Canada Inc	Canada	100%
Goldminco Corporation Limited and its subsidiaries	Canada	100%
Goldminco Resources Pty Ltd	Australia	100%
Templar Resources Pty Ltd	Australia	100%
Straits Mineral Investments Pty Ltd	Australia	100%

Source: Straits 2015 Annual Report

## 5.5 Equity Structure of Straits

As at 23 October 2015, Straits had the following securities on issue:

- 1,217,730,293 fully paid ordinary shares;
- 3,750,000 Class A Convertible Notes, convertible at \$0.03 per note expiring on 5 November 2015; and
- 3,250,000 Class B Convertible Notes, convertible at \$0.03 per note expiring on 5 November 2016.

### 5.5.1 Top Ten Shareholders

Table 5.4 below summarises the ownership interest of the top ten shareholders of Straits as at 23 October 2015.

**Table 5.4: Top Ten Shareholders of Straits as at 23 October 2015**

	Shareholder	Shares Held	% of Shares on Issue
1	Citicorp Nominees Pty Limited	248,356,170	20.4%
2	Glencore Finance (Bermuda) Ltd	131,513,135	10.8%
3	National Nominees Limited	65,523,072	5.4%
4	Pacific Custodians Pty Limited	61,571,160	5.1%
5	ABN Amro Clearing Sydney Nominees Pty Ltd	52,805,649	4.3%
6	HSBC Custody Nominees (Australia) Limited	47,577,384	3.9%
7	Ning Laurenson Holdings Pty Ltd	28,786,795	2.4%
8	Sam Investors Pty Ltd	27,191,465	2.2%
9	Mr Mark Andrew Behne	24,000,000	2.0%
10	Mr Milan Jerkovic	16,491,544	1.4%
	<b>Other</b>	<b>513,913,919</b>	<b>42.2%</b>
	<b>Total</b>	<b>1,217,730,293</b>	<b>100.0%</b>

Source: Straits Annual Report 2015

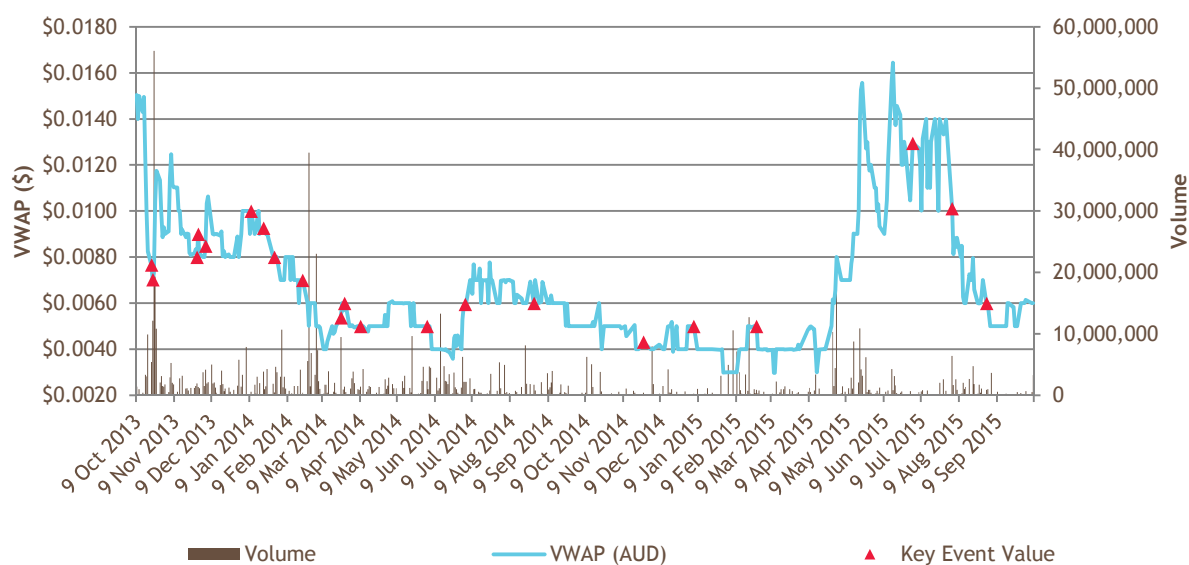
The substantial shareholders as at 23 October 2015 are SCB Private Equity (17.63%), Glencore Finance (Bermuda) Ltd (10.80%) and CF Ruffer Gold Fund (5.32%)

## 5.6 Share Market Performance of Straits

Figure 5.1 below shows the daily VWAP and daily volume of Straits shares traded on the ASX over the period from 9 October 2013 to 9 October 2015 inclusive.



Figure 5.1: VWAP and Volume of Shares Traded from 9 October 2013 to 9 October 2015



Source: Capital IQ and ASX as at 9 October 2015

Over the period graphed in Figure 5.1 above, Straits' daily VWAP shows a period low of A\$0.0030 on 11 and 12 March 2015, and a period high of A\$0.0164 on 16 June 2015.

In addition to the share price and volume data of Straits shown above, we have also provided additional information in Table 5.5 below to assist readers to understand the possible reasons for movements in Straits' share price over the period analysed. The ASX announcement references in Table 5.5 below correspond to those displayed in Figure 5.1 above.

Table 5.5: Summary of Straits Announcements between 9 October 2013 and 9 October 2015

Date	Announcement
21 October 2013	Special/Extraordinary Shareholders Meeting. Resolution 1: Issue of Convertible Notes to Credit Suisse International, Resolution 2: Approval for any financial assistance provided by the Company or a Subsidiary to Credit Suisse International.
22 October 2013	Executive changes announced: Appointment of Company Secretary and change of the registered address.
27 November 2013	Annual General Meeting: Approval of Employee Loan Funded Share Scheme, Approval of Performance Rights Plan, Issue of Shares to Mr Andre Labuschagne.
28 November 2013	Straits appoint Mike Menzies as a Non-executive director and Dane Van Heerden as Co-Company Secretary.
4 December 2013	Straits presents at Mines & Money London 2013. Difficult decisions have been taken, benefits starting to accrue: Debt position improving, operations transitioned to cash flow positive, rightsizing complete.
10 January 2014	Straits announce resignation of Ravinder Singh, Alternate Director.
20 January 2014	Straits receive \$2.1 million from Magontec Limited ('Magontec') from early repayment of a loan owed to Straits. In accordance with the agreement, Straits has also converted Convertible Notes in Magontec resulting in Straits having a shareholding in Magontec of approximately 15.5%.
29 January 2014	Straits announce operating results for the year 2013 and provide production guidance for the year 2014. Copper production meets market guidance for quarter, full year production guidance increased from 25kt to 26kt copper, increased maintenance costs to improve fleet reliability, work in delivering additional 50kt of JORC compliant copper reserves continues.



Date	Announcement
21 February 2014	Special/Extraordinary Shareholders Meeting: Ratification of security granted in favour of Standard Chartered Bank (Singapore Branch).
24 March 2014	Straits dropped from S&P/ASX All Ordinaries Index.
27 March 2014	Straits presents at Mines and Money Hong Kong 2014.
09 April 2014	Resignation of Mike Menzies as Non-Executive Director of Straits.
02 June 2014	Straits contemplates the close out of the existing Tritton Copper Swap Facility with SCB and the replacement of that facility with a Bridging Loan with SCB, which will provide more time and certainty for Straits.
03 July 2014	Straits announce record annual copper production of 26,422 tonnes at the Tritton mine.
28 August 2014	Straits announce consolidated earnings results for the Year Ended 30 June 2014: Turnaround strategy leads to improved financial performance.
25 November 2014	Annual General Meeting: Remuneration Report, re-election of Mr Michele Muscillo as a Director.
05 January 2015	Special/Extraordinary Shareholders Meeting: Adjustments of terms of Class A Notes previously issued to Credit Suisse International.
25 February 2015	Straits reports earnings results for the half year ended December 31, 2014: Both the mining operations and processing plant performed strongly including setting a new record quarterly production.
22 June 2015	The creditors of Straits sell PT IMK to a third party.
02 July 2015	Straits announce record annual copper production of 30,245 tonnes at the Tritton mine.
13 July 2015	Straits announce to extend the restructure period of the Company's existing debts and refinancing (Refinancing Plan) until 29 July 2015.
30 July 2015	The securities of Straits will be placed in Trading Halt Session State, pending the release of an announcement.
3 August 2015	Straits announce binding agreement signed for restructuring agreement with SCB that reduces debt to US\$50 million.
31 August 2015	Straits Resources Limited Reports Consolidated Earnings Results for the Year Ended 30 June 2015.

*Source: Straits ASX announcements*

In Table 5.6 below we have set out the VWAP of Straits shares traded on the ASX for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to:

- 31 July 2015 (date of the announcement of the Proposed Transaction); and
- 30 September 2015 (a date closer to the date of this Report).

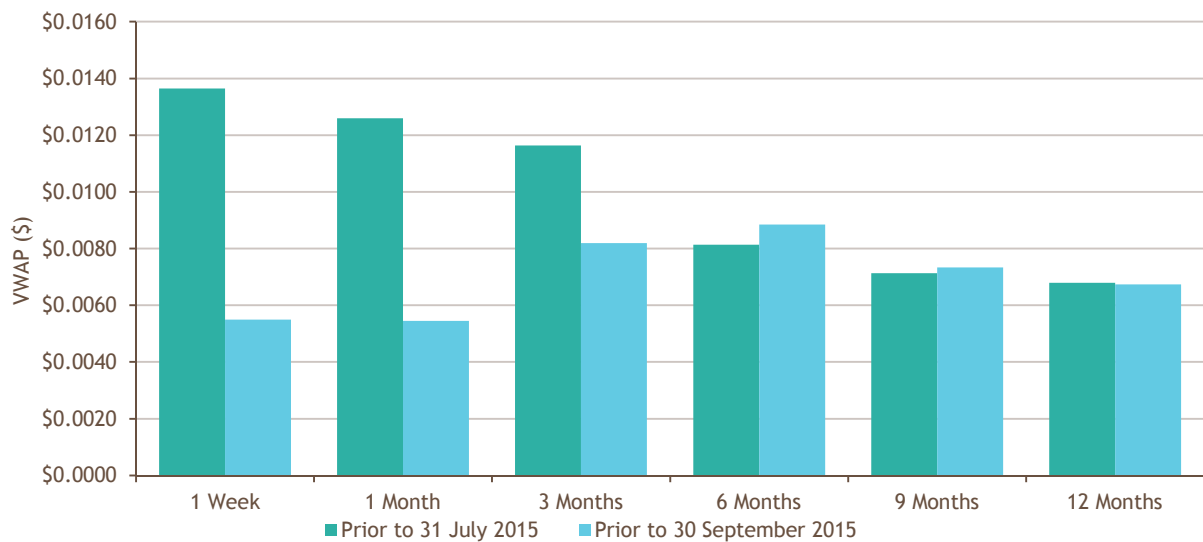
**Table 5.6: Straits' VWAP for Specified Periods Prior to 31 July 2015 and 30 September 2015**

VWAP Period	VWAP (AUD)	
	Prior to 31 July 2015	Prior to 30 September 2015
1 Week	\$0.0136	\$0.0055
1 Month	\$0.0126	\$0.0055
3 Months	\$0.0116	\$0.0082
6 Months	\$0.0081	\$0.0089
9 Months	\$0.0071	\$0.0073
12 Months	\$0.0068	\$0.0067

Source: Capital IQ as at 9 October 2015

The information presented in Table 5.6 above is shown graphically in Figure 5.2 below.

**Figure 5.2: Straits' VWAP**



Source: Capital IQ as at 9 October 2015

### 5.7 Liquidity of Straits Shares on the ASX

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.7 below summarises the monthly liquidity of Straits shares from October 2014 to September 2015. Liquidity has been summarised by considering the following:

- Volume of Straits share trades per month;
- Value of total trades in Straits shares per month;
- Number of shares traded per month as a percentage of total shares outstanding at the end of the month; and
- Volume weighted average price per month.

Table 5.7: Liquidity of Straits Shares on the ASX from October 2014 to September 2015

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
September 2015	6,854,260	36,030	1,217,730,290	0.56%	\$0.0053
August 2015	30,391,640	227,790	1,217,730,290	2.50%	\$0.0075
July 2015	8,908,370	116,560	1,217,730,290	0.73%	\$0.0131
June 2015	16,613,460	232,500	1,217,730,290	1.36%	\$0.0140
May 2015	63,889,420	691,460	1,217,730,290	5.25%	\$0.0108
April 2015	24,330,040	143,700	1,217,730,290	2.00%	\$0.0059
March 2015	9,959,610	39,390	1,217,730,290	0.82%	\$0.0040
February 2015	48,224,240	182,360	1,217,730,290	3.96%	\$0.0038
January 2015	6,865,590	24,500	1,217,730,290	0.56%	\$0.0036
December 2014	19,403,370	87,130	1,217,730,290	1.59%	\$0.0045
November 2014	3,728,210	16,360	1,217,730,290	0.31%	\$0.0044
October 2014	19,230,190	95,710	1,217,730,290	1.58%	\$0.0050
<b>Total</b>	<b>258,398,400</b>	<b>1,893,490</b>	<b>1,217,730,290</b>	<b>21.22%</b>	<b>\$0.0073</b>

Source: Capital IQ as at 9 October 2015

Assuming a weighted average number of 1,217,730,290 Straits shares on issue over the period, approximately 21.22% of total shares on issue were traded over the twelve month period to 30 September 2015. In our view, this indicates that Straits shares display a relatively low level of liquidity.

## 5.8 Historical Financial Information

This section of this Report sets out the historical financial information of Straits. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Straits' annual reports which include the full statements of comprehensive income, statements of financial position and statements of cash flows.

Straits' accounts were audited by PricewaterhouseCoopers. BDO CFQ has not performed any audit or review of any type on the historical financial information of Straits. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that the information is misleading.

The Company's 30 June 2015 annual report states that Straits' ability to continue as a going concern is dependent upon the Company being successful in:

- Continuing to achieve operational and costs targets at the Tritton mine; and
- Obtaining shareholder approval to finalise the restructure of the SCB debt facility and associated arrangements with PAG.

We recommend that readers of this Report refer to Straits' 30 June 2015 annual report for further information on Straits' ability to continue operating as a going concern.

### 5.8.1 Comprehensive Income

Table 5.8 below summarises Straits' statement of comprehensive income for the years ended 30 June 2013, 2014 and 2015.

Table 5.8: Summarised Straits Statement of Comprehensive Income

	Year Ended 30 June 2013 Audited (\$'000)	Year Ended 30 June 2014 Audited (\$'000)	Year Ended 30 June 2015 Audited (\$'000)
Sales revenue	166,203	201,196	216,852
Other revenue from ordinary activities	549	1,669	432
<b>Revenue from continuing operations</b>	<b>166,752</b>	<b>202,865</b>	<b>217,284</b>
Cost of goods sold	(190,659)	(189,198)	(192,923)

	Year Ended 30 June 2013 Audited (\$'000)	Year Ended 30 June 2014 Audited (\$'000)	Year Ended 30 June 2015 Audited (\$'000)
<b>Gross profit</b>	<b>(23,907)</b>	<b>13,667</b>	<b>24,361</b>
Other income	7,298	717	-
Exploration expense	(3,205)	(3,398)	(7,225)
Administration and support	(16,305)	(9,376)	(6,901)
Impairment of mining assets	(17,015)	(8,204)	-
Net foreign exchange gains/(losses)	-	1,797	(27,340)
Other expenses	(11,385)	(1,904)	(2,811)
<b>Loss before net finance costs</b>	<b>(64,519)</b>	<b>(6,701)</b>	<b>(19,916)</b>
Finance Income	2,722	355	5
Finance expenses	(15,429)	(15,689)	(11,555)
Loss on close out of SCB facility	-	(16,678)	-
Convertible note expense	-	(7,854)	-
<b>Loss before income tax from continuing operations</b>	<b>(77,226)</b>	<b>(46,567)</b>	<b>(31,466)</b>
Income tax benefit/(expense)	8,777	-	-
<b>Loss from continuing operations</b>	<b>(68,449)</b>	<b>(46,567)</b>	<b>(31,466)</b>
Profit/(loss) from discontinued operations	(172,226)	103,919	-
<b>(Loss)/profit for the year</b>	<b>(240,675)</b>	<b>57,352</b>	<b>(31,466)</b>
<b>Other comprehensive income</b>			
Change in the fair value of cash flow hedges	25,432	(21,147)	-
Exchange differences on translation of foreign operations	2,115	(343)	-
Income tax relating to components of other comprehensive income	(4,485)	3,051	656
Reclassification to net income of net gains on cash flow hedges	-	-	(2,187)
<b>Other comprehensive (loss)/income for the year, net of tax</b>	<b>23,062</b>	<b>(18,439)</b>	<b>(1,531)</b>
<b>Total comprehensive income/(loss) for the year</b>	<b>(217,613)</b>	<b>38,913</b>	<b>(32,997)</b>

Source: Straits annual reports for the years ended 30 June 2013, 2014 and 2015

In relation to the financial performance of Straits set out in Table 5.8 above we note the following:

- Straits' sales revenue increased from \$166.2 million in 2013 to \$216.9 million in 2015. This was predominantly due to an increase in production at the Tritton mine from 23,338 tonnes in 2013 to 30,245 tonnes in 2015;
- In 2013 and 2014, results relating to Mt Muro, a gold and silver mine in Indonesia, are reported under discontinued operations. The Mt Muro operations were placed on care and maintenance from 2 August 2013 and a subsequent voluntary bankruptcy petition was lodged. On 19 June 2015, the sale of PT IMK was completed. Straits received no consideration in relation to the sale and no longer has any interest in or ongoing liability in respect of the Mt Muro mine;
- Straits' total comprehensive income was a loss of \$217.6 million in 2013, a profit of \$38.9 million in 2014 and a loss of \$33.0 million in 2015. The profit in 2014 was predominantly due the profit on de-recognition of net liabilities of PT IMK of approximately \$101.2 million;
- In 2014, Straits' incurred a loss on close out of SCB facility, which was the close out of the Tritton Copper Swap Facility with SCB and replacement of that facility with a Bridging Loan; and
- In 2014, Straits' convertible note expense of \$7.8 million arose from Straits issuing US\$3.75 million Class A convertible notes and US\$3.25 million Class B convertible notes to Credit Suisse on terms approved by Straits shareholders on 21 October 2013.

## 5.8.2 Financial Position

Table 5.9 below summarises Straits' statement of financial position as at 30 June 2013, 2014 and 2015.

**Table 5.9: Straits Statement of Financial Position**

	As at 30 June 2013 Audited (\$'000)	As at 30 June 2014 Audited (\$'000)	As at 30 June 2015 Audited (\$'000)
<b>Current assets</b>			
Cash and cash equivalents	18,256	12,679	24,022
Trade and other receivables	10,031	10,684	9,475
Inventories	15,399	14,715	13,073
Other financial assets	1,397	5,406	2,126
Derivative financial instruments	9,034	-	-
Short term mine development	8,848	1,449	-
Assets classified as held for sale	1,889	-	-
<b>Total current assets</b>	<b>64,854</b>	<b>44,933</b>	<b>48,696</b>
<b>Non-current assets</b>			
Receivables	21,010	14,360	3,996
Derivative financial instruments	13,123	-	-
Property, plant and equipment	35,699	33,723	41,053
Exploration and evaluation	26,154	24,353	19,521
Mine properties in use	49,948	42,850	43,286
Deferred tax asset	17,814	20,865	21,521
<b>Total non-current assets</b>	<b>163,748</b>	<b>136,151</b>	<b>129,377</b>
<b>Total assets</b>	<b>228,602</b>	<b>181,084</b>	<b>178,073</b>
<b>Current liabilities</b>			
Trade and other payables	68,653	24,458	26,676
Interest bearing liabilities	65,079	131,429	159,340
Deferred revenue	16,658	-	-
Provisions	5,919	4,296	4,905
<b>Total current liabilities</b>	<b>156,309</b>	<b>160,183</b>	<b>190,921</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	57,627	4,255	2,717
Deferred revenue	18,205	-	-
Provisions	29,061	10,926	11,615
<b>Total non-current liabilities</b>	<b>104,893</b>	<b>15,181</b>	<b>14,332</b>
<b>Total liabilities</b>	<b>261,202</b>	<b>175,364</b>	<b>205,253</b>
<b>Net assets</b>	<b>(32,600)</b>	<b>5,720</b>	<b>(27,180)</b>
<b>Equity</b>			
Contributed equity	353,300	353,300	353,300
Reserves	13,007	(6,025)	(7,459)
Accumulated losses	(398,907)	(341,555)	(373,021)
<b>Total equity</b>	<b>(32,600)</b>	<b>5,720</b>	<b>(27,180)</b>

Source: Straits annual reports for the years ended 30 June 2013, 2014 and 2015

In relation to the statement of financial position of Straits set out in Table 5.9 above we note the following:

- Current interest bearing liabilities increased from \$65.1 million in 2013 to \$131.4 million in 2014. On 13 June 2014, Straits executed the close out of the Tritton Copper Swap Facility with SCB (of US\$99 million) and the replacement of that facility with a Bridging Loan with SCB. The tenor of the loan was 5 months from the agreement date (13 June 2014) with the repayment being a bullet repayment on maturity. The interest rate was LIBOR plus 6% payment in kind, which is capitalised into the loan value;

- Current interest bearing liabilities increased from \$131.4 million in 2014 to \$159.3 million in 2015. On 13 November 2014, a formal amendment to the original Bridging Loan documentation was executed, with the only material changes to the Bridging Loan terms relating to new dates for the completion of the refinancing (13 February 2015) and the finalisation of the debt restructure (13 April 2015). The date for the completion of the refinancing and the finalisation of the debt restructure were subsequently further extended. Interest and fees payable on the Bridging Loan from the agreement date until the date of refinancing were capitalised; and
- Deferred revenue in 2013 relates to revenue received in advance from Credit Suisse in relation to a silver prepayment facility. Under the facility agreement, Credit Suisse paid to Straits US\$50 million in advance for the delivery of 1,958,053 ounces of silver over the period from January 2012 to December 2014. Straits classified deferred revenue as a current liability where delivery is expected within 12 months of balance date and non-current liability for any remaining deliveries due more than 12 months from the end of the reporting year.

### 5.8.3 Cash Flows

Table 5.10 below summarises Straits' statement of cash flows for the years ended 30 June 2013, 2014 and 2015.

**Table 5.10: Straits Statement of Cash Flows**

	Year Ended 30 June 2013 Audited (\$'000)	Year Ended 30 June 2014 Audited (\$'000)	Year Ended 30 June 2015 Audited (\$'000)
<b>Cash flows from operating activities</b>			
Receipts from customers	167,839	187,132	216,623
Net cash flows from hedging	1,511	1,391	-
Payments to suppliers and employees	(228,062)	(162,805)	(168,896)
Interest received	2,153	495	-
Interest paid	(8,129)	(1,992)	(1,688)
Net cash outflow from operating activities of discontinued operations	39,885	10,975	-
<b>Cash flows from operating activities</b>	<b>(24,803)</b>	<b>35,196</b>	<b>46,039</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment	4,122	2,025	128
Payments for property, plant and equipment and mine properties	(23,889)	(24,607)	(30,088)
Payments for exploration expenditure	(6,875)	(2,582)	(2,004)
Proceeds from held for trading financial assets	9,191	-	540
Cash backed security deposits	-	5,017	-
Proceeds from loan receivables	2,469	-	-
Net proceeds from sale of Hillgrove	26,757	-	-
Option fees received on sale of Hillgrove	3,000	-	-
Net cash flow from discontinued operations	(40,993)	-	-
<b>Cash flows from investing activities</b>	<b>(26,218)</b>	<b>(20,147)</b>	<b>(31,424)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares and equity securities	57,359	-	-
Proceeds from borrowings	8,014	-	-
Repayment of borrowings	(9,025)	(6,721)	-
Finance lease payments	(3,034)	(3,685)	(3,920)
Release from restricted cash	3,719	2,357	-
Net cash flow from discontinued operations	(808)	(12,467)	-
<b>Cash flows from financing activities</b>	<b>56,225</b>	<b>(20,516)</b>	<b>(3,920)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>5,204</b>	<b>(5,467)</b>	<b>10,695</b>
Cash and cash equivalents at the beginning of the period	12,982	18,256	12,679
Effects of exchange rate changes on cash and cash equivalents	70	(110)	648
<b>Cash and cash equivalents at the end of the period</b>	<b>18,256</b>	<b>12,679</b>	<b>24,022</b>

Source: Straits annual reports for the years ended 30 June 2013, 2014 and 2015

In relation to the statement of cash flows of Straits set out in Table 5.10 above we note the following:

- Cash flows from operating activities increased from \$35.2 million in 2014 to \$46.0 million in 2015 as a result of the increasing profitability of the Tritton mine; and
- Cash flows from financing activities in 2015 were limited to finance lease payments of \$3.9 million.

## 6.0 Assessment of the Fairness of the Proposed Transaction

This section is set out as follows:

- Section 6.1 sets out the value of a Straits share prior to the Proposed Transaction;
- Section 6.2 sets out the value of a Straits share following the Proposed Transaction; and
- Section 6.3 sets out our opinion on the fairness of the Proposed Transaction having regard to the analysis in Section 6.1 and Section 6.2.

### 6.1 Adopted Value of a Straits Share Prior to the Proposed Transaction

In our view, it is appropriate to have regard to both an asset based valuation ('ABV') methodology and a market based valuation ('MBV') methodology for the purposes of valuing Straits prior to the Proposed Transaction in this Report.

#### 6.1.1 Asset Based Valuation of Straits prior to the Proposed Transaction

The assets of Straits can be identified and it is possible to determine the fair value of those identifiable assets with a reasonable degree of accuracy.

The key elements of our ABV of Straits prior to the Proposed Transaction include:

- AMC Consultants Pty Ltd's ('AMC') fair market valuation of Straits' exploration mineral assets ('Straits Mineral Assets') which include:
  - The Tritton region exploration tenements ('Tritton ETs'); and
  - Exploration tenements outside the Tritton region ('Outer ETs');
- The discounted cash flow ('DCF') valuation of the Tritton mine; and
- The fair market value of the other assets and liabilities of Straits set out in the audited statement of financial position for Straits as at 30 June 2015.

Our ABV of Straits on a controlling interest basis prior to the Proposed Transaction is in the range of negative \$0.0352 to negative \$0.0159.

Appendix C.2 of this Report sets out our ABV of Straits prior to the Proposed Transaction.

#### 6.1.2 Market Based Valuation of Straits prior to the Proposed Transaction

It is possible to consider information from a market based valuation of a company when there is a readily observable market for the trading of the company's shares.

The shares of Straits are listed on the ASX and it is possible to observe the market price of trades in Straits shares. We note that the MBV provides information in relation to a valuation of Straits shares on a minority interest basis. In our view, it is appropriate to consider information provided by the MBV methodology for the purpose of this Report.

Our valuation of a Straits share on a controlling interest basis using the MBV methodology is in the range of \$0.009 to \$0.016.

Appendix C.3 of this Report sets out our MBV of Straits prior to the Proposed Transaction.

#### 6.1.3 Conclusion on the Value of Straits Shares prior to the Proposed Transaction

Factors that we have considered to conclude on a value for Straits prior to the Proposed Transaction include:

- The ABV adopted returned a negative value per share under all scenarios, specifically negative A\$0.0352 to negative A\$0.0159;



- If the Proposed Transaction is not approved and Straits is issued with a notice of default that is not remedied, the Existing Lender has the right to enforce its security which may include appointing a receiver and manager to the company for the purpose of taking control and realising all assets to recover the debt owed. If placed in to receivership, it is likely that the costs of the receivership and realisation costs may result in a shortfall to the Existing Lender (having regard to our ABV and on the basis that the ABV represents a fair market value of the assets). In this circumstance, there would not be any return to shareholders on their equity value;
- In our view, the MBV provides less relevant information in the circumstances for reasons which include:
  - in our view, the market for Straits shares exhibits a relatively low level of liquidity; and
  - the Straits share price prior to the announcement of the Proposed Transaction may reflect positive market expectations in relation to the future operations of Straits and the outcome of the debt negotiations; and
- A comparison of the value of a Straits share before the Proposed Transaction and following the Proposed Transaction is more readily able to be calculated utilising the ABV (compared to the MBV).

Having regard to the above mentioned points, it is our view that the value per Straits ordinary shares on a controlling interest basis is nominal prior to the Proposed Transaction. We specifically note that applying an ABV methodology returns a material net asset deficiency. For the purposes of the analysis set out in this Report, it is our view that it is appropriate to adopt a value of \$nil per Straits share.

In accordance with paragraph 111.15 of RG 111, Straits shareholders should note that we have not adjusted our valuation for the financial distress of Straits. We have considered the value of Straits on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Proposed Transaction.

In circumstances where Straits is unable to renegotiate the terms of the Senior Debt and a voluntary administrator or receiver is appointed, there is a material risk that the value ultimately realised will not exceed our conclusion on value set out in this Report.

Our valuation of Straits on a controlling interest basis prior to the Proposed Transaction is set out in more detail in Appendix C of this Report.

## 6.2 Adopted Value of a Straits Share Following the Proposed Transaction

In our view, it is appropriate to have regard to an ABV methodology for the purposes of valuing Straits following the Proposed Transaction in this Report. As at the date of this Report, there is a limited amount of information on the price at which shares in Straits will trade at following the Proposed Transaction is able to be observed. As a result, we are unable to rely on a MBV methodology to value Straits following the Proposed Transaction.

### 6.2.1 Asset Based Valuation of Straits following the Proposed Transaction

The key elements of our ABV of Straits following the Proposed Transaction include:

- The value of the Straits Assets, including:
  - Straits Mineral Assets; and
  - The Tritton mine;
- The value of the Copper Price Participation (which is deducted from the value of the Straits Assets as it represents an additional cash outflow); and
- The value of the other assets and liabilities of Straits following the Proposed Transaction.

Our ABV of Straits on a minority interest basis following the Proposed Transaction is in the range of A\$0.0026 to A\$0.0041 (assuming there are 9,341,060,880 Straits shares on a fully diluted basis).

Our valuation of Straits on a minority interest basis following the Proposed Transaction is set out in more detail in Appendix D of this Report.



### 6.3 Opinion on Fairness

Table 6.1 sets out a comparison of our valuation of a Straits share on a controlling basis prior to the Proposed Transaction to our valuation of a Straits share on a minority interest basis immediately following the Proposed Transaction.

**Table 6.1: Comparison of the Value of Straits Shares Prior to and Following the Proposed Transaction**

	Reference	Low (A\$)	High (A\$)
Value of a Straits share prior to the Proposed Transaction - controlling interest	Section C.4	\$nil	\$nil
Value of a Straits share immediately following the Proposed Transaction - minority interest <sup>1</sup>	Section D.4	\$0.0026	\$0.0041

Source: BDO CFQ Analysis

In considering the values set out in Table 6.1 above, we note that the Proposed Transaction facilitates a reduction in Straits' debt to a level that results in a positive net asset value. While there is significant dilution as a result of the issue of the CRPS, CNRPS and Management Options, post the Proposed Transaction there is some positive value which can be attributed to the ordinary shareholders.

Having regard to the above assessment of the Proposed Transaction and after considering the information set out in the balance of this Report, it is our view that in the absence of any other information or a superior offer, the Proposed Transaction is **Fair to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

Our ABV of Straits in this Report has been completed on the basis that Straits is a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Proposed Transaction in accordance with the requirements of RG 111. Accordingly, our ABV does not specifically incorporate any adjustments for the impact of the issues arising as a consequence of the financial distress currently being experienced by Straits.

Straits shareholders should also refer to Section 7.0 of this Report which sets out additional matters that Straits shareholders should consider when deciding whether to vote in favour of or against the Proposed Transaction.

<sup>1</sup> To simplify the pre and post transaction analysis set out in this Report, we have not adjusted the share numbers set out in this Report for the Consolidation. We would not expect the Consolidation to impact on our valuation materially. On a pro-rata basis, a value of A\$0.0026 to A\$0.0041 implies a post consolidation value of A\$0.026 to A\$0.041.

## 7.0 Assessment of the Reasonableness of the Proposed Transaction

This section provides our opinion on the reasonableness of the Proposed Transaction to Straits shareholders.

This section is set out as follows:

- Section 7.1 outlines the advantages of the Proposed Transaction to Straits shareholders;
- Section 7.2 outlines the disadvantages of the Proposed Transaction to Straits shareholders;
- Section 7.3 considers the position of Straits shareholders in the event the Proposed Transaction is not approved; and
- Section 7.4 provides our assessment of the reasonableness of the Proposed Transaction.

### 7.1 Advantages of the Proposed Transaction

Table 7.1 below outlines the potential advantages to Straits shareholders in the event that the Proposed Transaction is approved and implemented.

**Table 7.1: Advantages of the Proposed Transaction**

Advantage	Explanation
The Proposed Transaction mitigates the immediate risk of being placed under receivership	<p>If the Proposed Transaction is not approved, the Company may become insolvent and a receiver may be appointed.</p> <p>Should the Company not be able to undertake the Proposed Transaction and restructure its debt, it is possible that there will be no economic interest remaining for existing shareholders.</p> <p>If the Proposed Transaction is approved however, the Company's Senior Debt will be restructured allowing the Company to continue to operate.</p>
The Proposed Transaction is fair	<p>In our view, the Proposed Transaction is fair to Straits shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair.</p> <p>Refer to Section 6.0 of this Report for our assessment of the fairness of the Proposed Placement.</p>
The Proposed Transaction provides a more sustainable debt position relative to the current debt position	<p>If the Proposed Transaction is approved, Straits senior debt facility will reduce from approximately US\$111.1 million to US\$50 million. The senior debt facility also has terms that will assist Straits manage its cash flow including:</p> <ul style="list-style-type: none"> <li>■ Relatively long dated maturity profile of 7 years with a bullet payment at maturity;</li> <li>■ Cash interest of 5% per annum after the first two years; and</li> <li>■ PIK interest<sup>2</sup> of 10% p.a. in first year, 12.5% p.a. for second year and 7.5% p.a. for remainder of term.</li> </ul> <p>In our view, this debt position is more sustainable than the level that exists prior to the Proposed Transaction.</p>
The Proposed Transaction provides additional funding	<p>The US\$25 million revolving priority debt facility with PAG will assist Straits fund working capital and its pipeline of growth projects at the Tritton mine.</p>
The Proposed Transaction is the best option available to Straits at the current time	<p>The Directors are of the view that the funding required to meet the Company's debt obligations and advance the Tritton mine cannot be obtained on terms superior to those offered under the Proposed Transaction at the current time.</p>

<sup>2</sup> There is no periodic cash outlay associated with PIK interest (i.e. the interest is capitalised into the loan value and paid out at maturity).

Advantage	Explanation
The Proposed Transaction is potentially less dilutive than other capital raising options	Having regard to the position of the Company and the amount of capital required to pay down the Senior Debt, it is likely that a significant discount would be required to raise capital in the equity markets (and there is no guarantee that the capital required could be raised at all). Under the Proposed Transaction, Straits' shareholders may not be diluted to the extent of a more traditional capital raising.

Source: BDO CFQ analysis

## 7.2 Disadvantages of the Proposed Transaction

Table 7.2 below outlines the potential disadvantages to Straits shareholders in the event that the Proposed Transaction is approved and implemented.

**Table 7.2: Disadvantages of the Proposed Transaction**

Disadvantage	Explanation
The Proposed Transaction results in significant dilution of interests held by ordinary shareholders and loss of control	<p>As set out in Table 3.1 above, if the CRPS, CNRPS and Management Options are exercised, the ordinary shareholders of Straits (excluding SCB, PAG and management) will be diluted from a 64.6% interest in the Company to a 10.0% interest in the Company.</p> <p>Further, if all the CRPS are converted to equity, SCB's relevant interest in Straits shares may increase up to 60.0% on a fully diluted basis (or 83.1% assuming that the CNRPS and Management Options are not exercised) and SCB may gain a controlling stake in Straits (PAG to a lesser extent may be in a position to exert significant influence with a 15.0% interest on a fully diluted basis or 50.0% assuming that the CRPS and Management Options are not exercised). This is likely to provide SCB with the ability to control the Company. It will also dilute the exposure of other Straits shareholders to any potential upside in the value of the Company's assets.</p> <p>It should be noted however that unless significant funds were sourced from existing shareholders, it is likely that any additional capital raised through the equity markets would require a controlling number of shares to be issued to new shareholders. The issuance of new shares would also reduce the control of the Company's existing shareholders.</p>
If the Proposed Transaction proceeds, it may be possible for a smaller number of shareholders to pass or block a special resolution	<p>In order to pass a special resolution a company is required to obtain votes from 75% or more of its shareholders. Prior to the Proposed Transaction and as set out in Table 3.1 above, Straits' largest shareholder had an interest below 20% (the level often regarded as providing a shareholder with significant influence). If the Proposed Transaction is approved, SCB will potentially have an interest of 60% in Straits (or 83.1% assuming that the CNRPS and Management Options are not exercised).</p> <p>With a shareholding of this level, it may be possible for a smaller number of shareholders (or potentially SCB by itself if its relevant interest is in excess of 75%) to pass any special resolutions if they all vote in favour. It will also be possible for a smaller number of shareholder (or potentially SCB or PAG individually) to block a special resolution.</p>
If the Proposed Transaction is approved then Straits will have restrictions on certain elements of operations	<p>If the Proposed Transaction is approved then Straits will have restrictions on certain elements of operations. For example, Straits will be restricted in its ability to:</p> <ul style="list-style-type: none"> <li>■ make any capital expenditure other than what was agreed under the budget with the PAG and SCB;</li> <li>■ pay dividends; and</li> <li>■ issue additional debt and equity.</li> </ul>

Disadvantage	Explanation
The Proposed Transaction may reduce the possibility of a future takeover offer occurring	The Proposed Transaction may reduce the possibility of a future takeover offer occurring, particularly where SCB and PAG are not amiable to the offer. This is a result of SCB and PAG being the holders of significant equity instruments in the form of the CRPS and CNRPS respectively in addition to the debt financing they have provided Straits.
Even in circumstances where the Proposed Transaction is approved, Straits will continue to have a significant amount of debt.	Even in circumstances where the Proposed Transaction is approved, Straits will continue to have a significant amount of debt.  In the event of a default, there is the potential for the Straits shareholders to lose their claim to any assets held by Straits, particularly where its debts are greater than the value of its assets.
If the Proposed Transaction is approved, there is potential for a significant number of Straits shares to be sold on the open market	If the Proposed Transaction is approved, an additional 812,333,059 new shares in Straits may be issued (assuming they are all converted). If the Proposed Transaction is approved and the securities issued convert into ordinary shares, the new ordinary shareholder may elect to sell some of the new Straits shares received on the open market. This may place downward pressure on the share trading price of Straits if the increased supply of Straits shares sufficiently outweighs the demand for Straits shares.

Source: BDO CFQ analysis

### 7.3 Position of Straits shareholders if the Proposed Transaction does not proceed

If the Proposed Transaction is not approved then the potential position of Straits shareholders will include the following factors:

- Straits may not be able to meet its obligation to repay the Senior Debt. If Straits is issued with a notice of default by SCB, it will be required to immediately find an alternative source of funding. Given the current economic climate and the Company's inability to otherwise raise capital, the Company may have difficulties finding an alternative lender;
- If Straits is issued with a notice of default by SCB, SCB has the right to appoint a receiver and manager for the purpose of recovering the debt owed (as SCB holds a first ranking security over the assets of Straits). If a receiver or other external insolvency administrator is appointed, the secured assets may be disposed in order to satisfy its facility obligations. Under these circumstances, the Company's shareholders will lose control of the secured assets (including the Tritton Copper Operations - the Company's only producing asset) and the Directors are of the view that there will likely be no value remaining for existing shareholders; and
- The Company's share price may fall materially, particularly in circumstances where Straits is unable to find an alternative source of funding. There is also a risk that Straits will have insufficient liquidity for any Straits shareholder wishing to sell their shares.

### 7.4 Reasonableness of the Proposed Transaction

In our opinion, after considering all of the issues set out in this Report, it is our view that in the absence of any other information or a superior offer, the Proposed Transaction is **Reasonable to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

## 8.0 Fairness of the Security Transaction

This section provides our opinion on the fairness of the Security Transaction to Straits shareholders and is set out as follows:

- Section 8.1 sets out the approach we have adopted to assess the fairness of the Security Transaction; and
- Section 8.2 sets out our assessment on the fairness of the Security Transaction.

### 8.1 Approach Adopted to Assess Fairness

RG 111 suggests that a proposed related party transaction is ‘fair’ if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm’s length.

In the case of the Security Transaction, the proceeds flowing to Straits from the sale of the assets (over which security is proposed to be granted) in the event of a default on the Senior Debt constitutes the financial benefit provided to SCB. The consideration provided by SCB to Straits is the outstanding amount on the Senior Debt which will be foregone by Straits in the event of a default on the Senior Debt.

Having regard to the above, the Security Transaction is ‘fair’ if the value of the security provided to SCB (i.e. the value of the proceeds flowing to SCB from the sale of the assets) is equal to or less than the value of the liabilities to be settled by the security (i.e. the outstanding amount on the Senior Debt) in the event of a default on the Senior Debt.

Under the terms of the Senior Debt, SCB’s entitlement in the event of default is limited to the outstanding amount on the Senior Debt. If the proceeds received from the sale of the assets are greater than the outstanding amount on the Senior Debt then SCB will only receive the amount owing on the Senior Debt at the time the assets are sold. Once any amounts owing to other creditors have been repaid, any surplus funds that remain from the sale of the assets will be returned to Straits.

For completeness, we note that, in the event of a default on the Senior Debt, SCB may appoint a receiver and manager to recover the debt owed, which may involve a sale of the relevant assets. We understand that if appointed, a receiver has an obligation under the Corporations Act to take reasonable care to sell the secured assets at:

- ‘Not less than market value’ where a market value exists; and
- The ‘best price that is reasonably obtainable’ where a market value does not exist.

We understand that in certain circumstances it is possible that a liquidator may be appointed instead of an administrator or receiver. If appointed, a liquidator’s obligations under the Corporations Act are similar to that of administrators and receivers, although unlike administrators and receivers, there is no statutory instruction for liquidators to seek the market value. There is however an obligation to discharge their duties with due care and diligence and deal with the secured assets in a manner that will most benefit an entity’s creditors and achieve the best price that is reasonably obtainable, having regard to the state of the asset at the time of sale.

Having regard to the above, in our view, it is appropriate to assume for the purposes of our analysis in this Report that, in the event of a default on the Senior Debt, any sales process pursued to divest the assets will be conducted in a manner which realises fair market value as at the time of the sale, having regard to the existing state of the assets.

### 8.2 Assessment of Fairness

To assess whether the Security Transaction is fair, we have compared the value of the proceeds flowing to SCB from the sale of the assets to the value of the outstanding amount on the Senior Debt owing to SCB in the event of a default on the Senior Debt under several scenarios. In considering the various possible scenarios, we note the following:

- In the scenario where the value of the proceeds from the sale of the assets is greater than the value of the outstanding amount on the Senior Debt, SCB is only entitled to receive sale proceeds equal to the amount outstanding on the Senior Debt;

- In the scenario where the value of the proceeds from the sale of the assets is equal to the outstanding amount on the Senior Debt, SCB is entitled to receive all of the sale proceeds; and
- In the scenario where the value of the proceeds from the sale of the assets is less than the outstanding amount on the Senior Debt, SCB is entitled to receive all of the sale proceeds. To the extent the amount outstanding on the Senior Debt exceeds the proceeds received from the sale of the assets, SCB can only recover it as an unsecured creditor of the Company.

Table 8.1 below summarises the potential outcomes from the settlement of the Senior Debt under a default scenario.

**Table 8.1: Potential Settlement Scenarios for the Senior Debt**

Scenario	Consequence	Fairness
Proceeds from assets > Senior Debt Outstanding	Security provided = Liabilities settled	Fair
Proceeds from assets = Senior Debt Outstanding	Security provided = Liabilities settled	Fair
Proceeds from assets < Senior Debt Outstanding	Security provided < Liabilities settled	Fair

Source: BDO CFQ Analysis

Having regard to the potential settlement scenarios summarised above, in all circumstances SCB is entitled to receive a maximum amount equal to the outstanding amount on the Senior Debt, in circumstances where the assets are sold.

After considering the information above, we conclude that the Security Transaction is **Fair to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**

Straits shareholders should also refer to Section 7.0 of this Report which sets out additional matters that should be considered when deciding whether to vote in favour of or against the Security Transaction.

## 9.0 Reasonableness of the Security Transaction

We have considered the reasonableness of the Security Transaction having regard to other significant factors to which Straits shareholders may give consideration prior to voting in favour of or against the Security Transaction. Our assessment of the reasonableness of the Security Transaction includes consideration of the likely advantages and disadvantages of the Security Transaction and the position of Straits shareholders if the Security Transaction does not proceed.

### 9.1 Advantages of the Security Transaction

Table 9.1 below outlines the potential advantages of the Security Transaction to Straits shareholders.

**Table 9.1: Advantages of the Security Transaction**

Advantage	Explanation
The Security Transaction is fair	<p>In our view, the Security Transaction is fair to Straits shareholders as at the date of this Report. In accordance with RG 111, a transaction is considered reasonable if it is fair.</p> <p>Refer to Section 8.0 of this Report for our assessment of the fairness of the Security Transaction.</p>
It is not unusual for companies to grant security over their assets when raising debt finance and granting security over the Straits assets is a condition for the Proposed Transaction to proceed	<p>It is not unusual for companies to grant security over their assets when raising debt finance. In many cases, the granting of security assists companies to obtain the funding they require for their ongoing operations and development on terms that are more favourable than they otherwise would have been if no security was granted. This is because the granting of security assists to reduce counterparty risk for the financier, or the risk to the financier of the borrower defaulting on their obligations. Granting security over the Straits assets is also a condition for the Proposed Transaction to proceed. If Straits does not grant security over the Straits assets, it is likely that the Proposed Transaction will not proceed.</p>

Source: BDO CFQ Analysis

### 9.2 Disadvantages of the Security Transaction

Table 9.2 below outlines the potential disadvantages of the Security Transaction to Straits shareholders.

**Table 9.2: Disadvantages of the Security Transaction**

Disadvantage	Explanation
There will be a limited ability to secure alternative sources of funding from non-related third parties and the grant of first ranking security may make it more difficult to obtain an alternative form of finance	<p>If the Security Transaction is approved, Straits will be granted security over the Straits' assets. As a result, Straits' ability to secure further / alternative asset based debt finance from non-related third parties may be limited until the SCB Senior Debt is repaid. In addition, if Straits does obtain debt finance from a non-related third party, it may be on less favourable terms than would otherwise be the case if the Security Transaction was not approved, as any additional debt provider would rank behind SCB.</p>
Straits may lose control over its assets	<p>In the event of default, Straits may be required to sell its assets in order to settle the amounts owing to SCB. In this circumstance, Straits will be forced to forego the potential future profits that would otherwise accrue to them from having ownership of those assets.</p>

Source: BDO CFQ Analysis

### 9.3 Position of Straits Shareholders if the Security Transaction is Not Approved

If the Security Transaction is not approved then the Proposed Transaction will not proceed. Refer to Section 7.3 for more information in relation the shareholders' position in this circumstance.

### 9.4 Assessment of the Reasonableness of the Security Transaction

In our opinion, after considering all of the issues set out in this Report, in the absence of any other information, the Security Transaction is **Reasonable to Straits shareholders who will not participate in the Proposed Transaction (other than via the consolidation of capital) as at the date of this Report.**



## 10.0 Sources of Information

This Report is based on information from sources including the following:

- Straits annual report for the 12 months ended 30 June 2013;
- Straits annual report for the 12 months ended 30 June 2014;
- Straits annual report for the 12 months ended 30 June 2015;
- Financial model prepared by Straits which sets out the projected cash flows for the Tritton mine over the period from 1 July 2015 to 30 June 2023;
- Straits Company Website;
- Straits share register as at 31 July 2015;
- Independent Technical Specialist's Report prepared by AMC Consultants, dated 17 August 2015;
- Straits' ASX Announcements;
- Bloomberg and Capital IQ;
- Various other research publications and publicly available data as sourced throughout this Report;
- Various transaction documents including legal agreements, the Notice of Meeting and the Explanatory Memorandum and; and
- Various discussions and other correspondence with Straits management and their advisers.

## 11.0 Representations, Indemnities and Warranties

Straits have agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

### 11.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, Straits agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Straits will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Straits agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Straits (including but not limited to the directors and advisers of Straits) as part of this engagement.

### 11.2 Representations & Warranties

Straits recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Straits, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

Straits management represent and warrant to BDO Persons that all information and documents furnished by Straits (either directly or through its advisors) in connection or for use in the preparation of this Report will not, at the time so furnished, contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein.

Straits have acknowledged that the Company's engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

## 12.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds an Australian Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello and Mark Whittaker have prepared this Report with the assistance of staff members. Mr Sorbello and Mr Whittaker are directors of BDO CFQ and have extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

This Report has been prepared at the request of the directors of Straits to provide Straits shareholders with information to assist them to decide whether to vote in favour of or against the Proposed Transaction. BDO CFQ hereby consents to this Report being used for that purpose. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied is false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to the tax implications of the Security Transaction, it is strongly recommended that Straits shareholders obtain their own taxation advice, tailored to their own particular circumstances.

APES 225 'Valuation Services' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 10 November 2015.

**BDO Corporate Finance (QLD) Ltd**



**Steven Sorbello**  
Director



**Mark Whittaker**  
Director

## Appendix A - Industry Information

This appendix sets out a summary of the international copper mining industry.

### A.1 International Copper Mining<sup>3</sup>

We have set out a summary of the international copper mining industry below. The information presented in this section has been compiled from a range of publicly available sources. This summary is not intended to be a comprehensive analysis of the international copper industry. We recommend that Straits' shareholders refer to the original source of information referred to in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

#### A.1.1 Copper Production

In 2013, approximately 18,300kt of copper was produced globally and in 2014 this increased by 2.2% to approximately 19,700kt.

Table A.1 below sets out copper production by country for 2013 and 2014.

**Table A.1: Production by Country in 2013 and 2014**

Country	2013 Production (kt)	2014 Production (kt)
Chile	5,780	5,800
China	1,600	1,620
Peru	1,380	1,400
United States	1,250	1,370
Australia	990	1,000
Congo (Kinshasa)	970	1,100
Russia	833	850
Zambia	760	730
Canada	632	680
Mexico	480	520
Kazakhstan	446	430
Poland	429	425
Indonesia	504	400
Other countries	2,200	2,400
World total (rounded)	<b>18,300</b>	<b>18,700</b>

*Source: U.S. Geological Survey Mineral Commodity Summaries - January 2015*

#### A.1.2 Global Demand

After iron and aluminium, copper is the third-ranking metal in terms of volumes used worldwide. The main reasons for this are its high ductility, thermal and electrical conductivity, resistance to corrosion and malleability, which makes it a key input for a wide range of products. One of the main uses of copper is in the manufacturing of products associated with infrastructure development. These include electrical cabling, piping, valves and decorative architectural applications.

Copper is also commonly used in the manufacture of industrial equipment. Due to its superior heat transfer capabilities and ability to withstand extreme environments, copper is an ideal material for heat exchangers and pressure vessels and vats. In addition, its corrosion-resistant properties mean that it is used extensively in the manufacture of products used in marine and other demanding environments. These include marine vessels and tanks, propellers, piping exposed to seawater, and oil platforms and coastal power stations.

<sup>3</sup> Information in this section is sourced from the U.S. Geological Survey Mineral Commodity Summaries - January 2015, International Trade Centre, Capital IQ and other publicly available information.

In addition to marine vessels, copper is used in the manufacture of other transportation devices. Automobiles and trucks rely on copper motors, wiring, radiators, connectors, brakes and bearings. It is also used extensively in trains, both traditional electric trains and high-speed, and planes. Furthermore, copper wiring is used in communications and electrical products such as domestic subscriber lines, wide and local area networks, mobile phones and personal computers.

Due to its primary use in manufacturing, the demand for copper faces threats from alternative materials. For instance, optic fibres, plastics and aluminium are increasingly used in the production of communications, water tubing and motor vehicle radiators respectively. However, stronger growth in the OECD countries is expected to contribute to increasing global copper demand. For example, demand for copper in Japan is expected to increase because of the growing construction and manufacturing industry. Rising manufacturing production in Germany and the continuing recovery in the United States will drive demand, too. Outside the OECD, copper demand by India and China is expected to continue growing apace. In the case of China, the government continues to reinforce and expand the electricity supply which continues to bolster demand in view of the fact that copper is used extensively in wire for electrical applications. Therefore, investment levels largely determine the demand for copper.

### A.1.3 Reserves

In 2014, global economic copper reserves were approximately 700,000 kt. Table A.2 below sets out copper reserves by country for 2014.

**Table A.2: Reserves by Country in 2014**

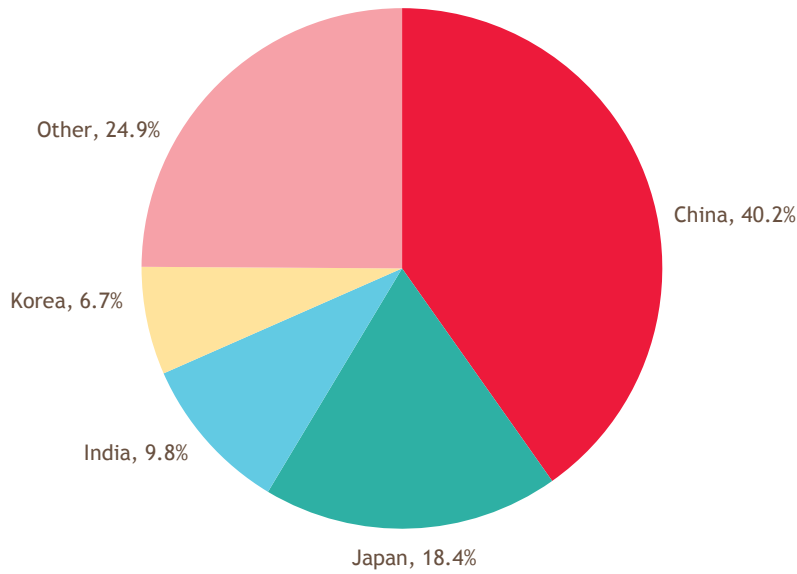
Country	Reserves (kt)
Chile	209,000
Australia	93,000
Peru	68,000
Mexico	38,000
United States	35,000
China	30,000
Russia	30,000
Poland	28,000
Indonesia	25,000
Congo (Kinshasa)	20,000
Zambia	20,000
Canada	11,000
Kazakhstan	6,000
Other countries	90,000
World total (rounded)	700,000

Source: U.S. Geological Survey Mineral Commodity Summaries - January 2015

### A.1.4 International Copper Imports

Demand for copper in 2014 was largely dominated by China, Japan, India and Korea. Figure A.1 below sets out international copper ore imports by country in 2014.

Figure A.1: International Copper Ore Imports by Country - 2014

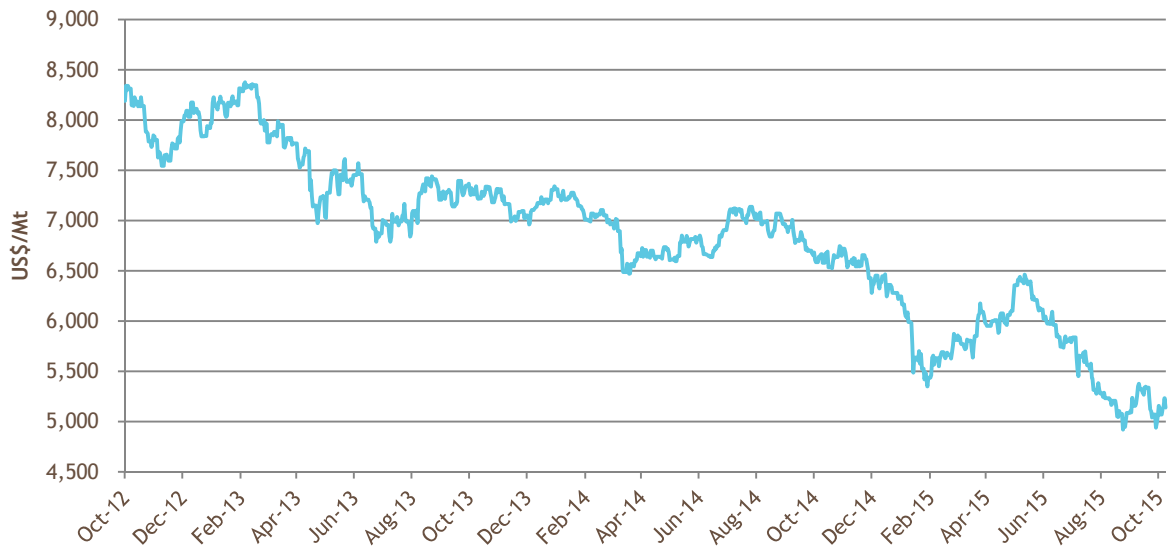


Source: International Trade Centre

A.1.5 Spot price of Copper

Figure A.2 below sets out the historical spot prices of Copper from the London Metals Exchange for the period from October 2012 to October 2015 as sourced from Capital IQ.

Figure A.2: London Metals Exchange Historical Copper Prices - October 2012 to October 2015



Source: Capital IQ, 8 October 2015

## Appendix B - Common Valuation Methodologies

A 'fair market value' is often defined as the price that reflects a sales price negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller, with both parties at arm's length. The valuation work set out in this Report assumes this relationship.

There are a number of methodologies available to value an entity at fair market value. In preparing this Report, we have considered, amongst other metrics, the valuation methodologies recommended by ASIC in *RG 111: Content of Expert Reports*. The methodologies include those mentioned directly below.

### B.1 Discounted Future Cash Flows

The DCF approach calculates the value of an entity by adding all of its future net cash flows discounted to their present value at an appropriate discount rate. The discount rate is usually calculated to represent the rate of return that investors might expect from their capital contribution, given the riskiness of the future cash flows and the cost of financing using debt instruments.

In addition to the periodic cash flows, a terminal value is included in the cash flow to represent the value of the entity at the end of the cash flow period. This amount is also discounted to its present value. The DCF approach is usually appropriate when:

- An entity does not have consistent historical earnings but is identified as being of value because of its capacity to generate future earnings; and
- Future cash flow forecasts can be made with a reasonable degree of certainty over a sufficiently long period of time.

Any surplus assets, along with other necessary valuation adjustments, are added to the DCF calculation to calculate the total entity value.

### B.2 Capitalisation of Future Maintainable Earnings

The CME approach involves identifying a maintainable earnings stream for an entity and multiplying this earnings stream by an appropriate capitalisation multiple. Any surplus assets, along with other necessary valuation adjustments, are added to the CME calculation to calculate the total entity value.

The maintainable earnings estimate may require normalisation adjustments for non-commercial, abnormal or extraordinary events.

The capitalisation multiple typically reflects issues such as business outlook, investor expectations, prevailing interest rates, quality of management, business risk and any forecast growth not already included in the maintainable earnings calculation. While this approach also relies to some degree on the availability of market data, the multiple is an alternative way of stating the expected return on an asset.

The CME approach is generally most appropriate where an entity has historical earnings and/or a defined forecast or budget. Further, a CME is usually considered appropriate when relevant comparable information is available.

### B.3 Asset Based Valuation

Asset based valuations are used to estimate the fair market value of an entity based on the book value of its identifiable net assets. The ABV approach using a statement of financial position alone may ignore the possibility that an entity's value could exceed the book value of its net assets, however, when used in conjunction with other methods which determine the value of an entity to be greater than the book value of its net assets, it is also possible to arrive at a reliable estimate of the value of intangible assets including goodwill.

Alternatively, adjustments can be made to the book value recorded in the statement of financial position in circumstances where a valuation methodology exists to readily value the identifiable net assets separately and book value is not reflective of the true underlying value. Examples of circumstances where this type of adjustment may be appropriate include when valuing certain types of identifiable intangible assets and/or property, plant and equipment.

The ABV approach is most appropriate where the assets of an entity can be identified and it is possible, with a reasonable degree of accuracy, to determine the fair value of those identifiable assets.

#### B.4 Market Based Valuation

Market based valuations relate to the valuation of an entity having regard to the value which securities in the entity have recently been purchased at. This approach is particularly relevant to:

- Entities where the shares are traded on an exchange. The range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time; and/or
- Entities where it is possible to observe recent transactions relating to the transfer of relatively large parcels of shares (e.g. recent capital raisings).

For listed entities, the range of share prices observed may constitute the market value of the shares where sufficient volumes of shares are traded and the shares are traded over a sufficiently long period of time. Share market prices usually reflect the prices paid for parcels of shares not offering control to the purchaser.



## Appendix C - Valuation of Straits Prior to the Proposed Transaction

This section is set out as follows:

- Section C.1 sets out our view of the most appropriate methodology to value Straits prior to the Proposed Transaction;
- Section C.2 sets out our view of the value of Straits prior to the Proposed Transaction having regard to an ABV methodology;
- Section C.3 sets out our cross-check calculation of the value of Straits prior to the Proposed Transaction having regard to a MBV methodology; and
- Section C.4 sets out our conclusion on the value of Straits prior to the Proposed Transaction for the purposes of this Report.

### C.1 Our Valuation Approach

Table C.1 below summarises our view of the methodologies that are appropriate to determine the value of Straits prior to the Proposed Transaction. Table C.1 also provides a brief explanation as to why each methodology is or is not appropriate. Appendix B of this Report provides a summary of each of the valuation methodologies listed in Table C.1.

**Table C.1: Appropriate Valuation Methodologies for Straits prior to the Proposed Transaction**

Valuation Methodology	Adopted	Explanation
ABV	✓	<p>In our view, it is appropriate to have regard to an ABV methodology for the purposes of valuing Straits prior to the Proposed Transaction in this Report. The assets of Straits can be identified and it is possible to determine the fair value of those identifiable assets with a reasonable degree of accuracy.</p> <p>The information that we have been provided to assist with our ABV in relation to the assets and liabilities of Straits includes the following:</p> <ul style="list-style-type: none"> <li>▪ The Independent Technical Specialist's Report prepared by AMC dated 17 August 2015 ('the AMC Report') which sets out AMC's view of the fair value of exploration tenements of the Company and key operational inputs for the Tritton mine. We have relied on the AMC Report when completing our ABV of Straits;</li> <li>▪ A financial model ('the Financial Model') which sets out the projected cash flows for the Tritton mine over the period from 1 July 2015 to 30 June 2023. We have prepared a DCF valuation using the projected cash flows in the Financial Model to assist with determining an appropriate value for the Tritton mine; and</li> <li>▪ An audited statement of financial position for Straits as at 30 June 2015 which sets out information on the value of other assets and liabilities held by Straits.</li> </ul>
DCF	✓ Incorporated in ABV	<p>The Directors have provided BDO CFQ and AMC with projected earnings and cash flows relating to the Tritton mine in the Financial Model.</p> <p>To determine an appropriate value for the Tritton mine, BDO CFQ has prepared a DCF valuation using projected cash flows based on the recommendations of the AMC Report. We have included AMC's operational assumptions into our DCF valuation of the Tritton mine. We have then incorporated this DCF valuation into our ABV of Straits prior to the Proposed Transaction in this Report.</p>

Valuation Methodology	Adopted	Explanation
CME	✗	<p>Straits do not currently have maintainable earnings suitable for use in a CME valuation methodology as the Company has delivered a net loss in recent years.</p> <p>We are of the view that there are more appropriate valuation methodologies than the CME valuation methodology which can be adopted for the purposes of valuing Straits prior to the Proposed Transaction in this Report.</p>
MBV	✓	<p>It is generally possible to complete a market based valuation of a company when there is a readily observable market for the trading of the company's shares.</p> <p>The shares of Straits are listed on the ASX and it is possible to observe the market price of trades in Straits shares. We note that the MBV provides information relating to a valuation of Straits shares on a minority interest basis.</p> <p>In our view, it is appropriate to have regard to the MBV methodology for the purpose of calculating the value of Straits shares prior to the Proposed Transaction.</p>

Having regard to the information set out in Table C.1 above, in our view, for the purpose of determining a value of Straits in this Report prior to the Proposed Transaction, it is appropriate to consider the ABV and MBV methodologies.

## C.2 Asset Based Valuation of Straits prior to the Proposed Transaction

Our asset based valuation of Straits prior to the Proposed Transaction is set out as follows:

- Section C.2.1 summarises AMC's fair market valuation of Straits' exploration mineral assets ('Straits Mineral Assets') which include:
  - The Tritton region exploration tenements ('Tritton ETs'); and
  - Exploration tenements outside the Tritton region ('Outer ETs');
- Section C.2.2 summarises the valuation of the Tritton mine and key operational inputs for the Tritton mine provided by AMC;
- Section C.2.3 considers the fair market value of the other assets and liabilities of Straits; and
- Section C.2.4 sets out our view of the fair market value of Straits prior to the Proposed Transaction having regard to an ABV methodology.

### C.2.1 Summary of AMC's Valuation of the Straits Mineral Assets

#### Overview of the AMC Report

We have considered the AMC Report to determine the fair value of the Straits Mineral Assets and key operational inputs for the Tritton mine. The AMC Report is dated 17 August 2015 and was commissioned by BDO CFQ. Mr Edward Gleeson of AMC has valued the Straits Mineral Assets and evaluated the key operational inputs of the Tritton Mine. He has also prepared the AMC Report.

Based on our enquiries and the information provided to us, we regard AMC and Mr Edward Gleeson to be Independent Specialists as referred to in the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports ('the VALMIN Code'), and regard Mr Ian Lipton to be a Competent Geologist and an Independent Specialist as referred to in the VALMIN Code. In our view, it is appropriate for us to consider the work of AMC as they are a specialist firm capable of completing this valuation work and they understand the purpose of the valuation set out in this Report.

We confirm that we have been provided with express written consent by AMC to refer to the valuations in the AMC Report as current valuations in this Report. We have made reasonable enquiry of AMC and are satisfied that the valuations in the AMC Report are suitable for use in this Report. However, we do not take responsibility for the work of AMC.

We have summarised the valuations in the AMC Report in this section of this Report. We note that this is a summary only and does not substitute for a complete reading of the AMC Report. Our summary does not include all of the information that may be of interest to Straits shareholders. The AMC Report is attached to this Report as Appendix G. We recommend that Straits shareholders read the AMC Report in full.

For completeness, we note that AMC states the following in the AMC Report:

- AMC has prepared the report in accordance with the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (the VALMIN Code) as far as it is relevant to the purpose and scope of the assignment;
- While some employees of AMC and its sub consultants may have small direct or beneficial shareholdings in Straits, neither AMC nor the contributors to this report nor members of their immediate families have any interests in Straits that could be reasonably construed to affect their independence. AMC has no pecuniary interest, association or employment relationship with BDO CFQ or Straits; and
- AMC's scope of work includes providing advice to BDO CFQ as to what is reasonable, for the purpose of valuing Straits, in relation to the mineral resources and ore reserves, mining plans, production profiles, costs and valuation of exploration interests.

### Overview of the Valuation Methodologies Adopted by AMC

Table C.2 below sets out a summary of the valuation methodologies adopted by AMC for the purposes of determining the value of the Straits Mineral Assets. The valuation methodologies adopted by AMC include the following:

- The multiples of exploration expenditure method ('MEE');
- Comparable transaction method;
- Discounted cash flow approach ('DCF');
- Joint venture transaction method; and
- Yardstick method.

Straits shareholders should refer to section 4 of the AMC Report for further information on the valuation methodologies adopted by AMC.

**Table C.2: Valuation Methodologies Adopted by AMC for the Straits Mineral Assets**

Asset	Valuation Methodologies
<b>Tritton ETs</b>	
EL4962	MEE
EL6126	MEE
EL6346	Average of MEE and comparable transaction method
EL6785	Average of MEE and comparable transaction method
EL8083	Average of MEE and comparable transaction method
EL8084	Average of MEE and comparable transaction method
<b>Outer ETs</b>	
Cheesemans Creek (EL5979 and EL7321)	MEE
Currumburrama (EL5792)	Joint venture transaction method
Canbelego (EL6105)	Joint venture transaction
Blayney (EL5922)	Joint venture transaction
Temora (EL6845 and EL5864)	MEE and yardstick method
Torrens (EL5614)	MEE
Yandan (EPM8257 and two mining leases)	Yardstick method

Source: The AMC Report

We have made enquiries of AMC in relation to the valuation methodologies adopted in the AMC Report. AMC have confirmed to us (and state in the AMC Report) that the valuation methodologies adopted in the AMC Report are appropriate to adopt for the purposes of determining a value for the Straits Mineral Assets in the AMC Report.

## AMC Valuation of Tritton ETs

Table C.3 below sets out a summary of AMC's valuation of the Tritton ETs. Straits shareholders should refer to the full AMC Report in Appendix G for further information on the values calculated for the Tritton ETs.

**Table C.3: AMC Valuation of Tritton ETs**

Asset	Valuation Low (\$million)	Valuation Preferred (\$million)	Valuation High (\$million)
EL4962	\$4.4	\$5.5	\$6.6
EL6126	\$12	\$13	\$14
EL6346	\$0.48	\$0.74	\$1.0
EL6785	\$0.52	\$0.80	\$1.1
EL8083	\$0.14	\$0.19	\$0.25
EL8084	\$0.25	\$0.31	\$0.37
<b>Total</b>	<b>\$18</b>	<b>\$21</b>	<b>\$24</b>

Source: The AMC Report

## AMC Valuation of Outer ETs

Table C.4 below sets out a summary of AMC's valuation of the Outer ETs. Straits shareholders should refer to the full AMC Report for further information on the values calculated for the Outer ETs by AMC.

**Table C.4: AMC Valuation of Outer ETs**

Asset	Valuation Low (\$million)	Valuation Preferred (\$million)	Valuation High (\$million)
Cheesemans Creek (EL5979 and EL7321)	\$0.27	\$0.54	\$0.80
Currumburrama (EL5792)	\$1.6	\$1.7	\$1.8
Canbelego (EL6105)	\$0.37	\$0.37	\$0.37
Blayney (EL5922)	\$0.90	\$1.2	\$1.5
Temora (EL6845 and EL5864)	\$6.7	\$10.3	\$13.4
Torrens (EL5614)	\$1.8	\$2.6	\$3.5
Yandan (EPM8257 and two mining leases)	\$0.57	\$0.90	\$1.3
<b>Total</b>	<b>\$12</b>	<b>\$18</b>	<b>\$23</b>

Source: The AMC Report

AMC define the value of a mineral asset as the amount of money (or the cash equivalent of some other consideration) for which the asset would change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an 'arm's length' transaction, with each party acting knowledgeably, prudently and without compulsion.

### C.2.2 Summary of Tritton Mine Valuation

#### The Financial Model

BDO CFQ has prepared a DCF valuation using inputs provided by AMC and other macroeconomic assumptions. We have undertaken a critical analysis of the inputs and assumptions used in applying the DCF methodology and are of the view that they are based on reasonable grounds. The Financial Model sets out the expected cash flows for the Tritton mine over the period from 1 July 2015 to 30 June 2023.

We note that forecasts and projections are, by their nature, inherently uncertain. Neither BDO CFQ nor AMC provides any opinion or assurance that the results in the Financial Model, based on the assumptions utilised, will be achieved. BDO CFQ has not reviewed or audited the financial information as defined by the Australian Accounting Standards and Australian Auditing Standards.

This Report considers the value of Straits as at the date of this Report. Many of the assumptions adopted in the Financial Model are subjective and may be subject to material change in short periods of time. Changes in these assumptions may have a material impact on the overall value determined for Straits in this Report. There can be no guarantee that the cash flow forecasts or valuation calculations will hold for any length of time as circumstances are continually changing.

## DCF Valuation Assumptions for the Tritton mine in the Financial Model

As noted above, BDO CFQ has referred to the Financial Model to assist with determining an appropriate value for the Tritton mine.

AMC has made enquiries of Straits management and critically analysed the Financial Model to determine the reasonableness of the assumptions underpinning the projections set out in the Financial Model. Where appropriate, AMC has made adjustments to the Financial Model to better reflect its view of the Tritton mine's value.

Straits shareholders should note the assumptions set out in the Financial Model are referred to in this Report as follows:

- All references to assumptions are stated in real terms rather than nominal terms, unless otherwise stated;
- All references to financial assumptions are stated in AU dollars, unless otherwise stated; and
- All references to assumptions are on a 100% ownership interest basis, unless otherwise stated.

The operational assumptions provided by AMC which BDO CFQ have adopted to complete its DCF valuation of the Tritton mine are set out in section 3.12 of the AMC Report and summarised in Table C.5 below.

**Table C.5: Operational Assumptions provided by AMC which BDO CFQ have adopted to value the Tritton mine**

Description	Unit	Assumption
Mine life	years	8
Total ore processed over mine life	dry t	13,690,145
Total capital cost over mine life <sup>(a)</sup>	\$M	206.9
Operating costs per tonne processed <sup>(b)</sup>	\$/t feed	85.35
Total concentrate produced over mine life	dry t	863,646
<b>Copper</b>		
Average copper feed grade	%Cu	1.63%
Average copper recovery	%	93.13%
Total copper produced	t	207,275
Average copper production	t/quarter	6,477
<b>Gold</b>		
Average gold feed grade	Au g/t	0.22
Average gold recovery	%	41.99%
Total gold produced	t oz	39,986
Average gold production	t oz/quarter	1,250
<b>Silver</b>		
Average silver feed grade	Ag g/t	6.50
Average silver recovery	%	75.85%
Total silver produced	t oz	2,170,605
Average silver production	t oz/quarter	67,831

**Source:** AMC Report

**Note:** (a) Includes costs for property, plant and equipment, capitalised mine development and exploration.

(b) Includes costs for mining, processing, freight and other. Excludes treatment costs, refining costs and royalties.

We have made enquiries of AMC in relation to the operational assumptions adopted in the Financial Model and in the AMC Report for the Tritton mine. AMC have also confirmed to us (and state in the AMC Report) that all of the operational assumptions adopted for the Tritton mine are relevant and appropriate for the purposes of determining a value for the Tritton mine in the AMC Report.

## Key Macroeconomic Assumptions

BDO CFQ has used certain macroeconomic and other market based assumptions to prepare its DCF valuation of the Tritton mine. The key macroeconomic and market based assumptions we have used are set out in Table C.6 below.

**Table C.6: Key Macroeconomic and Market Based Assumptions**

Real Terms	Units	FY16 <sup>(a)</sup>	FY17 <sup>(a)</sup>	FY18 <sup>(a)</sup>	FY19 <sup>(a)</sup>	FY20 <sup>(a)</sup>	Long Term <sup>(a)</sup>
Copper	USD/t	6,061 <sup>(b)</sup>	6,368	6,404	6,203	6,173	6,356
Number of analysts - copper	N/A	27	14	9	6	6	8
Gold	USD/t oz	1,193	1,182	1,169	1,100	1,075	1,109
Number of analysts - gold	N/A	30	17	13	7	5	5
Silver	USD/t oz	16.92	17.00	17.50	16.97	16.92	17.59
Number of analysts - silver	N/A	26	15	12	6	5	5
Exchange Rate	AUD / USD	0.75	0.76	0.77	0.78	0.80	0.81 <sup>(c)</sup>
Number of analysts - Exchange rate	N/A	54	21	11	9	7	7

### Source:

a) Based on analyst consensus real pricing from Bloomberg (FY16 - FY20) adjusted for 2.5% per annum inflation and Consensus Economics (FY20 - Long Term)

To determine financial year values, calendar year values around the respective financial year have been averaged. When two calendar years have been used, the number of analysts cited is based on the smaller of the respective number of analysts for the two calendar years.

b) Copper pricing for FY16 is based on Bloomberg copper forward curve (Q3 2015 & Q4 2015) and Bloomberg analyst consensus pricing

c) The long term exchange rate, which is also based on analyst consensus forecasts, has been provided by Straits

Other key financial and economic assumptions we have used to value the Tritton mine include the following:

- A corporate tax rate of 30% and an assumed tax loss carry forward balance of \$222.2 million which is utilised over the period of the Financial Model (i.e. no tax is paid over the period from 1 July 2015 to 30 June 2023);
- Royalties equal to 3% of spot revenues; and
- A real WACC in the range of 8.4% to 10.3% per annum (refer to Appendix E for further information on the calculation of the WACC adopted for the Tritton mine).

The cash flows we have adopted to value the Tritton mine consider the impact of Straits' tax loss position and assume that Straits will be able to utilise the Company's carried forward tax losses.

## Value of Straits Mineral Assets and Tritton Mine

BDO CFQ has determined a value for the Tritton mine, as represented by the projected cash flows in the Financial Model over the period from 1 July 2015 to 30 June 2023 using the assumptions stated in the preceding section. Table C.7 below sets out a summary of our valuation of the Tritton mine along with the value of Straits Mineral Assets.

**Table C.7: Value of Straits Mineral Assets and Tritton Mine**

Asset	AMC Report Section Reference	Low (A\$'000)	Preferred (A\$'000)	High (A\$'000)
Tritton mine	-	79,646	82,873	86,101
Tritton ETs	Section 4.2	18,000	21,000	24,000
Outer ETs	Section 4.3	12,000	18,000	23,000
<b>Total</b>		<b>109,646</b>	<b>121,873</b>	<b>133,101</b>

Source: AMC Report, BDO CFQ Analysis

### C.2.3 Value of Straits' Other Assets and Liabilities prior to the Proposed Transaction

The net value we have adopted for the other assets and liabilities held by Straits prior to the Proposed Transaction is summarised in Table C.8. We have been informed by the directors of Straits that there are no other material assets, liabilities, off-balance sheet assets and liabilities or unrecognised liabilities as at the date of this Report that have not been included in Table C.8.

**Table C.8: Values Adopted for the Other Assets and Liabilities Held by Straits prior to the Proposed Transaction**

Item	Value (A\$'000)
Cash and cash equivalents	24,022
Other financial assets	2,126
<b>Total Assets</b>	<b>26,148</b>
Interest bearing liabilities <sup>(a)</sup>	(170,709)
Provisions <sup>(b)</sup>	(5,906)
Corporate advisory and transaction fees <sup>(c)</sup>	(2,000)
<b>Total Liabilities</b>	<b>(178,615)</b>
<b>Net Asset Surplus / (Deficiency)</b>	<b>(152,467)</b>

*Source: Straits financial position as at 30 June 2015*

*Note: (a) The USD balances included in interest bearing liabilities have been updated from the 30 June 2015 audited balance sheet using the 9 October 2015 closing USD/AUD rate of \$0.7284 obtained from RBA website*

*(b) Provisions include a provision for employee benefits and other minor provisions. Provisions for rehabilitation and dismantling costs have not been allowed for on the assumption that dismantling costs are covered by the scrap value to be received on the plant and rehabilitation costs are covered by approximately \$4 million to be received from bonds (which is a non-current receivable and classified as restricted cash)*

*(c) Straits management have advised that corporate advisory fees incurred in relation to the Proposed Transaction are expected to equal \$2.0 million and include legal fees, consulting fees, marketing fees and ASX fees*

Table C.8 shows the value of the other assets and liabilities held by Straits prior to the Proposed Transaction is a net asset deficiency of approximately \$152.5 million.

### C.2.4 Asset Based Valuation of Straits prior to the Proposed Transaction

The key elements of our ABV methodology can be broadly summarised as:

- The value of the 'Straits Assets', including:
  - Mineral Assets as set out in Section C.2.1;
  - The Tritton mine as set out in Section C.2.2; and
- The value of the other assets and liabilities of Straits as set out in Section C.2.3.

The values calculated for the assets and liabilities of Straits in this Report are stated in Australian dollars. Our ABV of Straits prior to the Proposed Transaction is set out in Table C.9 below.

**Table C.9: ABV of Straits prior to Proposed Transaction**

	Section Reference	Low Value	Preferred Value	High Value
Value of the Straits Assets (A\$000)	Section C.2.2	109,646	121,873	133,101
Value of the Other Assets and Liabilities of Straits (A\$'000)	Section C.2.3	(152,467)	(152,467)	(152,467)
<b>ABV of Straits prior to the Proposed Transaction (A\$'000)</b>		<b>(42,821)</b>	<b>(30,594)</b>	<b>(19,366)</b>
Number of Straits Shares on Issue ('000s)		1,217,730	1,217,730	1,217,730
<b>Value per Straits Share prior to the Proposed Transaction (A\$)</b>		<b>(0.0352)</b>	<b>(0.0251)</b>	<b>(0.0159)</b>

*Source: BDO CFQ Analysis*



Table C.9 shows that our ABV of Straits prior to the Proposed Transaction is within the range of negative A\$42.8 million to negative A\$19.4 million, which equates to a value per Straits share prior to the Proposed Transaction within the range of negative A\$0.0352 to negative A\$0.0159. We note that our ABV of Straits prior to the Proposed Transaction provides a value per share for Straits prior to the Proposed Transaction on a controlling interest basis.

Our ABV of Straits prior to the Proposed Transaction has been completed on the basis that Straits is a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Proposed Transaction in accordance with the requirements of RG 111. Accordingly, our ABV does not specifically incorporate any adjustments for the impact of the issues arising as a consequence of the financial distress currently being experienced by Straits.

### C.3 Market Based Valuation of Straits

This section sets out our market based valuation of Straits prior to the Proposed Transaction. We note that a MBV generally provides a value per share on a minority interest basis.

Our MBV of Straits is set out as follows:

- Section C.3.1 considers the recent share market performance of Straits ordinary shares;
- Section C.3.2 considers the liquidity of Straits ordinary shares;
- Section C.3.3 considers recent transactions relating to large parcels of Straits ordinary shares;
- Section C.3.4 sets out our conclusion on the MBV of Straits shares on a minority interest basis; and
- Section C.3.5 sets out our conclusion on the MBV of Straits shares on a controlling interest basis.

#### C.3.1 Straits' Share Market Performance

Straits' ordinary shares are listed on the ASX. Information on the recent share market performance of Straits shares along with a summary of recent announcements made by Straits to the ASX are set out in Section 5.6 above.

With reference to the information set out in Section 5.6 above, we note the VWAP of Straits shares traded on the ASX for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 31 July 2015, being the day before the announcement of the Proposed Transaction, ranged from A\$0.0068 to A\$0.0136.

#### C.3.2 Liquidity of Straits Shares

With reference to the information set out in Section 5.7 in relation to the liquidity of Straits shares we note that approximately 21.75% of total shares in issue were traded over the twelve month period to July 2015, and approximately 0.73% of the total shares on issue were traded over the period between 1 July 2015 and 31 July 2015 (i.e. the day before the announcement of the Proposed Transaction).

Having regard to the above, in our view, Straits shares exhibit a relatively low level of liquidity.

#### C.3.3 Recent Significant Transactions in Straits Shares

In recent years, there has not been any significant transaction in Straits shares which provide additional evidence of value.

#### C.3.4 Conclusion on Market Based Valuation of Straits Shares on a Minority Interest Basis

Having regard to the information set out directly above and in Sections C.3.1 to C.3.3, it is our view that it is appropriate to adopt a value of each Straits ordinary share under a MBV methodology in the range of A\$0.007 to A\$0.012 on a minority interest basis as at the date of this Report. We note that our adopted value is approximately equal to the VWAP of Straits shares traded on the ASX for the 12 months and 1 month period prior to the announcement of the Proposed Transaction.



### C.3.5 Conclusion on Market Based Valuation of Straits Shares on a Controlling Interest Basis

The value of a Straits share on a controlling interest basis can be calculated by applying a control premium to the minority interest value calculated for a Straits share in Section C.3.4 of this Report. Having regard to our control premium research set out in Appendix F of this Report, it is our view that it is appropriate to adopt a control premium of 30% for the purposes of the analysis set out in this Report.

Our valuation of a Straits share on a controlling interest basis is set out in Table C.10 below.

**Table C.10: Valuation of a Straits Share on a Controlling Interest Basis**

	Reference	Value (A\$)
Value of Straits Shares (Minority Interest)	Section C.3.4	0.007 to 0.012
Control Premium	Appendix F	30.00%
Value of Straits Shares (Controlling Interest)		<b>0.009 to 0.016</b>

Source: BDO CFQ Analysis

### C.4 Conclusion on the Value of Straits Shares prior to the Proposed Transaction

Factors that we have considered to conclude on a value for Straits prior to the Proposed Transaction include:

- The ABV adopted returned a negative value per share under all scenarios, specifically negative A\$0.0352 to negative A\$0.0159;
- If the Proposed Transaction is not approved and Straits is issued with a notice of default that is not remedied, the Existing Lender has the right to enforce its security which may include appointing a receiver and manager to the company for the purpose of taking control and realising all assets to recover the debt owed. If placed in to receivership, it is likely that the costs of the receivership and realisation costs may result in a shortfall to the Existing Lender (having regard to our ABV and on the basis that the ABV represents a fair market value of the assets). In this circumstance, there would not be any return to shareholders on their equity value;
- In our view, the MBV provides less relevant information in the circumstances for reasons which include:
  - in our view, the market for Straits shares exhibits a relatively low level of liquidity; and
  - the Straits share price prior to the announcement of the Proposed Transaction may reflect positive market expectations in relation to the future operations of Straits and the outcome of the debt negotiations; and
- A comparison of the value of a Straits share before the Proposed Transaction and following the Proposed Transaction is more readily able to be calculated utilising the ABV (compared to the MBV).

Having regard to the above mentioned points, it is our view that the value per Straits ordinary shares on a controlling interest basis is nominal prior to the Proposed Transaction. We specifically note that applying an ABV methodology returns a material net asset deficiency. For the purposes of the analysis set out in this Report, it is our view that it is appropriate to adopt a value of \$nil per Straits share.

In accordance with paragraph 111.15 of RG 111, Straits shareholders should note that we have not adjusted our valuation for the financial distress of Straits. We have considered the value of Straits on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the Proposed Transaction.

In circumstances where Straits is unable to renegotiate the terms of the Senior Debt and a voluntary administrator or receiver is appointed, there is a material risk that the value ultimately realised will not exceed our conclusion on value set out in this Report.

## Appendix D - Valuation of Straits Following the Proposed Transaction

This section is set out as follows:

- Section D.1 sets out our view of the most appropriate methodology to value Straits following the Proposed Transaction;
- Section D.2 sets out our view of the value of Straits following the Proposed Transaction having regard to an ABV methodology; and
- Section D.3 sets out our conclusion on the value of Straits following the Proposed Transaction for the purposes of this Report.

### D.1 Our Valuation Approach

Table D.1 below summarises our view of the methodologies that are appropriate to determine the value of Straits following the Proposed Transaction. Table D.1 also provides a brief explanation as to why each methodology is or is not appropriate. Appendix B of this Report provides a summary of each of the valuation methodologies listed in Table D.1.

**Table D.1: Appropriate Valuation Methodologies for Straits following the Proposed Transaction**

Valuation Methodology	Adopted	Explanation
ABV	✓	For reasons consistent with those outlined in Section C.1, we are of the view that it is appropriate to have regard to an ABV methodology for the purposes of valuing Straits following the Proposed Transaction in this Report.
DCF	✓ Incorporated in ABV	For reasons consistent with those outlined in Section C.1, we are of the view that it is appropriate to incorporate BDO CFQ's DCF valuation based on inputs supplied by AMC into our ABV of Straits following the Proposed Transaction in this Report.
CME	✗	For reasons consistent with those outlined in Section C.1, we are of the view that there are more appropriate valuation methodologies than the CME valuation methodology which can be adopted for the purposes of valuing Straits following the Proposed Transaction in this Report.
MBV	✗	As at the date of this Report, there is a limited amount of information on the price at which shares in Straits will trade at following the Proposed Transaction. We are unable to rely on a MBV methodology to value Straits following the Proposed Transaction.

For reasons outlined in Table D.1 above, we are of the view that it is appropriate to adopt an ABV methodology for determining an appropriate value for Straits following the Proposed Transaction.

### D.2 Asset Based Valuation of Straits following the Proposed Transaction

Our asset based valuation of Straits following the Proposed Transaction is set out as follows:

- Section D.2.1 sets out our adopted valuation of the Straits Assets;
- Section D.2.2 considers the fair market value of the other assets and liabilities of Straits;
- Section D.2.3 considers the application of a minority interest discount; and
- Section D.2.4 sets out the fair market value of Straits on a minority interest basis following the Proposed Transaction.

### D.2.1 Valuation of the Straits Assets

For the purposes of our valuation of Straits following the Proposed Transaction in this Report, we have adopted a valuation range for the Straits Assets within the range of approximately \$109.6 million to approximately \$133.1 million.

We note that the valuation range for the Straits Assets set out above is consistent with our valuation of Straits shares prior to the Proposed Transaction as set out in Table C.7 above.

### D.2.2 Value of Straits' Other Assets and Liabilities following the Proposed Transaction

The net value we have adopted for the other assets and liabilities held by Straits following the Proposed Transaction is summarised in Table D.2. We have been informed by the directors of Straits that there are no other material assets, liabilities, off-balance sheet assets and liabilities or unrecognised liabilities as at the date of this Report that have not been included in Table D.2.

**Table D.2: Values Adopted for the Other Assets and Liabilities Held by Straits following the Proposed Transaction**

Item	Value (A\$'000)
Cash and cash equivalents	24,022
Other financial assets	2,126
<b>Total Assets</b>	<b>26,148</b>
Interest bearing liabilities	(78,793)
Provisions <sup>(a)</sup>	(5,906)
Corporate advisory and transaction fees	(2,900)
<b>Total Liabilities</b>	<b>(87,599)</b>
<b>Net Asset Surplus / (Deficiency)</b>	<b>(61,451)</b>

Source: Straits Audited statement of financial position as at 30 June 2015, discussions with Straits Management and BDO CFQ Analysis

Note: (a) Provisions include a provision for employee benefits and other minor provisions. Provisions for rehabilitation and dismantling costs have not been allowed for on the assumption that dismantling costs are covered by the scrap value to be received on the plant and rehabilitation costs are covered by approximately \$4 million to be received from bonds (which is a non-current receivable and classified as restricted cash).

We note the values adopted in Table D.2 above are consistent with those adopted in Section C.2.3 of this Report, with the exception of the following:

- Interest bearing liabilities have been adjusted downwards to reflect the reduction in SCB senior debt to US\$50.0 million (or A\$78.8 million assuming US\$50.0 million converted at an exchange rate of \$0.73 plus the A\$10.3 million CI Facility); and
- An additional allowance of A\$0.9 million has been included to recognise corporate advisory fees that will be payable in circumstances where the Proposed Transaction is approved (the establishment fee on the revolving facility to be provided by PAG).

Table D.2 shows the value of the other assets and liabilities held by Straits is a net asset deficiency of approximately \$61.5 million.

### D.2.3 Application of a Minority Interest Discount

An asset based valuation typically calculates the value of a company on a controlling interest basis. As the valuation of Straits set out in this section is an asset based valuation (i.e. a controlling interest basis) we are required to apply a minority discount to calculate the value on a minority interest basis. We note that a minority interest in a company is generally regarded as being less valuable than that of a controlling interest as a controlling interest may provide the owner with the following:

- Control over the operating and financial decisions of the company;
- The right to set the strategic direction of the company;
- Control over the buying, selling and use of the company's assets; and

- Control over the appointment of staff and setting of financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid, or some other mechanism for control, for another company. Empirical research suggests that control premiums are typically within the range of 20% to 40% which is consistent with recent transactions in Australia (refer to Appendix F for our control premium research). The inverse of this range to apply for a minority discount is 16.7% to 28.6%.<sup>4</sup>

For the purposes of this Report, in our view it is appropriate to adopt a minority discount of 23.1% to calculate the value of Straits on a minority interest basis.

#### D.2.4 Asset Based Valuation of Straits on a Minority Interest Basis following the Proposed Transaction

As mentioned previously, it is our view that it is appropriate to apply an ABV methodology to determine the value of Straits on a minority interest basis following the Proposed Transaction. The key elements of our ABV methodology can be broadly summarised as:

- The value of the Straits Assets, including:
  - Straits Mineral Assets as set out in Section C.2.1;
  - The Tritton mine as set out in Section C.2.2;
- As mentioned in Section 3.3.2 of this Report, the Company has granted SCB an ongoing ‘Copper Price Participation Payment’, which will be based on the amount of copper produced and the prevailing copper price. Further details of the Copper Price Participation Payment and how it is to be calculated are set out in section 2.5 of the Explanatory Memorandum.

The value of the Copper Price Participation Payment is deducted from the value of the Straits Assets as it represents an additional cash outflow payable out of free cash flows. The value of the Copper Price Participation Payment has been calculated having regard to the assumptions set out in the Financial Model. We have calculated the value of the Copper Price Participation Payment to be within the range of \$5.5 million and \$5.9 million; and

- The value of the other assets and liabilities of Straits as set out in Section D.2.2.

Our ABV of Straits on a minority interest basis following the Proposed Transaction is set out in Table D.3 below.

**Table D.3: ABV of Straits on a Minority Interest Basis Following the Proposed Transaction**

	Section Reference	Low Value	Preferred Value	High Value
Value of the Straits Assets (A\$'000)	Section C.2.2	109,646	121,873	133,101
Value of the Copper Price Participation (A\$'000)		(5,491)	(5,695)	(5,898)
Value of the Other Assets and Liabilities of Straits (A\$'000)	Section D.2.2	(61,451)	(61,451)	(61,451)
<b>ABV of Straits following to the Proposed Transaction (A\$'000) - controlling interest basis</b>		<b>42,703</b>	<b>54,727</b>	<b>65,751</b>
Less minority interest discount		-23.1%	-23.1%	-23.1%
<b>ABV of Straits following to the Proposed Transaction (A\$'000) - minority interest basis</b>		<b>32,835</b>	<b>42,080</b>	<b>50,556</b>

Source: BDO CFQ Analysis

Table D.3 shows that our ABV of Straits on a minority interest basis following the Proposed Transaction is within the range of A\$32.8 million to A\$50.6 million.

#### D.2.5 Allocation of Asset Based Valuation to Straits Securities Holders

To calculate the value of a Straits ordinary share, it is necessary to apportion the value from Table D.3 above between ordinary shareholders and the holders of all the differing security classes that may convert into ordinary shares. Table D.4 below sets out the value of Straits attributable to each class of security holder on a fully diluted basis.

<sup>4</sup> Calculated as:  $1 - 1/(1 + \text{control premium})$

**Table D.4: Value of Straits Attributable to Each Class of Security Holder**

	Number of Shares	Percent of Shares on Issue	Low Value (A\$'000)	Preferred Value (A\$'000)	High Value (A\$'000)
Ordinary Shareholders	936,596,400	10.0%	3,292	4,219	5,069
Straits Management	939,005,080	10.1%	3,301	4,230	5,082
SCB Private Equity	214,663,740	2.3%	755	967	1,162
Credit Suisse	245,000,000	2.6%	861	1,104	1,326
PAG	1,401,159,130	15.0%	4,925	6,312	7,583
SCB	5,604,636,530	60.0%	19,701	25,248	30,334
<b>Total</b>	<b>9,341,060,880</b>	<b>100.0%</b>	<b>32,835</b>	<b>42,080</b>	<b>50,556</b>

Source: BDO CFQ Analysis

In relation to Table D.4 above, we note that as all securities are assumed to be converted into ordinary shares, the value of each share referred to in the table above is in the range of A\$0.0035 to A\$0.0054 (assuming there are 9,341,060,880<sup>5</sup> Straits shares on a fully diluted basis). While Table D.4 above allocates value on a fully diluted basis, there may be value differences between the different classes of securities for the following reasons:

- The CRPS are redeemable by Straits within the first 4 years of the term. The Directors have instructed us they would only expect Straits to redeem the CRPS in circumstances where the cash was available and the redemption is in the interests of the ordinary shareholders. SCB is only able to redeem the notes in limited circumstances and only in response to Straits taking certain actions as set out in the loan documentation;
- The CRPS will mandatorily convert into ordinary shares on the fifth anniversary of issue if not converted redeemed or converted earlier;
- The CNRPS are non-redeemable by Straits, except in limited circumstances;
- The CRPS accrue dividends at 5% per annum which are only payable if redeemed or the Straits declare a dividend. These dividends are written off if the CRPS convert;
- The Directors of Straits do not expect to be in a position to pay a dividend on ordinary securities prior to the CRPS and CNRPS being redeemed or converted;
- There are certain vesting conditions attached to the Management Options which restrict the exercise of the options to certain time periods and there are also certain restrictions on trading post exercise of the Management Options;
- The CRPS and CNRPS both rank before ordinary shares in the event of liquidation. In the event of liquidation, the CRPS and CNRPS will be entitled to receive the face value (US\$40 million and US\$1 respectively) and other deferred amounts in priority to ordinary shareholders. This provides the CRPS and CNRPS with more value in circumstances of financial distress. However, if Straits is being liquidated, in our view this is likely to suggest a continuing period of poor financial performance and inability to raise further capital to fund the business and/or restructure its debt. In these circumstances, it is difficult to determine with a sufficient degree of certainty the amount of funds that would be available for distribution to the CRPS and CNRPS holders. Given Straits will continue to have a large debt balance following the Proposed Transaction, the possibility exists that there will be no funds remaining for distribution;
- The CRPS and CNRPS only carry voting rights in certain circumstances (refer section 2.5(b)(8)(j) of Explanatory Memorandum). The CRPS and CNRPS are not intended to constitute a voting share for the purposes of the Corporations Act; and
- Under the terms of the Proposed Transaction SCB and PAG will each have a separate entitlement to appoint one director to the Board of Straits, which entitlement will cease for SCB or PAG if it holds convertible preference shares and/or ordinary shares in Straits which represent less than 10% of ordinary shares on issue.

<sup>5</sup> To simplify the pre and post transaction analysis set out in this Report, we have not adjusted the share numbers set out in this Report for the Consolidation. We would not expect the Consolidation to impact on our valuation materially. On a pro-rata basis, a value of A\$0.0035 to A\$0.0054 implies a post consolidation value of A\$0.035 to A\$0.054.

Having regard to the above, it is our view that a Straits ordinary share is likely to have less value than a CRPS. Having regard to the above matters, a CRPS essentially has a liquidation preference which provides more value, particularly in circumstances of financial distress. There is no observable market information available to assist us to determine an appropriate discount. Notwithstanding, having regard to the above matters, we would expect that the discount for the ordinary share may reasonably be estimated in the range of 0% to 50%. For the purposes of this Report we have applied an additional discount to the ordinary shares of 25% and adopted a value for a Straits ordinary share in the range of A\$0.0026 to A\$0.0041 following the Proposed Transaction. Our opinion on the Proposed Transaction would not be different in circumstances where we had applied a higher or lower discount.

Our ABV of Straits following the Proposed Transaction does not specifically incorporate any adjustments for the impact of the issues arising as a consequence of any financial distress that may be experienced by Straits.

## Appendix E – Discount Rate for Straits

This appendix sets out our view as to the appropriate weighted average cost of capital ('WACC') for the purposes of performing the DCF valuation of Straits.

A company has two principal sources of capital finance: debt and equity. An average of the respective required returns on capital for equity and debt holders, weighted by the relative value of the equity and debt capital of the company, is typically used to estimate the company's overall cost of capital. This is commonly referred to as the WACC.

The formula typically used to calculate the WACC is:

$$WACC = r_e \times \frac{E}{V} + r_d \times \frac{D}{V} \times (1 - \tau)$$

Where:

$r_e$  represents the required return on equity;

$\frac{E}{V}$  represents the portion of the capital that is equity;

$r_d$  represents the required return on debt;

$\frac{D}{V}$  represents the portion of the capital that is debt; and

$\tau$  represents the tax rate.

Details regarding the appropriate capital structure, required return on equity, required return on debt and taxation assumptions appropriate for Straits are discussed below.

In our calculation of the WACC for Straits, we have had regard to companies which in our view may be considered broadly comparable to Straits. A brief description of these companies is set out in Section E.6.

### E.1 Capital Structure

Table E.1 below summarises the average percentage of debt and equity observed in the capital structure of each comparable company over the previous four year period.

Table E.1: Capital Structures of Broadly Comparable Companies

Companies	Total Capital (\$millions)	Debt (%) in Capital Structure	Equity (%) in Capital Structure	Number of Years in Gearing Measure
OZ Minerals Limited	2,249.1	0.0%	100.0%	4.0
Sandfire Resources NL	439.7	55.0%	45.0%	4.0
Hillgrove Resources Ltd	259.3	14.5%	85.5%	4.0
KBL Mining Limited	57.5	33.4%	66.6%	4.0
Rex Minerals Limited	189.4	0.0%	100.0%	4.0
<b>Median</b>		<b>24.0%</b>	<b>76.0%</b>	
<b>Mean</b>		<b>30.4%</b>	<b>69.6%</b>	

Source: Capital IQ and BDO CFQ analysis

In relation to Table E.1 above, we note the following, comparable companies have a mean debt to capital ratio of 30.4% and a mean equity to capital ratio of 69.6%. After consideration of the above and having regard to our own experience, it is our view that it is appropriate for the purposes of this Report to adopt a target capital structure for Straits of 30% debt and 70% equity.

### E.2 Required Return on Equity

The most widely accepted method of estimating a company's cost of equity capital is the capital asset pricing model ('CAPM'). The CAPM proposes that any asset is priced according to its market or systematic risk (commonly referred to as the beta of the asset). The CAPM formula is as follows:

$$CAPM = r_f + \beta(r_m - r_f)$$

Where:

$r_f$  represents the risk free rate;

$\beta$  represents the beta of the company; and

$(r_m - r_f)$  represents the market risk premium and is equal to the additional return that an investor would require to invest in a fully diversified market portfolio rather than at the risk free rate.

### *E.2.1 Risk Free Rate*

We note that Commonwealth Treasury bond yields are currently at historically low levels. In our view, the current low yield levels may not persist over the medium to long term.

Having regard to the above, in our view an appropriate risk free rate to use in calculating the cost of equity capital for Straits is the 10 year average of the rate on 10-year Commonwealth Treasury Bonds. As at 8 October 2015, the average 10 year rate on 10-year Commonwealth Treasury Bonds was 4.69% (Source: Capital IQ). We have adopted a risk free rate of 4.7% for the purpose of our CAPM calculations.

### *E.2.2 Beta Estimation*

It is conventional practice to refer to comparable companies listed on stock exchanges to determine the appropriate equity beta to use in the CAPM. We have considered the equity betas of comparable companies against the S&P/ASX 200 Index using weekly and monthly data over the past four years as at 8 October 2015.

Equity betas are the commonly cited measure of the sensitivity of a company's share price to movements in the overall market. To ensure that the betas of these companies are comparable to Straits, the observed equity betas have been adjusted to remove the impact of the debt in their capital structures. Debt tends to increase the riskiness of a company's cash flows and will therefore increase the sensitivity of a company's returns to market movements. That is, debt serves to inflate equity betas.

Adjustments to remove the impact of debt allow for the calculation of an asset beta. Asset betas provide a measure of the sensitivity of a company's returns to movements in the overall market, independent of a company's capital structure. These betas are more appropriate to consider when comparing companies with different capital structures.

Table E.2 below sets out the equity betas and asset betas of the broadly comparable companies. The asset betas of the broadly comparable companies have been calculated having regard to the capital structures of each company set out in Table E.1.



**Table E.2: Equity and Asset Betas of Broadly Comparable Companies**

Company	Equity Beta <sup>(a)</sup>	Asset Beta <sup>(b)</sup>	Equity Beta <sup>(c)</sup>	Asset Beta <sup>(b)</sup>
OZ Minerals Limited	1.39	1.39	0.61	0.61
Sandfire Resources NL	1.50	0.81	0.44	0.23
Hillgrove Resources Ltd	0.74	0.66	0.87	0.78
KBL Mining Limited	1.64	1.12	1.30	0.89
Rex Minerals Limited	0.95	0.95	1.56	1.56
<b>Median</b>	<b>1.39</b>	<b>0.95</b>	<b>0.87</b>	<b>0.78</b>
<b>Mean</b>	<b>1.24</b>	<b>0.99</b>	<b>0.96</b>	<b>0.81</b>

Source: Capital IQ as at 8 October 2015

(a) This equity beta is calculated using weekly data for four historical years relative to the S&P/ASX 200 Index.

(b) Asset betas are calculated using the capital structures in Table E.1 and a tax rate of 30%.

(c) This equity beta is calculated using monthly data for four historical years relative to the S&P/ASX 200 Index.

In relation to Table E.2, we note the following:

- There is a wide dispersion in the value of beta across the broadly comparable companies; and
- The average R<sup>2</sup> (in the context of beta, the percentage of security movements that can be explained by movements in a benchmark index) is low at 9.7% for the weekly data and 4.1% for the monthly data.

In our opinion, only limited conclusions regarding an appropriate beta estimate can be derived from the observed betas of comparable companies above, as we understand that the operating nature of mining companies is heavily driven by risk factors inherent in its individual mining projects (e.g. the prospect of discovery associated with each project). In our professional judgement, it is not unreasonable to conclude that an entity such as Straits would have an asset beta of 1.20 to 1.40 (assuming no debt).

For the purpose of calculating a cost of equity, we have re-leveraged the asset beta having regard to the appropriate capital structure for broadly comparable companies. In order to re-leverage an Asset Beta, the appropriate formula is:

$$\beta_a \times \left(1 + \left((1 - \tau) \times \frac{D/V}{E/V}\right)\right)$$

Where:

$\beta_a$  represents the asset beta;

$\tau$  represents the tax rate;

$D/V$  represents the portion of the capital that is debt; and

$E/V$  represents the portion of capital that is equity.

Based on the assumed target capital structure comprising 30% debt and 70% equity, the Australian tax rate of 30% and an asset beta range of 1.20 to 1.40, we calculated an equity beta for Straits in the range of 1.56 to 1.82, as set out in Table E.3 below.

**Table E.3: Equity Beta Calculation**

Description	Low	High
$D/V$	30%	30%
$\tau$	30%	30%
$E/V$	70%	70%
$\beta_a$	1.20	1.40
$\beta_e$	<b>1.56</b>	<b>1.82</b>

Source: BDO Analysis

### E.2.3 Market Risk Premium

To assess an appropriate market risk premium ('MRP'), we have had regard to numerous empirical studies. This research indicates that market risk premiums can be estimated within the range of 4.5% to 7%.

Having regard to the above and common market practice, we are of the view that a MRP in the range of 6.0% to 6.5% is appropriate.

### E.2.4 Required Return on Equity Estimate

Based on the above mentioned inputs, we consider it appropriate to adopt a required return on equity for Straits within the range of 14.1% to 16.5%.

## E.3 Required Return on Debt

We have considered the following with regard to the determination of an appropriate return on debt for Straits:

- The five year Swap Rates (Quarterly in arrears) as at 8 October 2015, as published by the Australian Financial Review, is 2.40%;
- The lending margin for recent financing deals in the mining sector in Australia is 100 to 500 basis points above the benchmark rate (Source: LoanConnector) depending on maturity and amount;
- The NAB business lending benchmark rate as at 8 October 2015 is 8.47%; and
- A third party purchaser of Straits may be able to borrow more cheaply through debt raised over the operating assets, given their projected level of profitability.

For the purposes of this Report, we have adopted a long-term required cost of debt in the range of 6% to 7% for Straits.

### E.4 Tax Rate

We have adopted a tax rate of 30% in the calculation of the WACC to adjust for the fact that the CAPM model used for calculating the return on equity uses after tax inputs.

## E.5 WACC Calculation

### E.5.1 Nominal WACC Calculation

In our view, based on our consideration of the inputs to the WACC as outlined above, it is not unreasonable to adopt a nominal required rate of return (i.e. WACC) to the after tax and before interest cash flows of Straits of 11.1% to 13.0%. For reasons set out previously, we note that the WACC ultimately adopted needs to be commensurate with the riskiness of the after tax and before interest cash flows of the company.

### E.5.2 Real WACC Calculation

The cash flows set out in the Financial Model are in real terms. When real cash flows are utilised it is necessary to convert the nominal WACC to a real WACC. The real WACC is calculated as follows:

$$WACC_{real} = \frac{1 + WACC_{nom}}{1 + Infl_{year}} - 1$$

Where:

$WACC_{real}$  represents the real WACC

$WACC_{nom}$  represents the nominal WACC

$Infl_{year}$  represents the change in the inflation index during the financial year

Based on the calculated nominal WACC and a rate of inflation of 2.5% we have calculated the real WACC to be in the range of 8.4% to 10.3%.

### E.6 Description of Broadly Comparable Companies

In determining an appropriate capital structure and beta to apply in our calculation of WACC for Straits we have had regard to companies which in our view may be considered broadly comparable to Straits. Table E.4 below provides a brief description of companies which in our view may be considered broadly comparable to Straits. We have had regard to these companies in our calculation of the WACC set out in Sections E.1 to E.4.

**Table E.4: Description of Broadly Comparable Companies**

Company Name	Company Description
OZ Minerals Limited	OZ Minerals Limited explores and develops mining projects in Australia. The company explores for copper, gold, silver, and iron deposits. It owns and operates the Prominent Hill copper-gold mine located in the Gawler Craton of South Australia; and Carrapateena project located in central South Australia. OZ Minerals Limited is based in Parkside, Australia.
Sandfire Resources NL	Sandfire Resources NL produces and sells copper and gold deposits; and explores and evaluates mineral tenements in Australia and internationally. It also explores and evaluates volcanogenic massive sulphide deposits at the Doolgunna project. The company is based in West Perth, Australia.
Hillgrove Resources Limited	Hillgrove Resources Limited operates as a mineral extraction and production company in Australia and Indonesia. The company primarily explores for copper, gold, and silver deposits. Its flagship project is the open pit Kanmantoo copper mine located in the Adelaide Hills region of South Australia. The company is based in Sydney, Australia.
KBL Mining Limited	KBL Mining Limited operates in the mineral exploration, resource development, and mining industry in Australia. It primarily holds a 100% interest in the Mineral Hill copper-gold-silver-lead-zinc mine located in New South Wales. KBL Mining Limited was founded in 2008 and is headquartered in North Sydney, Australia.
Rex Minerals Limited	Rex Minerals Limited engages in the exploration and development of mineral properties in Australia. It explores for copper, gold, and iron ore deposits. The company's flagship property includes a 100% owned Hillside copper-gold project located in Yorke Peninsula, South Australia. Rex Minerals Limited is based in Adelaide, Australia.

Source: Capital IQ

## Appendix F - Control Premium Research

A controlling interest in a company is usually regarded as being more valuable than a minority interest as it provides the owner with control over the operating and financial decisions of the company, the right to set the strategic direction of the company, control over the buying, selling and use of the company's assets, and control over appointment of staff and setting financial policies.

The increase in value for a controlling interest is often observed where an acquirer launches a takeover bid for another company. For the purposes of our research on control premiums, we have defined a controlling interest to be an interest where the acquirer has acquired a shareholding of greater than 50% in the target company.

The control premium observed in a given takeover bid may be impacted by a range of factors, including:

- The specific value that may have been applicable to the acquirer at the time of the transaction;
- The level of ownership already held by the acquirer in the target;
- The level of speculation in the market about a transaction between the target and the acquirer;
- The presence of competing bids for the target; and
- The prevailing strength of the market and the economy more broadly at the time of the transaction.

To determine an appropriate control premium range to apply to Straits in this Report, we have considered the following information:

- Control premiums implied in merger and acquisition transactions of copper, gold and silver companies operating in Australia, which indicate median control premiums in the range of 25% to 33%;
- Recent independent expert's reports which apply control premiums in the range of 20% to 40%;
- Various industry and academic research, which suggests that control premiums are typically within the range of 20% to 40%;
- Various valuation textbooks; and
- Industry practice.

Having regard to the information set out above, in our view, it is appropriate to consider control premiums within the range of 20% to 40% for the purposes of assessing the Proposed Transaction in this Report.

## Appendix G - Technical Expert's Report

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# Report

## **Straits Resources Limited – Independent Technical Specialist's Report** **BDO Corporate Finance (QLD) Limited**

AMC Project 315031  
10 November 2015

## Quality control


The signing of this statement confirms this report has been prepared and checked in accordance with the AMC Peer Review Process. AMC's Peer Review Policy can be viewed at [www.amcconsultants.com](http://www.amcconsultants.com).

### Project Manager

  
The signatory has given permission to use their signature in this AMC document.  
Edward Gleeson

**10 November 2015**  
Date

### Peer Reviewer

  
The signatory has given permission to use their signature in this AMC document.  
Mike Thomas

**10 November 2015**  
Date

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## Appendices

Appendix A Independent Verification of Material Tenements

## Distribution list

1 e-copy to BDO Corporate Finance (QLD) Limited  
 1 e-copy to AMC Brisbane office

## 1 Introduction

### 1.1 Background

BDO Corporate Finance (QLD) Limited (BDO) has been engaged by Straits Resources Limited (SRL) to prepare an Independent Expert Report (IER) in connection with a proposed restructuring of SRL's existing debt with its lender, Standard Chartered Bank, and the provision of new money by an Asian-based investment firm (together the Proposed Refinancing).

SRL's primary asset is the Tritton mining operation and associated regional exploration tenements located in central New South Wales (NSW). Tritton is solely owned by SRL and its subsidiaries.

BDO has commissioned AMC Consultants Pty Ltd (AMC) to undertake the role of Specialist<sup>1</sup>, working under the direction of BDO, to prepare an Independent Technical Specialist Report (ITSR), for inclusion in the IER.

AMC advises that:

- AMC has no interest in the outcome of the Proposed Refinancing.
- AMC has considered its independence with respect to ASIC Regulatory Guide 112: Independence of experts and is, in its opinion, independent of SRL.
- AMC has the appropriate skill and experience to prepare the ITSR.

Between 2010 and 2014 AMC conducted four reviews of SRL's assets at Tritton for Standard Chartered Bank. AMC has also completed several, smaller technical assignments related to the underground mining operations for SRL.

This ITSR references and is informed by work carried out by SRL and where appropriate by AMC's the earlier work.

AMC has prepared the report in accordance with The VALMIN Code as far as it is relevant to the purpose and scope of the assignment.

### 1.2 Scope of Work

AMC's scope of work is to:

- Provide advice to BDO as to what is reasonable, for the purpose of valuing SRL, in relation to the mineral resources and ore reserves, mining plans, production profiles, costs, and valuation of exploration interests.
- Review the mineral assets and the planned operation or development of SRL's operations and projects and to consider the following aspects of each operation/project including identification of technical risks:
  - Geology and resources
  - Geotechnical issues
  - Ore reserves
  - Mining operations
  - Metallurgy and processing operations
  - Waste rock and tailings storage
  - Environmental aspects
  - Production and development schedules
  - Capital and operating costs

---

<sup>1</sup> As defined under section D10 of the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports (The VALMIN Code), 2005.

- Valuation of exploration properties/projects, production from which is not included in future production schedules

BDO understands that the mine plan is predominantly supported by ore reserves and does not materially rely on future conversion of mineral resources to ore reserves. Accordingly, BDO instructed AMC to consider a single development and production scenario in addressing the value of the major assets of SRL.

Specific exclusions from AMC's scope of work are:

- Marketing, commodity prices and exchange rates.
- Determination of product royalty charges.
- Estimation of corporate, funding, head office, insurances costs and working capital.
- Financial and taxation analysis, including inflation and discount rates.
- A market valuation of the operating mines and the project of SRL.
- Assessment of sovereign risk.
- Verification of the standing of tenements as is required for a public report under the VALMIN Code (refer to clauses 67, 68 and 69).
- Legal considerations.

To prepare the ISTR, an AMC Principal Geologist, and AMC's Principal Environmental Engineer visited Tritton on 29 – 30 June 2015. Other AMC personnel have visited Tritton within the last 12 months.

All monetary values are in Australian dollars unless otherwise stated. Financial years are from 1 July to 30 June, and are written as financial year ending (FYE).

### 1.3 Macroeconomic factors

The following macroeconomic factors have been supplied by BDO.

- The valuation date is 01 July 2015.
- Transport, smelting and refining costs based on current terms sourced from SRL.
- The real commodity prices and exchange rates as listed in Table 1.1.

**Table 1.1** Real commodity prices and exchange rates

Item	Unit	2016	2017	2018	2019	2020	Long term
Copper price	US\$/t	6,061	6,368	6,404	6,203	6,173	6,356
Gold price	US\$/oz	1,193	1,182	1,169	1,100	1,075	1,109
Silver price	US\$/oz	16.92	17.00	17.50	16.97	16.92	17.59
Exchange rate	US\$:A\$	0.75	0.76	0.77	0.78	0.80	0.81

## 2 Mineral assets

SRL is a copper and precious metal production and exploration company, headquartered in Brisbane, Queensland, Australia.

### 2.1 Operations

SRL owns and operates the Tritton copper mining complex in NSW. The complex consists of the Tritton copper mine, the North East and Larsens mine, and the Tritton copper concentrator and related infrastructure. The operation produces approximately 130,000 tonnes per annum of a copper concentrate grading approximately 24% copper. The concentrate is sold under contract to Glencore International and shipped to smelters in the Asia Pacific region.

### 2.2 Exploration and development

SRL reports that its material development projects in the Tritton area include:

- Murrawombie open pit project
- Murrawombie underground project
- Avoca Tank underground project
- Budgery open pit project

SRL holds six contiguous exploration licences (ELs) around and along strike from the Tritton, which are prospective for the discovery of copper-gold deposits similar to the Tritton orebody.

In addition, SRL holds a suite of exploration projects in Queensland, NSW, and South Australia.

### 2.3 Material tenements

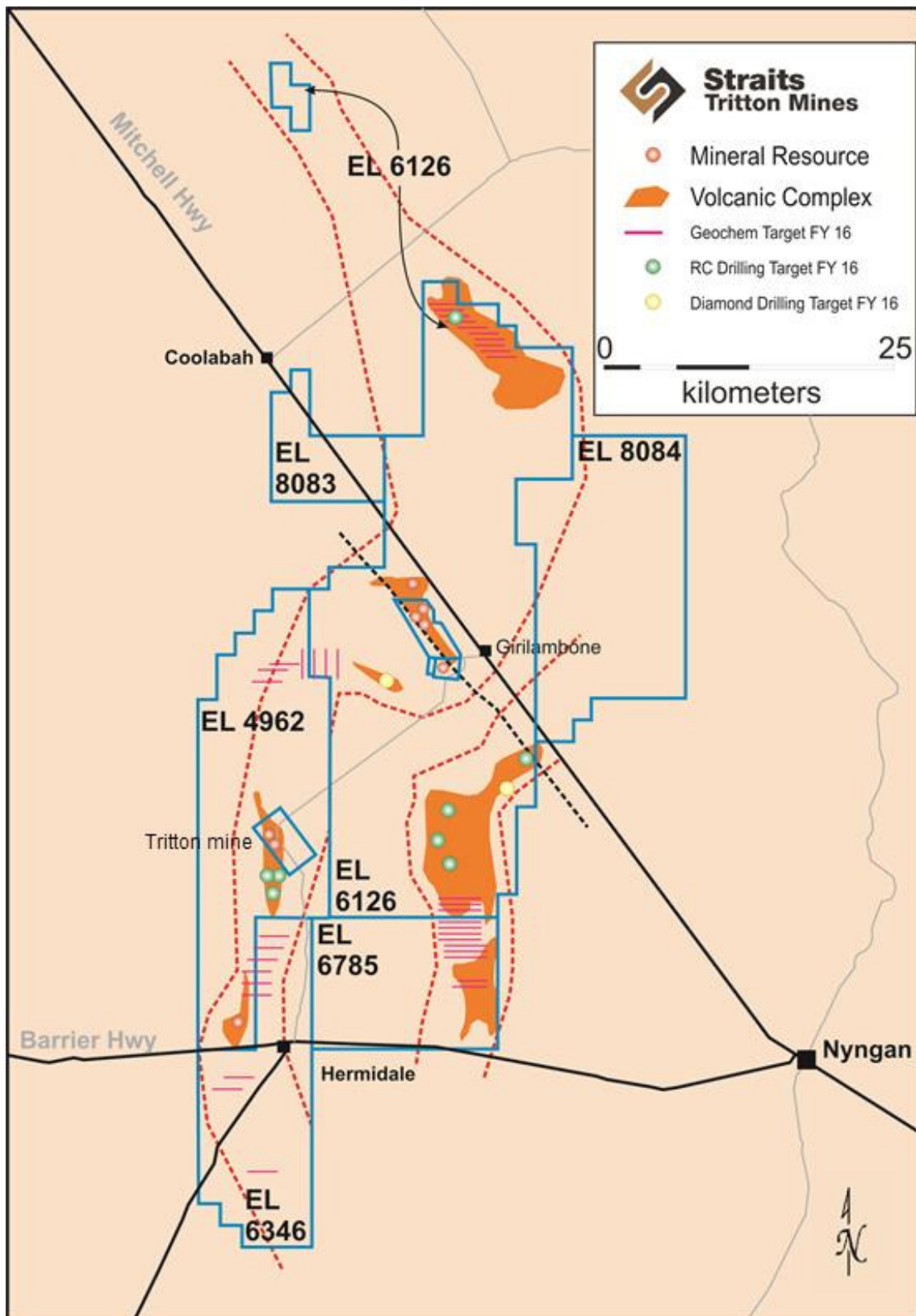
The VALMIN Code requires determination of the status of material tenements based on a recent independent enquiry by either a solicitor or a tenement specialist. SRL has provided AMC with reports from an independent tenement specialist that provide commentary on the status of the six ELs held by SRL in the Tritton Region, two ELs, three Mining Leases (MLs) and two miscellaneous purpose licenses (MPLs) elsewhere in NSW, and two ELs in South Australia. Summary information for these tenements is presented in Appendix A.

The report states that four (EL 4962, EL 6126, EL 6346, EL 6785) of the six Tritton regional tenements are current and that renewal applications have been lodged by SRL for two tenements (EL 8083 and EL 8084) prior to expiry, as required by Section 113(2)(a) of the *Mining Act 1992*. The specialist was unable to comment on the likelihood of renewals being granted. There is currently an accepted Native Title application over the ELs, lodged 14 March 2012. The applicants are the Ngemba, Nglyampaa, Wangaaypuwan and Wayliwan peoples.

With respect to the tenements in other parts of NSW, Queensland and South Australia the specialist noted that there is currently a registered Native Title application over EL 5614, lodged 17 November 2014. The application name is the Kokatha Native Title Claim. The Federal Court reference number of the application is SAD90/2009, represented by South Australian Native Title Services Limited. Two applications over the same area were not accepted for registration — Application Barngarla (Lake Torrens), Federal Court No. SAD175/2015, represented by Teitzel & Partners and application Adnyamathanha #5 Native Title Claim, Federal Court No. SAD277/2012, represented by Norman Waterhouse Lawyers. Native Title in the surrounds of EL 5614 has been determined to exist.

Figure 2.1 is a map of the showing the tenement areas and the general location of the Tritton mining complex.

Figure 2.1 Map of Tritton regional tenements





### 3 Tritton mining complex

#### 3.1 Location and background

Tritton is located in central NSW, approximately 50 km north-west of the town of Nyngan. It is the site of both historical and contemporary mining. Small-scale copper mining occurred near the modern day Tritton mining complex between 1881 and 1910. Modern exploration of the Tritton area by Nord Pacific Limited identified an oxide copper resource (Murrawombie) in 1989. A joint venture was formed between Nord Pacific Limited and a subsidiary of SRL to mine the deposit in 1991.

Murrawombie was developed as an open pit mine with ore processing by heap leach and copper cathode production using solvent extraction and electrowinning (SX-EW) technology. From 1992 to 1999, near-mine exploration discovered other small deposits that have subsequently been mined. The Tritton deposit, which is the most significant at the Tritton mining complex, was discovered by the joint venture in 1995.

In 2000, Nord Pacific Limited purchased the half-interest of the project owned by SRL, but later defaulted on payment obligations and was forced to sell its interests in the project to SRL.

In 2002, SRL sold the project to Tritton Resources Limited, an unlisted public company for a consideration of cash, shares, and convertible notes. As part of the transaction SRL acquired a shareholding of approximately 37% in Tritton Resources Limited. By October 2003, SRL had increased its ownership to 64% through conversion of convertible notes. In November 2003, Tritton Resources Limited was floated on the ASX.

In 2004, development of the Tritton copper mine and construction of a sulphide flotation concentrator occurred. Production from Tritton commenced in March 2005.

In 2006, SRL completed an off-market takeover of Tritton Resources Limited, and became the sole owner.

The Tritton mining complex is a moderately sized mining operation that has been in continuous production for ten years, producing approximately 10.9 Mt tonnes of ore and recovering 241 kt of copper to date. Current production is sourced from the Tritton mine and the North East and Larsens mine. Production is planned from surrounding deposits that are at an advanced project evaluation stage including Murrawombie open pit, Murrawombie underground, Avoca Tank underground, and Budgery open pit.

In FYE 2014, SRL produced 1.57 Mt ore grading 1.77% copper. A single product, copper concentrate, is produced and transported by rail to the port of Newcastle in NSW. It is sold under contract to Glencore International and shipped to smelters in the Asia Pacific region. The copper concentrate is regarded as a standard product, being medium grade, coarse grained, and low complexity.

#### 3.2 Geology and mineralisation

##### 3.2.1 Regional geology

Tritton is located in the northern part of the central subprovince of the Lachlan Fold Belt and is hosted by the Ordovician Wagga-Omeo and Girilambone Zones. The Wagga-Omeo Zone is dominated by low-grade to high-grade regionally metamorphosed Ordovician quartz turbidites intruded by abundant granitic rocks. The Girilambone Zone has considerably less granite and contains widespread Girilambone Group metasediments and volumetrically minor mafic sequences. The Girilambone Group has recently been subdivided by the NSW Geological Survey into three meridional trending belts, the western and eastern Narrama Formation, the faulted central Lang Formation – Ballast Formation Correlate, and the Ballast Formation to the west.

The Narrama Formation is a thick turbidite sequence of greywackes, pelites, and psammopelites, associated with mafic volcanic rocks, volcanoclastic sediments, and sparsely-distributed intrusive rocks. There has been regional low-grade metamorphism and a moderate deformational overprint. The region is dominated by north-south structural trends. Minor granodioritic intrusives and dykes cut the older metasediment stratigraphy as do younger mafic dykes.

Much of the landscape underlain by the Girilambone Group is either covered by a veneer of alluvial sediments or is weakly dissected with sparse bedrock exposure. Where outcrop does occur it is low lying and usually strongly weathered.

### 3.2.2 Local geology

The currently identified sulphide (pyrite and chalcopyrite) deposits generally occur in large tabular sulphide-rich sheets that vary in dip from 30° to 70°, commonly towards the south east. The primary economic element is copper, with sub-economic occurrences of gold, silver, and other base metals. Mineralisation is hosted within highly siliceous and ankeritic hydrothermally-altered metasediments that are underlain by magnesium chlorite rich and variable stringer sulphide veined alteration zones.

The mineralisation appears to have been formed synchronous with sedimentation in the form of tabular and steeply plunging bodies that have been subjected to deformation and subsequent remobilisation of some of the sulphides. The copper mineralisation in the fresh rock consists of massive to banded chalcopyrite and pyrite with minor sphalerite, bornite, tetrahedrite, and galena. The primary copper-rich sulphide zones consisting of pyrite and chalcopyrite can reach thicknesses in excess of 30 m due to folding and minor faulting that in some cases results in partial duplication of the mineralisation resulting in thicker zones for mining.

Weathering extends down to 80 m in places and some of the deposits are partially oxidized. Open pit mining of the oxide ore has been undertaken in the past at North East, Murrawombie, Larsens, and Hartmans.

The sulphide deposits are currently interpreted to be similar to the Besshi-style volcanic massive sulfide deposits in Japan. They tend to be tabular in nature and hosted within fine-grained sediments with basalt, volcanic, or intrusive associations. They tend to have a siliceous hangingwall, and may occur as multiple lenses.

### 3.2.3 Tritton

Tritton is the largest deposit in the region. It is located on ML 1544. The top of the deposit is approximately 155 m below surface. Early holes tested above this elevation failed to intersect significant mineralisation. Down hole electro-magnetic surveying was used routinely and off-hole anomalies were recognized. Drilling of these anomalies intersected the Tritton ore body.

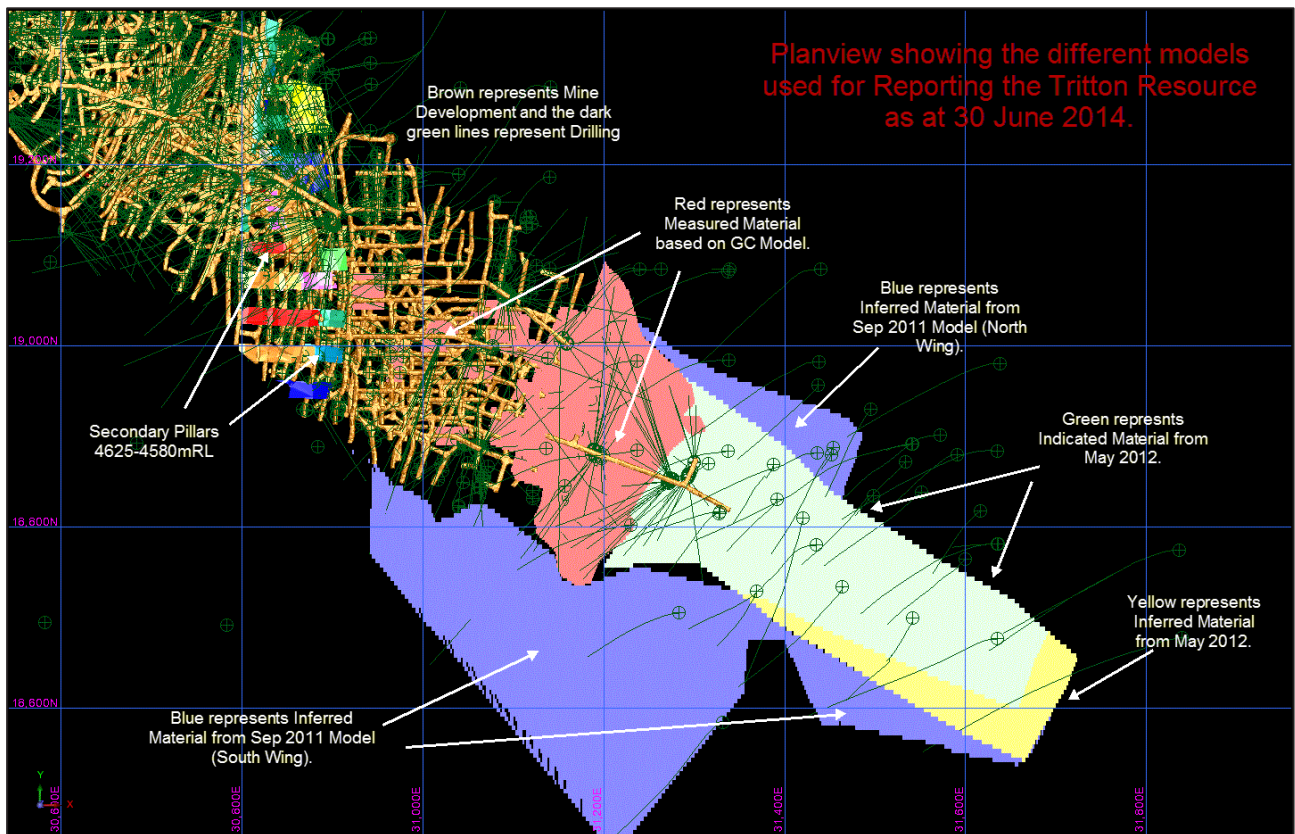
The main Tritton ore body is tabular in nature with a current overall down dip length of 1.7 km. It remains open at depth. It consists of several lenses of banded and massive sulphides within a sequence of mainly fine-grained sediments. Mafic volcanic rocks occur in both the hanging wall and the footwall. A distinctive thin unit of quartz-magnetite-hematite, possibly of exhalative origin, occurs at the top of the sulphide sequence.

The main body varies in thickness averaging 6-8 m above the main “roll over” at the 4500 metres above mine datum (mRL); below the “roll over” the deposit thickens, with true widths varying from 15 to 60 m. The strike length of the resource varies from 20 m at the top of the resource and extends to an average of 300 m for the majority of the resource down to approximately 4100 mRL where the strike reduces to 250 m.

The main ore body has low grade extensions (Inferred Resources) along strike to the north and south. The South Wing, located on the southern extremities of the main Tritton resource, is broadly triangular in shape with the long axis down dip with a length of 900 m with a width at the widest point of 250 m. The thickness varies from 1 to 8 m averaging 2 m. The North Wing is located on the northern flank of the main Tritton resource. The north wing is also triangular in shape with the long axis down dip with a length of 300 m and extends at its widest point to approximately 70 m and it varies in thickness from 15 to 20 m. The South and North wings appear to be wholly or partly contiguous with the main body but are currently modelled separately. The wings are Inferred Mineral Resources and are not the source of any production in the life-of-mine plan. The Tritton resource models are shown in plan view in Figure 3.1.



Figure 3.1 Tritton deposit—oblique view looking north-west

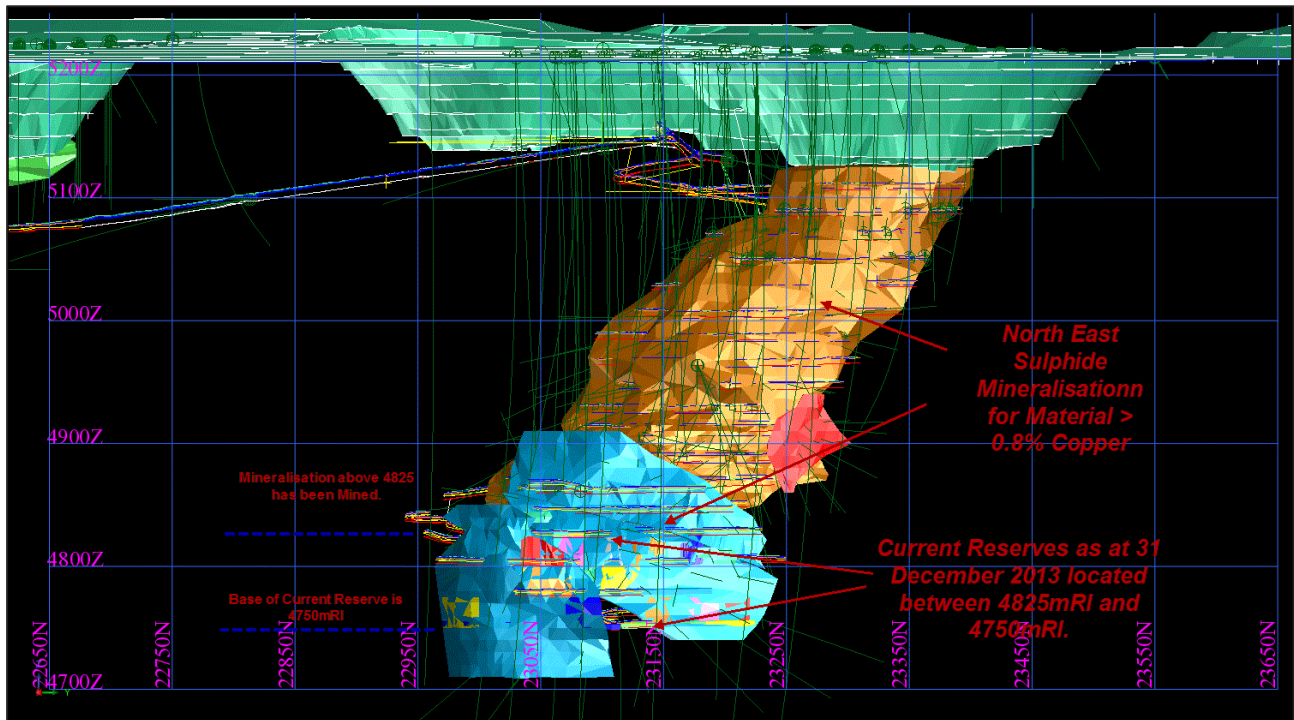


### 3.2.4 North East

The North East underground mine, located on ML 1383, has been in production since 2008. Prior to this the near-surface oxide portion of the deposit was mined by open pit. Oxide ore was processed at the Girilambone copper heap leach and SX-EW plant. Mining of the sulphide ore below the pit became economic following the construction of the Tritton copper sulphide flotation plant. North East mine shares infrastructure with the adjacent Larsens mine.

The North East ore body occurs as several discrete tabular lenses covering an area approximately 450 m north–south and 500 m east–west, with mineralisation starting from near surface. Sulphide mineralisation appears at approximately 100 m below surface. The tabular lenses have strike lengths ranging from 150 to 200 m with individual down dip extents ranging from 90 to 420 m. The lenses vary in true width from 2 to 20 m, with an average true width of 5 to 7 m. A major fault off-set occurs at approximately 410 m below surface. The faulting shifts the down-dip section of the main ore lenses up approximately 90 m. The current North East resource has been interpreted to a depth of approximately 520 m below the current surface and is still open at depth. The current resource is closed along strike. The North East deposit is shown in Figure 3.2.

Figure 3.2 North East deposit view from the east



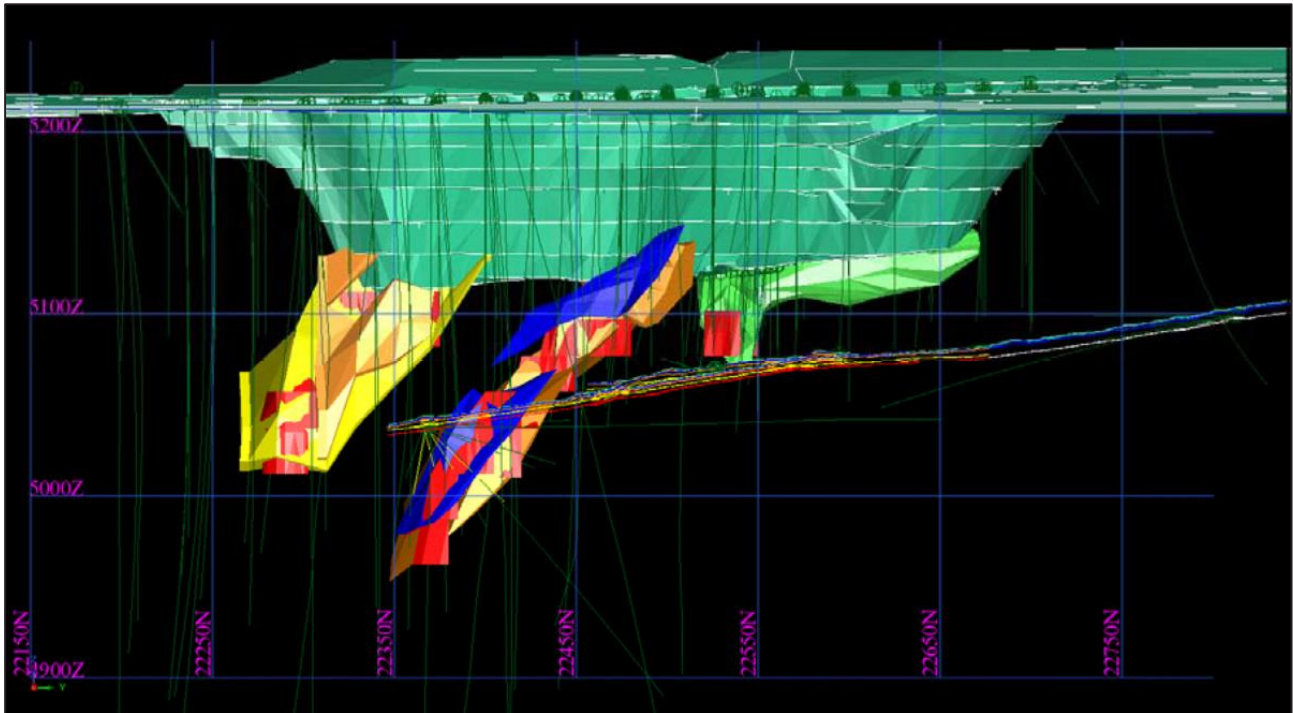
Resource model shown is as of 31 December 2013

### 3.2.5 Larsens

The Larsens mine shares infrastructure with the adjacent North East mine. Decline access to Larsens has been developed from the North East mine decline.

The Larsens resource occurs as several discrete tabular lenses covering an area approximately 500 m north–south and 250 m east–west with mineralisation starting from near surface. Fresh mineralisation occurs from approximately 120 m below surface. The tabular lenses have short strike lengths ranging from 40 to 200 m relative to their down-dip extents, which range from 60 to 300 m with an average dip of the lenses of 45 degrees to the east. The lenses vary in true width from 2 to 20 m, with an average true width approximately 7 to 12 m. Mineralisation is dominated by massive pyrite–chalcopyrite, with minor banded to stringer pyrite–chalcopyrite, and sparse locally important magnetite–chalcopyrite. The Larsens deposit is shown in Figure 3.3.

Figure 3.3 Larsens deposit view from the east



### 3.2.6 Murrawombie

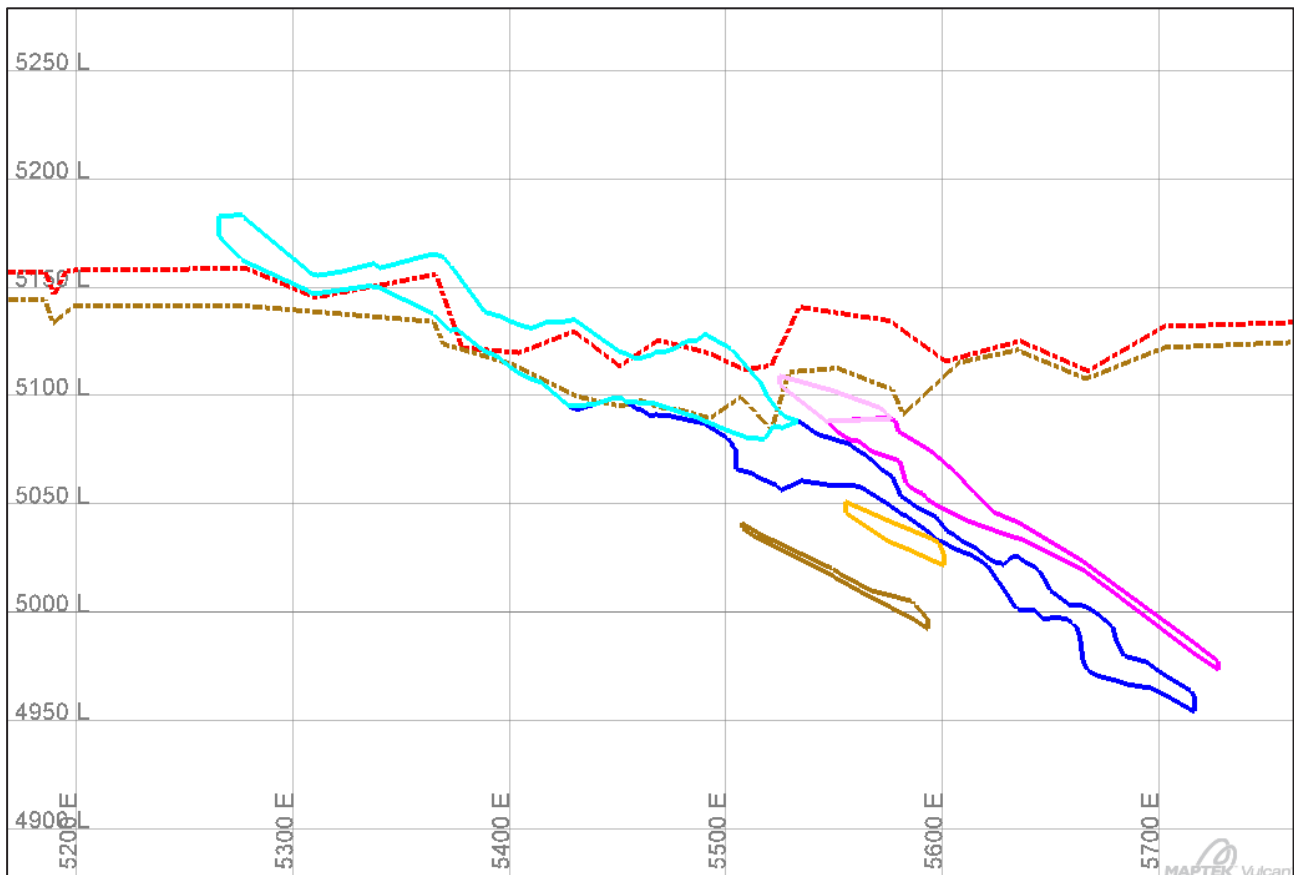
Murrawombie copper mineralisation occurs in a layered sequence dipping at 40 to 50 degrees to the east. Host rocks are metasediments with silicic alteration associated with mineralisation, which is broadly conformable with the host rock units.

The sulphide (dominantly pyrite lesser chalcopyrite, sphalerite, minor tennantite, arsenopyrite, and galena plus trace gold) bodies were deposited synchronous with the host sediments and minor basaltic sequences, as evidenced from sulphide breccia clasts and basaltic and mafic clasts within sedimentary breccias.

The Murrawombie ore body comprises several lenses, with horizontal widths varying from a few metres to a maximum of 35 m. The majority of mineral-rich resource occurs over about 150 m of strike length and approximately 300 m down-plunge with the majority of tonnage and higher grade material contained in thicker lenses A and B, between 5000 mRL and 4700 mRL. Lens A is the thickest and Lens C is the narrowest.

The upper part of the mineralised ore body at the base of the open pit is narrow, low grade, and partly weathered, and is characterised by complex ore body geometry (variable dip and thickness) and poor ground conditions. The Murrawombie deposit is shown in Figure 3.4.

Figure 3.4 Murrawombie deposit cross-section 10330 mN



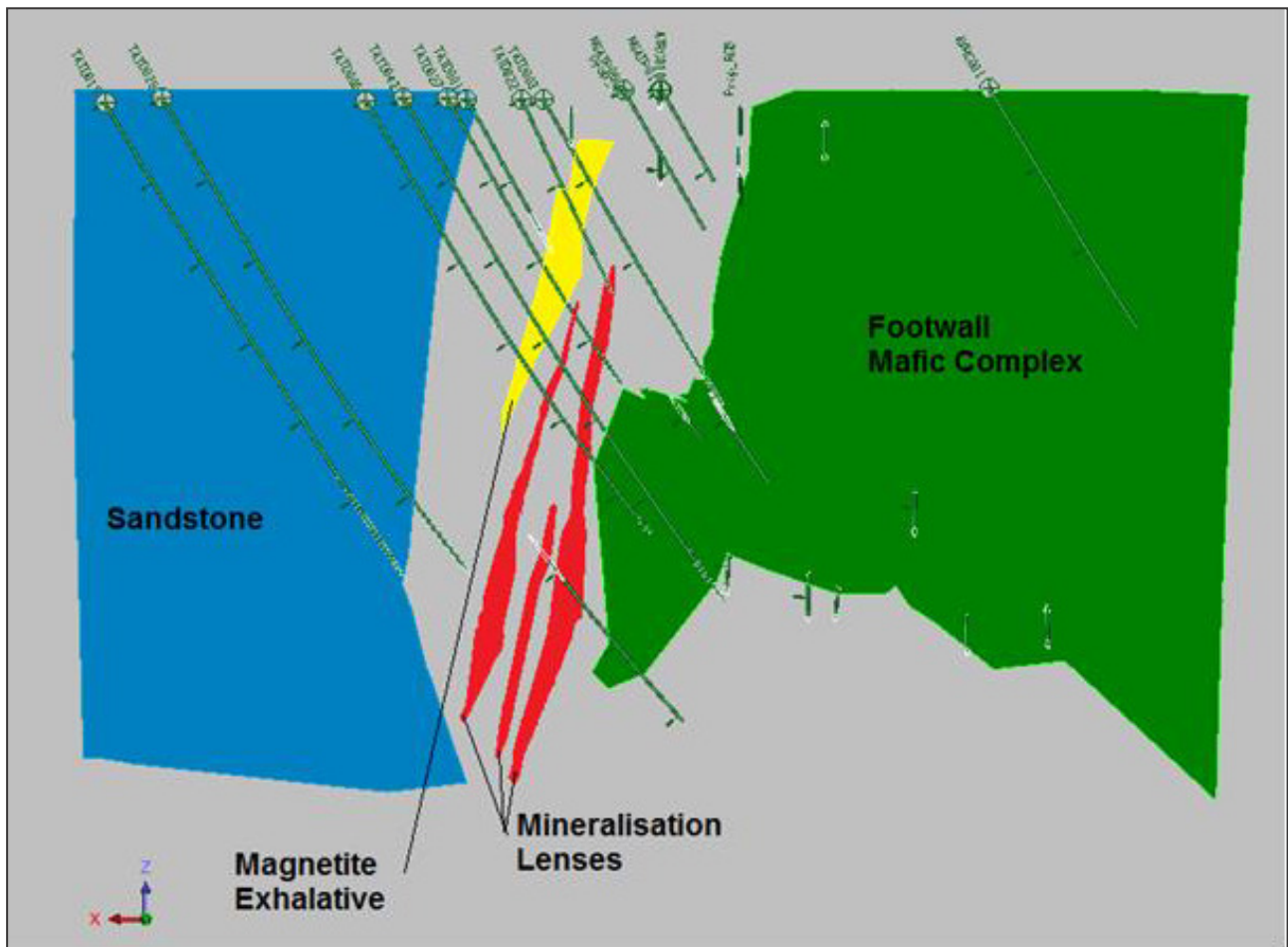
Note: the base of oxidised copper (upper dashed line), base of chalcocite (lower dashed line) and the major ore shoots

### 3.2.7 Avoca Tank

Figure 3.5 shows a schematic geology cross section of the Avoca Tank geology. The Avoca Tank sulphide mineralisation (red) is hosted near the contact between an upper sequence of interlayered metasediments (grey), and a lower sequence of mafic volcanics and intrusives, with minor associated metasediments (green). The sediments hosting the mineralised lenses comprise mainly pelites, psammopelites, and greywackes with a significant silica-magnetite-carbonate-chlorite-sulphide exhalative unit, quartz-magnetite-hematite, occurring above the mineralisation, equivalent to that observed at Tritton.



Figure 3.5 Avoca Tank geology schematic cross section looking south-east



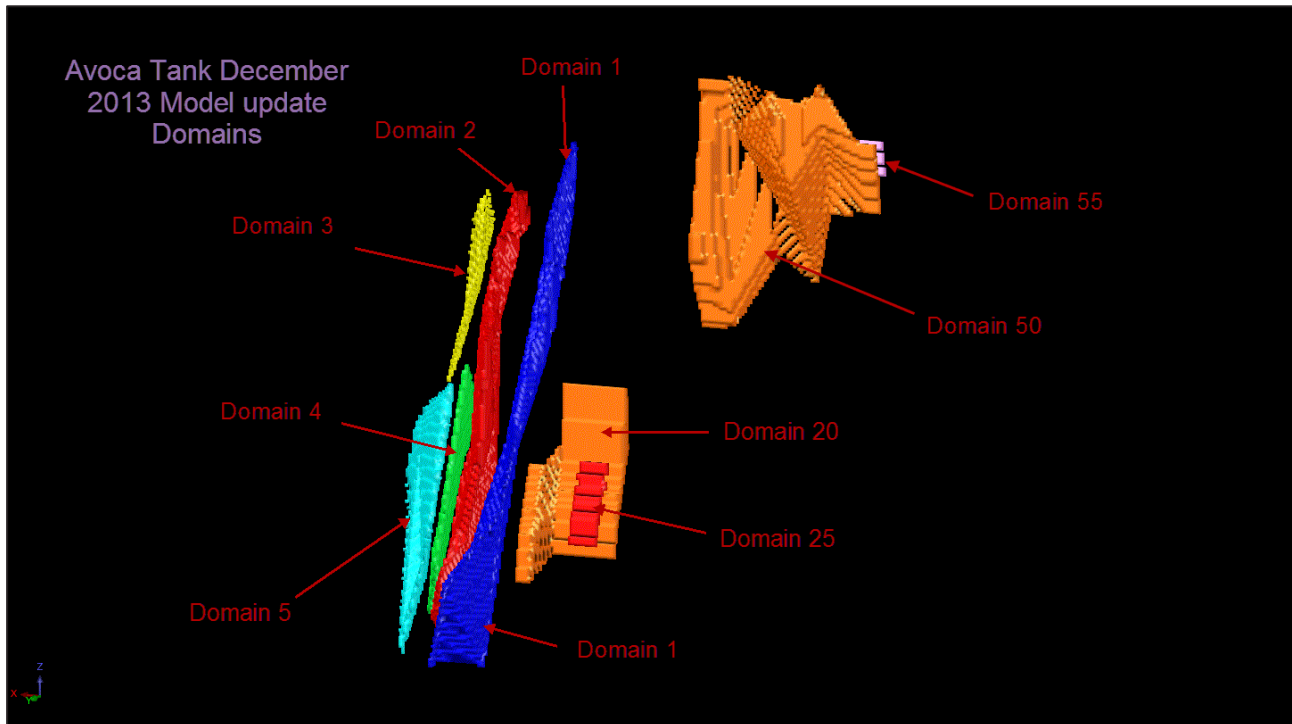
Source: Avoca Tank Resource Update 31Dec2013\_rev17.docx

Mineralisation is dominated by massive pyrite-chalcopyrite-sphalerite, minor but locally important magnetite-chalcopyrite, and lesser banded pyrite-chalcopyrite and rare banded pyrite (containing high gold and silver grades). Three stacked lenses have been defined (d1, d2, and d3) for the main portion of the resource with two additional lenses defined within the footwall sequence (d20 and d25).

Two additional mineralised systems occur deeper within the footwall mafic sequence, trending east-west, and normal to the main Avoca Tank mineralised lenses (d1-d3). The deeper of these appears to intersect the lower most (d3) mineralised horizon and is tentatively interpreted as a feeder zone that decreases in grade away from the main lenses. The mineralisation style is consistent with contorted banded pyrite-chalcopyrite-magnetite-chlorite with trace to locally weak sphalerite and galena.

For the December 2013 mineral resource model two main mineralised lenses were defined (domains 1 and 2) and three minor domains (domains 3, 4 and 5) associated with the main Avoca mineralisation. The main Avoca Tank mineralisation dips approximately 75 degrees to the east, with two additional mineralised lenses defined at depth in the footwall of the main zone (domains 20 and 25), and two lenses also occurring at shallow levels to the west of the main zone (domains 50 and 55). The two lenses (domain 20 and 25) in the footwall sequence are oriented east-west (almost perpendicular) and appear to be a potential feeder zone to the main mineralisation horizons. The Avoca Tank deposit is shown in Figure 3.6.

Figure 3.6 Avoca Tank mineralisation, looking south-south-east



Source: Avoca Tank Resource Update 31Dec2013\_rev17.docx

Additionally, a shallow east west trending zone of mineralisation occurs approximately 100 m west of the main mineralised zone. This zone is mainly dominated by oxide and transitional copper mineralisation. No recent drilling has been completed in the up-dip portion of the main Avoca Tank sulphide mineralisation to test for the full extent of the oxide or transition zone mineralisation.

### 3.2.8 Budgery

The geology of the Budgery deposit, as determined from drilling and analysis of the visible sub-crop is similar to the geology in the Tritton mine area. Mafic volcanoclastics occur in both the hangingwall and footwall to the deposit and there is a quartz-magnetite-hematite unit near the top of the deposit similar to the quartz-magnetite-hematite unit at Tritton. Budgery is characterised at surface by a distinct 'bull's-eye' magnetic anomaly.

A single lens of banded and laminated sulphide mineralisation has been defined by drilling. The primary mineralisation (below 120 m depth) consists of pyrite and chalcopryite. This is overlain by a zone of supergene chalcocite. A poorly developed zone of oxide mineralisation (malachite, cuprite) extends from 10 m to 60 m. From surface to 10 m, the copper mineralisation has largely been removed by weathering.

## 3.3 Mineral database

### 3.3.1 Sample types

The Tritton regional resources have been tested by percussion, reverse circulation (RC), and diamond core drilling, the latter from surface and from underground. Early percussion drilling is regarded as less-reliable and is typically used in the geological interpretation but not for grade estimation. In addition, the early percussion drilling was generally shallow, targeting oxide resources and therefore of limited relevance to the current (sulphide) resource estimates.

Diamond drill core was generally of HQ, NQ, NQ2 size. Underground grade control holes are NQ2 for down holes and LTK60 for up holes. AMC considers that these core sizes are generally adequate for sampling of this type of deposit.

Historical drill-hole collar positions were surveyed by theodolite. All SRL drill collars have been surveyed using a differential global positioning system. Down hole surveys were taken at 30 m intervals and at the end

of hole using an electronic single shot camera. Additionally, a north-seeking gyroscopic tool was used where single shot surveys were thought to be affected by magnetite occurrences.

Grade control also includes face sampling of drives in ore. Face sample data is collected at, 1 m intervals or at geological breaks, as rock chip samples. All underground face samples are digitally photographed, with face positions measured from survey points.

Drill holes and face samples are logged, capturing appropriate levels of lithological, mineralogical and structural data in a structured codified format.

All drill hole and channel sample data is stored and managed in an acQuire database. This is sophisticated software that enables a rigorous approach to data validation through application of compulsory fields, codes and logical tests.

### 3.3.2 Sample preparation, analyses, and security

Percussion samples were collected at 1 m intervals and composited over 4 m for assaying and samples re-assayed at 1 m intervals when elevated copper values were measured. Samples were passed through an automatic splitter on the drilling rig with a sample weight of between 2 and 4 kg collected and sent to the laboratory. Samples are pulverised to 85% passing to 75 microns. Drill core was half core, sampled on 1 m intervals, adjusted to a minimum of 0.5 m or maximum of 1.5 m for geological interval. The samples were crushed to 70% passing 2 mm, then sub-split to a 1 kg sample via a rotary splitter, and pulverised to 85% passing to 75 microns.

Samples were analysed by a three-stage Aqua Regia digestion with an ICP finish (ALS method ME-ICP4, suitable for copper grades from 0.0001% to 1%). All copper samples greater than or equal to 1% were re-submitted for an ore digest using ALS method ME-OG46. Gold analysis was by fire assay fusion with an AAS finish, 30 g charge (ALS method Au-AA21 suitable for gold grades of 0.01-100 parts per million).

Samples are stored for reference, as follows:

- Half core is stored on site in covered, plastic trays to minimise oxidation due to open air storage and weather.
- Crush rejects may have been selected for return from the laboratory to site, in which case they were held for a short time. Standard underground diamond drilling was not subjected to this option, and rejects were flagged for disposal at the ALS laboratory.
- Pulps were returned to site, and are held in a pulp library. Pulps are disposed of when the QAQC results of the drill hole are accepted, and the geology department has deemed there to be no further use for the pulps. Pulps are on occasion used for testing of additional elements outside the standard analysis suite, mineralogical or metallurgical work.
- Percussion samples after completion of analyses and re-assays if required are placed onto the Tritton mine waste dump.

### 3.3.3 Quality assurance quality control (QAQC)

SRL follows QAQC procedures as part of the regular sampling programme. These include:

- Routine inclusion of both certified reference materials and sample blanks inserted into the sample chain.
- Pulp duplicates and coarse sample duplicates have also been included in some batches of samples.
- Results for QAQC samples are assessed on a batch-by-batch manner, at the time of uploading drill sample assays to the acQuire database. The Acquire database reports on the performance of the QAQC samples against the expected result and tolerance limits.
- If the QAQC samples fail the batch report, a geologist investigates the occurrence and actions either a) acceptance of the result into the database, or b) rejection of the result, and arranges for a re-assay of the sample.
- Raw assays are visually checked against core for grade confirmation.

AMC considers that these procedures are typical of industry practice and appropriate. AMC reviewed the QAQC reports and found that QAQC results were generally within acceptable limits.

### **3.3.4 Bulk density**

Bulk density data has been collected from drill core using a water immersion method based on Archimedes principle. The frequency of density measurements has varied during the period of resource definition; some deposits have relatively few density measurements.

The acQuire database applies pre-selected tolerances and highlights data outside realistic ranges.

### **3.3.5 Conclusion**

AMC considers that the data inputs used for the mineral resource have been collected using appropriate methods with acceptable levels of QAQC, and are suitable for resource estimation.

## **3.4 Mineral resources**

### **3.4.1 Summary of mineral resource statement**

The Mineral Resources for the Tritton area as at 30 June 2014 are reproduced in Table 3.1.



Table 3.1 Mineral Resource Tritton mines area as at 30 June 2014

Deposit	Classification	Tonnes (kt)	Copper Grade (%Cu)	Gold Grade (g/t Au)
Tritton underground	Measured	2,340	2.3	–
	Indicated	5,660	1.7	–
	Inferred	3,400	1.5	–
	Total	11,400	1.8	–
Tritton Pillars	Measured	–	–	–
	Indicated	490	2.6	–
	Inferred	–	–	–
	Total	490	2.6	–
Murrawombie	Measured	–	–	–
	Indicated	6,530	1.4	–
	Inferred	1,510	1.2	–
	Total	8,040	1.4	–
North East	Measured	200	2.2	–
	Indicated	150	1.8	–
	Inferred	100	1.2	–
	Total	450	1.8	–
Larsens	Measured	–	–	–
	Indicated	810	1.8	–
	Inferred	–	–	–
	Total	810	1.8	–
Avoca Tank	Measured	–	–	–
	Indicated	770	2.9	0.9
	Inferred	130	1.0	0.2
	Total	900	2.6	0.8
Budgerygar	Measured	–	–	–
	Indicated	–	–	–
	Inferred	1,610	1.5	–
	Total	1,610	1.5	–
Budgery	Measured	–	–	–
	Indicated	1,740	1.1	–
	Inferred	280	0.9	–
	Total	2,020	1.1	–
Stockpiles	Measured	51	1.6	–
	Indicated	–	–	–
	Inferred	–	–	–
	Total	51	1.6	–
Total	Measured	2,591	2.3	0
	Indicated	16,880	1.6	0.2
	Inferred	7,273	1.4	0
	Total	26,721	1.6	0.1

### 3.4.2 Resource estimation method

The geological models and resource estimates for all the Tritton regional deposits are constructed using the same procedures. There are local differences in the parameters applied, which reflect the interpreted differences in the geology of the individual deposits and evolving practices on site.

Weathering profiles have been interpreted and modelled to represent a base of oxidation and top of fresh rock. For the purpose of identifying oxide and secondary copper species, oxide copper is coded in the oxide material boundary, secondary copper coded in the transitional boundary, and primary copper (sulphide) coded in the fresh boundary.

Grade estimation was constrained by interpreted mineralised outlines. The mineralised lenses were digitised by forming separate footwall and hanging wall digital terrain models (DTMs) that were snapped to drilling based on nominal copper grade cut-offs. The ends of the DTMs were extrapolated between 2.5 to 5 m to form the final edge before closing off to form a validated closed solid. These grade solids were assigned a domain code. The solids were used to code the drilling assays and the resource model and to constrain the resource estimation by domain.

Samples were composited downhole to either 1 m or 2 m intervals, depending on the deposit.

Variography was conducted on the composites for copper, gold, silver, iron, zinc, sulphur, and bulk density using the Surpac variogram mapping tool. Normal and pairwise variograms were generated to analyse grade spatial continuity and ranges.

Grade estimation was completed in Surpac software using ordinary kriging for copper and either ordinary kriging or inverse distance weighting for gold, silver, zinc and lead.

Top cuts were commonly applied to the drill composites. For some domains and deposits, the high grades of elements which had a coefficient of variation of 1.3 or greater were cut to the level of the 97.5 percentile. In AMC's view this is likely to introduce a degree of conservatism into the resource estimates.

A parent block size was selected with sub-celling designed to provide adequate resolution of domains in the model.

Estimation search parameters were developed from the results of the variography. Estimation orientations were adjusted to follow the main plunge direction within the domain.

Grade estimation was run in single or multiple search passes with a variety of criteria for minimum and maximum number of samples, depending on the deposit.

As noted above, the parameters selected to control the resource estimation process varied significantly between deposits. This is illustrated in Table 3.2. To a large degree these are subjective choices by the resource modeler rather than values determined by consistent quantitative analysis of the geological data. The lack of consistency presents a risk, probably small, that resource models that look superficially similar may not perform as expected during development of the different deposits. In particular, the quality of the resource estimates in sparsely drilled areas may differ, although by the time grade control drilling has been completed the close-spaced data will limit the impact of the modelling parameters.

**Table 3.2** A selection of resource modelling parameters used for resource estimation

Parameter	Avoca Tank	North East	Larsens	Tritton	Murrawombie
Composite length (m)	2	1	–	2	1
Block size (m), X direction	8	8	10	5	5
Block size (m), Y direction	8	4	10	2	5
Block size (m), Z direction	8	4	5	2	5
Sub-block size (m), X direction	2	2	2.5	5	2.5
Sub-block size (m), Y direction	2	1	2.5	1	2.5
Sub-block size (m), Z direction	2	1	1.25	1	1.25
Geological cut-off (% Cu)	0.3 – 0.5	0.8	0.3	0.8	0.5
Minimum no. of samples for block estimate	1	–	–	3	15
Maximum no. of samples for block estimate	–	–	–	15	40
Search passes	25 m, 50 m, 100 m	30 m and 140 m in some domains	40 m	40 m, 80 m, 200 m	–
Bulk density estimation (ore)	Average value assigned to all blocks	Kriged estimate from 15,133 samples	Average of 143 samples applied to all blocks	Kriged estimate	Kriged estimate

### 3.4.3 Mineral resource model validation

SRL completed validation checks of the block model estimates versus the input drill data using the following methods:

- Visual checks of the model in section and in plan.
- Global model grade comparisons against the composites.
- Swath plot (grade trend profiles) by elevation (Z direction), northing and easting.

AMC conducted independent validation checks of the data including visual checks of the block estimates against the drill composites, statistical comparison of de-clustered drill data against block estimates, and produced swath plot profiles by northing, easting and elevation for the main domains.

AMC found that overall trends between the block estimates and composites show an adequate correlation, with no significant divergence or bias between the two sets of data. The plots indicate that, in general, the block estimates are adequately-conditioned with respect to the supporting data.

### 3.4.4 Mineral resource classification

SRL classified blocks in the resource models according to assessment of the local drill hole spacing. Typically, drill hole intercepts at approximately 20–25 m spacings (the approximate average spacing of the underground grade control drilling) were required before blocks were classified as Measured and 50–60 m for Indicated Resources. This is a simple yet reasonable approach that is supported by the reconciliation with mine production.

### 3.4.5 Tritton

The Tritton deposit is modelled by SRL in three separate block models—a Measured Mineral Resource model, an Indicated and Inferred Mineral Resource model, and a separate Inferred Mineral Resource model for the wings of the deposit—that are aggregated to create the Mineral Resource estimate:

For estimation of Measured Mineral Resource material the resource is based on the grade control model. The grade control model is interpreted based on a nominal 0.8% copper interpretation defined by nominal 20 m by 20 m grade control drilling along with mapping from underground development and sludge hole sampling for improved positioning of the hanging wall and footwall locations.

Indicated and Inferred Mineral Resources are modelled based on exploration and resource definition drilling data. Drilling is spaced at variable intervals from nominal 30 m by 60 m to 60 m by 60 m broadening to 60 m by 80 m and 80 m by 100 m at depth. The upper section of the model incorporates grade control drilling, but is not reported to avoid overlap reporting with the grade control model.

Inferred Mineral Resource in the wings of the deposit is modelled separately, based on a nominal 0.5% copper mineralised boundary. The model has been interpreted past the extent of the main Tritton resource and includes the narrower copper mineralisation that extends on the southern flank of the main resource and is known as the South Wing and mineralisation that extends on the northern flank of the main resource and is known as the Northern Wing. Only the material from the North and South Wings are reported from this model.

The models are progressively updated as the mine is developed deeper and underground grade control drilling is completed.

During examination of the Tritton resource models AMC identified that an extreme anisotropy has been applied to the grade estimation resulting in steeply-plunging cigar-shaped grade contours. These artefacts provide poor local estimates of grades in the deeper, sparsely-drilled parts of the Tritton model. At higher elevations in the model, where grade control drilling has been completed and the sampling density is much greater, the impact appears to be reduced by the greater abundance of samples.

#### **3.4.6 North East**

The North East deposit will be mined out in 2015–16. There are no aspects of the Mineral Resource estimate of significance beyond those already discussed in Sections 3.1 to Section 3.44.

#### **3.4.7 Larsens**

The Larsens deposit will be mined out in 2015–16. There are no aspects of the Mineral Resource estimate of significance beyond those already discussed in Sections 3.1 to Section 3.44.

#### **3.4.8 Murrawombie**

Copper mineralisation at Murrawombie occurs in three main stratigraphic horizons within which a total of 21 mineralised lenses were identified and modelled. The lenses pinch and swell and dip at 40–50 to the south east. Mineralisation extends down dip at least 650 m. The upper parts of the ore body were oxidised and were mined in an open pit, with minor underground development, up to 2005. The remaining resource is mainly chalcopyrite-rich mineralisation and was modelled in three domains. The resource also includes the unmined remnants of the oxide zone, and a supergene chalcocite zone.

The last published resource estimate for Murrawombie was created in February 2011. The majority of the drill hole data used for estimation of the sulphide resources was NQ-size diamond core.

The Murrawombie resource estimate was remodelled in November 2014. The key changes in the 2014 model were:

- Exclusion of a large number of old blastholes and underground face samples for which sample quality or other data were uncertain. These holes were mainly located the upper mined-out portion of the oxide resource.
- Reinterpretation of the geometry of the mineralised domains.
- Revision of the estimation parameters to include multiple estimation runs and avoid assigning default grades.

The results of the 2014 resource model were not materially different from the 2011 estimates and hence have not been publically reported.

#### **3.4.9 Avoca Tank**

A total of nine mineralisation domains were modelled and estimated. Two of the smaller domains are oxide mineralisation (one classified as Inferred Resource, the other unclassified).

AMC observed that some blocks in the resource model for Avoca Tank are informed by only one sample. This is likely to produce very poor estimates for these blocks. SRL performed a check on Domain 1 and confirmed that 16% of the resource tonnage was affected by this problem.

### 3.4.10 Budgery

The Budgery resource estimates were not reviewed in detail. An SRL report titled “Budgery Project Information Review, May 2010” indicates that the resource was modelled using a wireframe model and a 0.5% Cu cut-off grade but provides no further details. The overall resource tonnage and grade have not changed significantly since that report but the Measured Resources have been reclassified as Indicated and some of the Inferred Resources upgraded to Indicated status.

The Budgery deposit forms less than 5% of the ore in the life-of-mine plan.

### 3.4.11 Conclusion

AMC observes that although the modelling procedures are generally appropriate, there is considerable variation in the parameters used for each deposit and a lack of adequate justification for the choices of parameters. The impact of the differences between the models cannot be determined except by experimentation and eventual reconciliation.

The main areas of concern are:

- The block sizes are too small. The conventional industry view is that block dimensions should not be much less than one quarter of the drill hole spacing. It has been noted in several geostatistical papers<sup>2</sup> that estimating grades into very small blocks results in distorted grade-tonnage curves and individual block estimates with a high degree of uncertainty (kriging variance).
- The variations in composite length and the search parameters (including minimum and maximum number of samples, and search distance) will result in different amounts of smoothing (averaging) in the models for the different deposits. As a consequence the resource estimates for each deposit may reconcile differently with actual mine production, even when the geological characteristics of the deposits are similar.
- Local biases in the block grade estimates, particularly in the more sparsely-drilled parts of the deposits. However, the effects will be progressively reduced as infill drilling progresses and the drill hole spacing is reduced.

These issues are likely to affect the Inferred and Indicated Resources at the local scale and could result in long-range mine planning that is less reliable than it could otherwise be. In spite of these weaknesses, SRL reports that the grade control estimates of the Tritton, North East and Larsens models reconcile closely with mill production. Furthermore, in checking the evolution of the resource model estimates SRL observes that as close-spaced grade control data is added to the model, a general increase in ore tonnage and copper grade occurs, suggesting that early Inferred and Indicated Resource estimates are conservative.

AMC considers that the methodology adopted for the mineral resource estimates and the resource classification criteria is generally consistent with common industry practice for this type of deposit, appropriately considers the requirements of the JORC Code, and that the results are supported by mine reconciliation data.

## 3.5 Ore Reserves

The most recent Ore Reserve estimate for the several mines and projects forming the Tritton mining complex was at 30 June 2014 (2014 Reserve). The 2014 Reserve is summarised in Table 3.3.

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<sup>2</sup> most notably by Armstrong and Champigny

Table 3.3 Ore Reserve Tritton mines area as at 30 June 2014

Deposit	Classification	Tonnes (kt)	Copper Grade (%Cu)	Gold Grade (g/t Au)
Tritton	Proved	2,255	1.9	–
	Probable	2,711	1.7	–
	Total	4,966	1.8	–
North East	Proved	139	1.8	–
	Probable	92	1.6	–
	Total	231	1.7	–
Larsens	Proved	–	–	–
	Probable	631	1.5	–
	Total	631	1.5	–
Murrawombie underground	Proved	–	–	–
	Probable	3,342	1.3	–
	Total	3,342	1.3	–
Murrawombie open cut	Proved	–	–	–
	Probable	701	1.2	–
	Total	701	1.2	–
Avoca Tank	Proved	–	–	–
	Probable	681	2.5	0.8
	Total	681	2.5	0.8
Stockpiles	Proved	51	1.6	–
	Probable	–	–	–
	Total	51	1.6	–
Total	Proved	2,446	1.9	–
	Probable	8,159	1.5	0.1
	Total	10,604	1.6	0.1

The Ore Reserves have been prepared by a competent person in accordance with the requirements of the JORC Code (2012).

A cut-off grade of 1.2% copper was used for stope design. Gold and silver are present in small concentrations but are of minor importance and were not considered in the cut-off criteria for mine design.

The 30 June 2015 Ore Reserve estimate is currently being prepared and will consider depletion by mining at Tritton, North East, and Larsens, and the inclusion of new reserves at depth at Tritton, based on upgrading of Inferred Mineral Resource to Indicated Mineral Resource. The changes are not expected to be material.

SRL has been able to maintain its inventory of ore reserves for the total Tritton mining complex at between 6.8 Mt and 10.6 Mt for the last several years (Table 3.4). Advancement of development projects including Avoca Tank and Murrawombie to at least the prefeasibility level of study has allowed replacement of ore reserves depleted by mining at Tritton and North East.

Table 3.4 History of total Ore Reserve for Tritton mining complex 2010 to 2014

Year (as at 30 June)	Total Ore Reserve (Mt)	Copper grade (%Cu)
2010	6.8	2.1
2011	10.4	1.8
2012	7.8	1.8
2013	7.3	1.7
2014	10.6	1.6

## **3.6 SRL's production forecast**

The production forecast prepared by SRL in the 2015 life-of-mine plan is based primarily on ore reserves. Approximately 13% of the production in the life-of-mine plan is non-reserve material for the deepest parts of the Tritton ore body, and from the planned Budgery operation. The non-reserve material is scheduled to be mined late in the mine life. Key aspects of SRL's life-of-mine production forecast is shown in Table 3.5.

Table 3.5 SRL's production forecast—life-of-mine plan from 1 July 2015

	Total		FYE 2016		FYE 2017		FYE 2018		FYE 2019		FYE 2020		FYE 2021		FYE 2022		FYE 2023	
	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)	Tonnes (kt)	Grade (%Cu)
Tritton	7,800	1.7	1,250	1.9	1,300	1.8	1,300	1.7	1,200	1.7	1,050	1.7	1,000	1.7	700	1.7	–	–
North East	60	1.6	60	1.6	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Larsens	270	1.8	270	1.8	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Murrawombie u/g	3,280	1.3	–	–	250	1.3	500	1.3	600	1.3	594	1.3	487	1.3	896	1.3	13	1.2
Murrawombie o/p	850	1.1	–	–	–	–	–	–	–	–	–	–	–	–	–	–	850	1.1
Avoca Tank	681	2.5	–	–	–	–	–	–	8	1.0	156	2.7	313	2.5	204	2.5	–	–
Budgery sulphide	572	1.2	–	–	–	–	–	–	–	–	–	–	–	–	–	–	572	1.2
Budgery oxide	364	1.2	–	–	–	–	–	–	–	–	–	–	–	–	364	1.2	–	–
Total	13,937	1.6	1,580	1.8	1,550	1.7	1,800	1.6	1,808	1.7	1,740	1.7	1,800	1.7	2,164	1.5	1,435	1.1



Production grades are forecast to decline over time as the lower grade Murrawombie ore body begins to replace the Tritton ore body as the main source of ore. Total production rates of up to 1.7 Mtpa are contemplated in the plan. AMC considers that these production rates are credible, given the recent history of sustained production of over 1.5 Mtpa in the last two years. The recent production history is summarised in Table 3.6.

**Table 3.6 Summary of production from Tritton mining complex 2011 to 2015**

Year	Mined tonnes (kt)	Milled tonnes (kt)	Milled grade (%Cu)	Metallurgical recovery (%)	Copper in concentrate (kt)
FYE 2011	1,160	1,164	2.1	95.1	23.4
FYE 2012	1,261	1,254	2.0	94.8	23.4
FYE 2013	1,304	1,268	1.9	94.1	22.8
FYE 2014	1,573	1,569	1.8	94.3	26.2
FYE 2015	1,595	1,642	1.9	94.6	31.8

### 3.7 Mining operations

#### 3.7.1 Tritton

The Tritton underground mine has been in operation since 2004. It is the most significant ore body in the Tritton mining complex. The mine uses the sub-level open stoping (SLOS) mining method, with paste fill. The mine is accessed by a single decline, located in the footwall of the ore body. Materials handling is by trackless rubber-tyred load-haul-dump equipment (LHD) and trucks.

The ore body is mined as a single lens with a strike length of approximately 300 m and a planned depth of up to 1,300 m below surface. It is thickest in the center (up to 50 m thick) and narrows at each extremity. The ore body dips at approximately 45° to the east. The ore body, hangingwall, and footwall are competent rock masses and are well suited to mining large open stopes. No seismicity or other significant geotechnical issues have been encountered at depth, and, at this stage, none are anticipated. Ground water inflows are very low, at approximately 0.5 L/s. Rock temperatures and ambient surface atmospheric conditions are benign and mine refrigeration will not be required until late in the mine life, if at all.

Production from the Tritton mine for the last five years is shown in Table 3.7.

**Table 3.7 Historical production from Tritton mine**

	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015
Ore production (kt)	837	833	1,034	1,252	1,257
Average copper grade (%)	2.4	2.1	2.0	1.8	1.9

Production rates are higher in the last two years than the long-term historical average despite increasing depth of mining and thinning of the ore body at depth. AMC attributes the improved performance to stability in the labour force and management team, adoption of an owner-operator employment model with reduced reliance on contractors, and renewed management focus on mine backfill operations and decline development.

Management appears to be focused on consistently maintaining an inventory of broken ore stocks underground, which maximises productivity of the LHD and truck fleet.

Significant capital investment on ventilation infrastructure, which has been budgeted in the life-of-mine plan, is required before mining can safely advance much beyond current levels.

Copper grades have declined with increasing depth, and mined copper grades are expected to remain between 1.9% and 1.7% copper for the remainder of the mine life.

A further 7.8 Mt of material grading 1.7% copper is expected from Tritton. The majority will be sourced from ore reserves, with the balance from mineral resources that are expected to be converted to ore reserve and

material yet to be brought into the mineral resource category. AMC considers that the Tritton production forecast is reasonable.

### 3.7.2 North East and Larsens

The North East mine extracts the down-dip extension of the North East ore body, which was formerly mined by an open pit. The ore body is accessed by a decline driven from the bottom of the inactive Hartmans open pit. The decline branches and accesses the down-dip extension of the Larsens ore body, which was also formerly mined by an open pit. The ore bodies are narrow and steeply dipping and are hosted in competent rock masses.

The North East underground mine has been in production since 2009. Larsens has been in underground production since 2014. The mines use the up-hole benching mining method, which is a variant of open stoping. No backfill is used and non-recoverable pillars of mineralised material support the open voids. Large stope dimensions have been mined successfully and no major structures or changes in the rock mass have been identified that suggest a requirement to change the design.

Some stopes will be mined beneath and in the walls of the existing Larsens open pit. Some stopes will be drilled and charged from the pit ramp, and broken ore mucked from the base of pit by mobile underground equipment. The base of the pit will be accessed via underground development.

AMC considers that the up-hole benching mining method is low-cost, and reliable.

Run-of-mine ore is trucked 22 km by road trains on a sealed public road to the Tritton processing plant.

Production from the North East and Larsens underground mine for the last five years is shown in Table 3.8.

**Table 3.8 Historical production from North East and Larsens underground mine**

	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015
Ore production (kt)	324	427	270	319	338
Average copper grade (%)	1.5	1.7	1.6	1.6	2.2

Production rates from North East and Larsens are modest because the ore bodies are narrow, and of limited strike length. The recovered copper grade was higher in FYE 2015 than the historical average because of the commencement of underground mining at the higher grade Larsens ore body.

A further 0.33 Mt of ore grading 1.8% copper is expected from North East and Larsens. The majority will be sourced from ore reserves, and the balance from mineral resources yet to be converted to mineral resources. AMC considers that the expected forecast is reasonable.

## 3.8 Advanced mining projects

### 3.8.1 Murrawombie underground

The upper portion of the Murrawombie ore body was previously mined by an open pit targeting oxide ore. An in-pit decline was commenced, but underground production did not occur before the underground mine was placed on care-and-maintenance. SRL now proposes underground mining of Murrawombie followed by an open pit push back.

A prefeasibility study (PFS) including geotechnical investigation of underground mining has been undertaken by SRL and its consultants.

The proposed mining method is stoping under rock fill (SURF). The multiple parallel lenses of mineralisation at Murrawombie are planned to be bulked together with the inter-bedded low-grade or barren rock within each stope. No attempt will be made to mine the high-grade lenses selectively. Primary stopes will be mined under a stable crown pillar. Adjacent pillar stopes and the crown pillar will then be blasted in a mass blast into the primary stope void. Uncemented rock backfill from spent heap leach pads will be introduced via large-diameter holes from surface to fill the void above the broken ore, which will support the hanging wall.

Broken ore from the pillars will be drawn from under the fill until dilution becomes excessive. Additional backfill will be introduced while the broken ore is recovered.

The SURF method has not been used previously at Tritton, and is not currently in use in Australia. However, variants of the method have previously been used in Australia, notably at the Mt Lyell and Mt Charlotte mines.

The advantages of the proposed method are that it allows some of the resource (contained in the primary stopes) to be extracted with little dilution, and does not rely on caveability of the overlying rock mass, which might be problematic given the competent rock conditions and limited deposit strike length.

SURF is a low-cost mining method, and a cut-off grade of 1.0% copper has been used by SRL.

The dilution and mining recovery factors estimated by SRL are shown in Table 3.9.

**Table 3.9 Reconciliation of planned recovery and dilution**

Category	Distribution of in situ Ore (%)	Dilution (%)	Mining Recovery (%)	Net Tonnage Recovery (%)	Grade Recovery (%)	Metal Recovery (%)
Primary stope	45	10	92.5	102	91	93
Rib pillar stope	25	10	90	99	91	90
Crown pillar stope	30	20	70	84	83	70
<b>Total</b>	<b>100</b>	<b>13</b>	<b>85</b>	<b>96</b>	<b>88</b>	<b>85</b>

The risks associated with the method, which were identified by SRL in the PFS are:

- Potential instability in the upper level hanging wall.
- Recoverable grade of the ore from rib pillars and crown pillars might be lower than modelled because of premature dilution by backfill and dilution from hangingwall failures.
- Potential for loss of one or more fill holes because of ground collapse or movement at upper part of stoping block.

AMC considers that SRL has correctly identified the key risks, but in AMC's opinion has probably significantly underestimated the ore loss from pillars, attributable to the confined ore flow conditions under which the blasted pillar ore must be recovered. AMC considers that mining recovery of 60% could be expected for both rib and crown pillar stopes, and that the resultant total tonnage recovery of the in situ resource contained within the mine design would be in the order of 84% rather than 96%. AMC has adjusted its Production Case (Section 3.13) accordingly.

### 3.8.2 Murrawombie open pit

In February 2015, SRL completed a PFS including geotechnical assessment of open pit mining at Murrawombie.

Mining of an approximately 50 m wide pushback on the east wall of the existing Murrawombie open pit is proposed. This will expose approximately 850 kt of copper ore at the base of the open pit. Mining will occur in three stages. The first stage will involve mining to the level of the underground portal (approximately 90 m deep) by a ramp coincident with the upper part of the existing pit ramp and running anticlockwise along the pit wall. The second stage will involve mining this ramp. The first two stages are waste mining only. The third stage will deepen the pit to its ultimate depth (approximately 165 m) to mine ore and waste by a single-lane ramp sited on the footwall of the ore body.

Geotechnical assessment indicates that the rock mass in the pushback is generally competent. The main defect type will be shears and faults. Mine design parameters similar to those used in the existing open pit, which has been stable for ten years with no wall failure, were recommended in the PFS.

Pit optimisation and design resulted in a proposed pit design with an overall stripping ratio of 8.8:1. The design inventory is summarised in Table 3.10. Approximately 1% of the mill feed will be oxide, 3% transitional, and the balance primary sulphide material.

**Table 3.10** Murrawombie open pit inventory

Material Type	Tonnes (kt)	Copper Grade (%)	Gold Grade (g/t)	Silver Grade (g/t)
Indicated resource	815	1.10	0.20	3.74
Inferred resource	55	1.34	0.19	3.32
Total mill feed	871	1.12	0.20	3.71
In situ waste	7,597	–	–	–
Stored waste	146	–	–	–
Total	8,614	–	–	–

Mining has been scheduled at a maximum rate of 500,000 bank cubic metres per quarter, resulting in a planned mine life of 1.75 years. The mining fleet will consist of four 91-tonne trucks, one 110-tonne excavator, one 80-tonne front end loader, and ancillary equipment.

The open pit pushback will intersect some of the existing underground access development. Mining of the open pit is therefore scheduled to occur after completion of the underground mine.

Ore will be hauled 22 km from Murrawombie to the Tritton ore processing plant by road train trucks on a sealed road. The processing plant might require minor modification to achieve the finer grind size recommended for Murrawombie ore.

Waste rock from the project will be added to the existing waste rock dump. The height of the dump will not be increased, and no issues associated with waste rock storage are anticipated.

### 3.8.3 Avoca Tank

Mining has not yet occurred at the Avoca Tank ore body. Avoca Tank was the subject of a prefeasibility study (PFS) completed in March 2014, which recommended mining by underground methods. The ore body is located 2 km from the existing North East mine and 24 km from the Tritton processing plant. A new access decline and surface infrastructure will be required.

The geometry of the Avoca Tank ore body differs from other ore bodies in the Tritton mining complex. It is nearly vertical and has a very limited strike length. The top of the ore body is approximately 60 m below surface, and the deepest part is 375 m below surface. Three grade bearing domains have been identified. The domains are lens-shaped, and are separate at shallow depths, but converge at depth.

The three domains have differing geotechnical characteristics. Geotechnical studies undertaken on behalf of SRL indicate that the majority of the rock mass at Avoca Tank can be classified as very good, but there is a large spread of data. Logging indicated generally low density of fractures and discontinuities but laboratory testing of samples showed the hangingwall rock and the rock between the domains was relatively weak. In some areas, cable bolt support and progressive backfilling are planned to avoid ore loss to non-recoverable pillars.

The mining method selected for Avoca Tank is bench stoping for Blocks 1 and 2, and sublevel open stoping for the deeper Block 3. Both are proven technologies that have already been practiced at Tritton, and use planning techniques and equipment that technical staff and operators are familiar with.

A cut-off grade of 1.5% copper was initially used in the automated stope designs process. A manual design process to improve the mineability of the stopes followed, which resulted in inclusion of some lower grade material. A final cut-off grade of 1.2% copper was then applied to the designed and diluted stopes.

Ore and contained metal recovery from within the designed stope outlines is estimated at 90%. This is similar to the experience at the Tritton and North East mines.

Dilution for bench stopes in Block 1 and 2 is estimated at 18% at zero grade. This is higher than estimated for the Tritton and North East mines. The use of bottom-up mining on dry backfill, and the short strike of stopes results in the higher dilution estimates. Dilution for sublevel open stoping in Block 3 is estimated at 8% at zero grade. This is equivalent to 1.25 m of overbreak or fall-off on all stope walls.

AMC considers that the recovery and dilution factors are conservative but reasonable.

Total planned production is 681 kt grading 2.52% copper and 0.79 g/t gold. SRL has scheduled the life-of-mine plan over a four year period.

The project has been scheduled using industry-standard scheduling inputs and methods, but AMC considers that the result is optimistic when compared to industry benchmarks. The ore body is characterised by its relatively large vertical extent compared to its lateral extents and tonnage. SRL's schedule results in a very high vertical rate of advance of approximately 80 m per annum. In AMC's opinion, a vertical rate of advance of approximately 60 m per annum is more likely. AMC has adjusted the Production Cases (Section 3.12) accordingly. The AMC scheduled life-of-mine is 4.7 years.

### **3.8.4 Budgery**

Budgery was the subject of a scoping study in 2010, which recommended small-scale mining by open pit methods.

The Budgery deposit is located 15 km south-south-west of the Tritton processing plant. The most feasible access to the project location from Tritton is via the Hermidale-Girilambone public road and the Barrier highway (Figure 2.1).

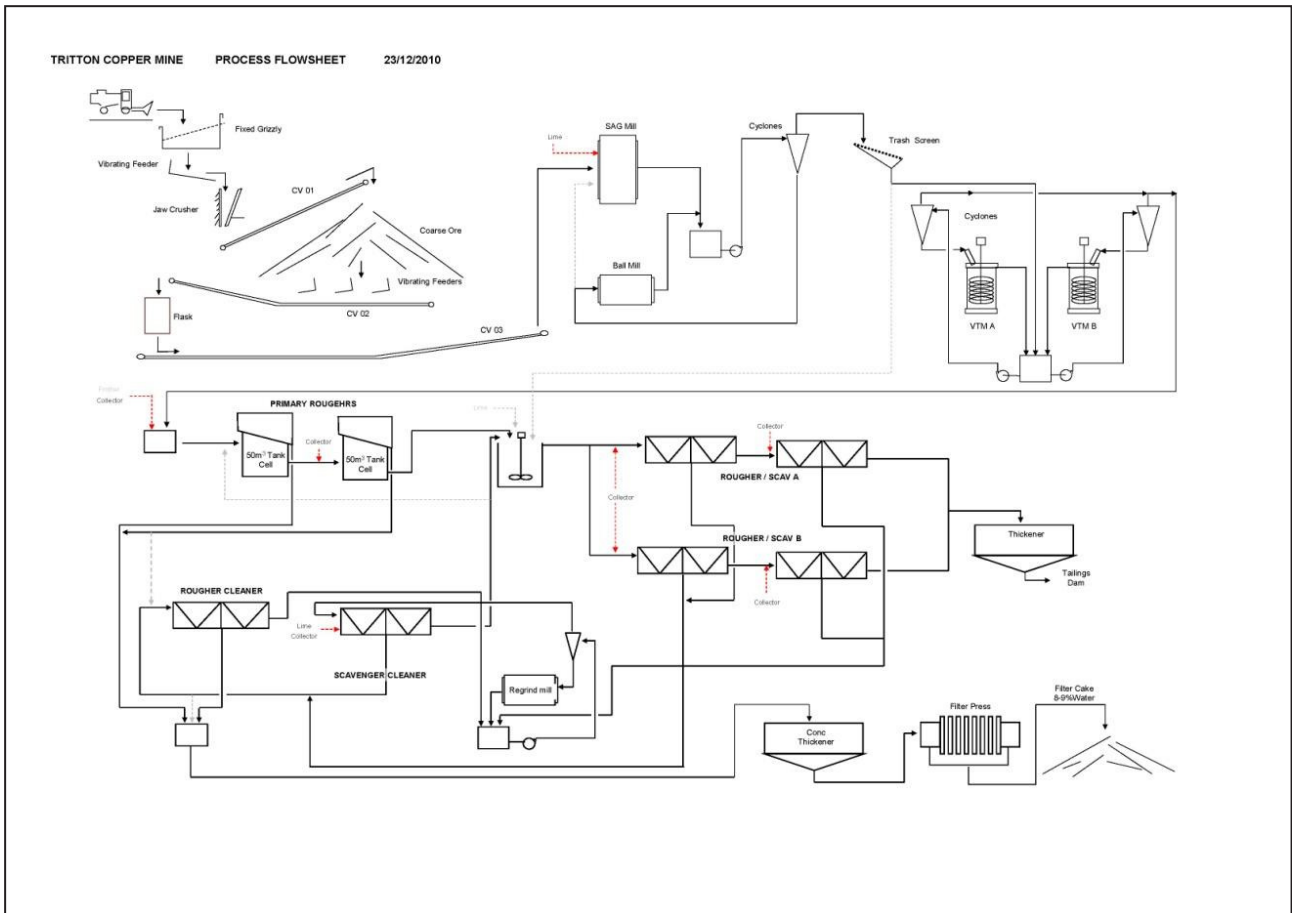
Total planned material movement is 8.9 Mt for 0.6 Mt of sulphide ore grading 1.2% copper and 0.4 Mt of oxide ore grading 1.2% copper.

## **3.9 Metallurgy and processing operations**

### **3.9.1 Process description**

The plant commenced production in 2005. Figure 3.7 shows the current configuration, with one stage of crushing and three stages of grinding, followed by a conventional flotation arrangement of rougher – scavenger – regrind – cleaner stages.

Figure 3.7 Tritton processing plant flowsheet



The plant has been upgraded and modified several times, and is now capable of running at an instantaneous rate of 215 tonnes per hour of wet feed.

Tritton ore can be classed as a banded, massive sulphide, comprised primarily of pyrite ( $\text{FeS}_2$ ), chalcopyrite ( $\text{CuFeS}_2$ ), and quartz. Minor amounts of higher copper content minerals such as bornite ( $\text{Cu}_5\text{FeS}_4$ ), digenite ( $\text{Cu}_9\text{S}_5$ ), and chalcocite ( $\text{Cu}_2\text{S}$ ) are also present. AMC expects this mineral composition to produce a moderate grade of concentrate in the range from 23% to 25% copper.

Mill feeds from the various mines are blended together and no batching occurs.

### 3.9.2 Copper recovery

Table 3.11 shows annual ore processing statistics for the Tritton operation for the years from 2010 to 2015. The ore processed rate has increased over the life of the mine, culminating in throughput of approximately 1.65 Mt in 2015. Plant feed grade has generally decreased over the same period, from a maximum of 2.37% copper in 2010 to a minimum of 1.77% copper in 2014. Copper recoveries have remained stable in the range from 94.1% to 95.1% since 2009. AMC believes these recoveries are reasonable for this type of ore mineralogy and processing plant. Small improvements in concentrate grade may be possible by optimising grind size and flotation parameters.

Table 3.11 Tritton processing plant—key production statistics

	Unit	FYE 2010	FYE 2011	FYE 2012	FYE 2013	FYE 2014	FYE 2015
Ore processed	tonne	906,347	1,163,732	1,254,355	1,267,683	1,568,755	1,642,014
Feed grade	% Cu	2.37	2.11	1.96	1.91	1.77	1.93
Contained copper	tonne	21,464	24,561	24,642	24,234	27,767	31,759
Copper recovery	%	94.23	95.09	94.86	94.10	94.30	94.65
Concentrate produced	tonne	81,183	94,483	93,580	94,520	109,232	123,359
Concentrate grade	% Cu	24.91	24.72	23.33	24.13	24.00	24.37
Contained copper	tonne	20,226	23,354	23,311	22,803	26,185	30,059
Copper cement produced	DMT	864	801	786	512	329	258
Cement grade	% Cu	71.9	72.7	74.2	72.1	72	72
Contained copper	tonne	621.2	582.4	582.7	369.0	237.0	186.0

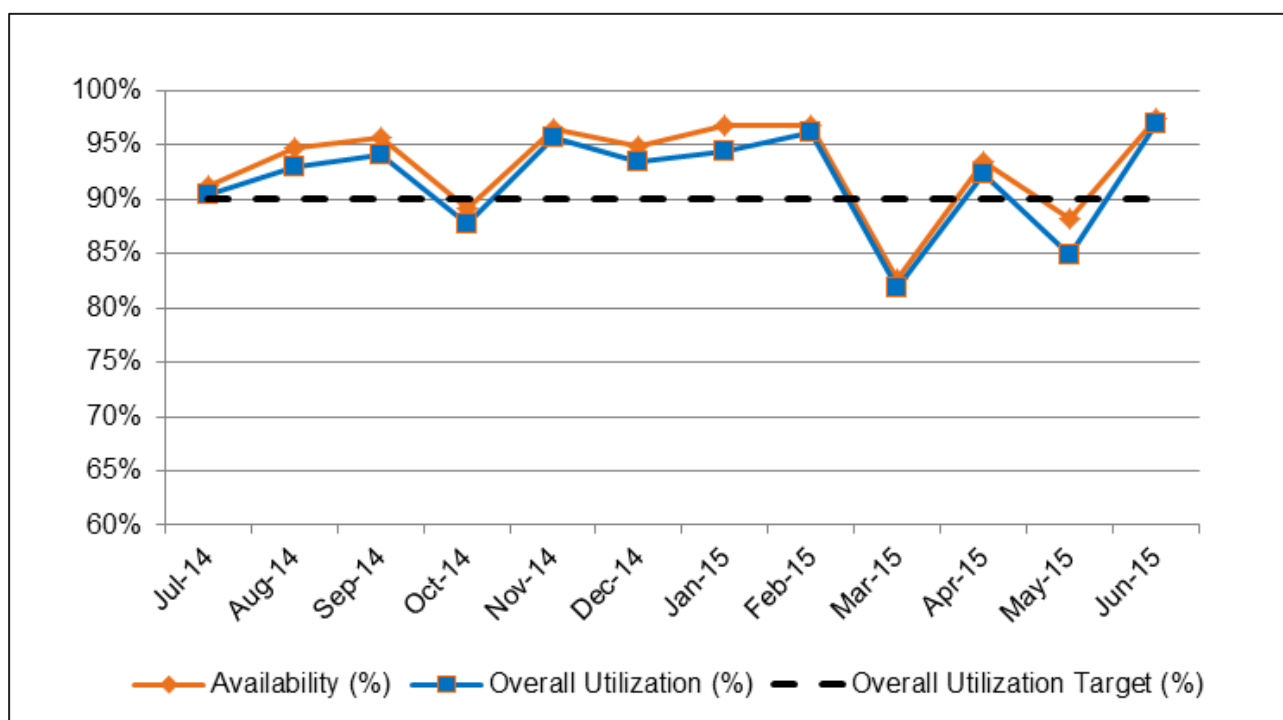


Plant throughput is governed by the instantaneous feed rate to the plant, and the total operating time. During the site visit, the plant was operating in a stable manner at a feed set point of 215 wet tonnes per hour. At a nominal run-of-mine moisture content of 5%, this is equivalent to 205 dry tonnes per hour.

Total operating time (measured as overall utilisation) is determined by the time the plant is mechanically available (Availability) and the fraction of that time that operators utilise the plant (operational utilisation). In 2015, Availability averaged 93.1%, operational utilisation averaged 98.5%, and the resultant overall utilisation averaged 91.7%. Figure 3.8 shows monthly average Availability and overall utilisation for 2015.

Record monthly ore throughputs have been posted in the second half of fiscal year 2015. Increased production from the mines has permitted the plant to operate consistently at 205 dry tonnes per hour. This rate combined with an overall utilisation over 90% has enabled annual throughput in excess of 1.6 Mtpa.

Figure 3.8 2015 plant availability and overall utilisation



### 3.9.3 Precious metal recovery

Gold and silver are present in the ore, and provide a minor economic benefit. In FYE 2015, the gold grade in the mill feed averaged 0.1 g/t, and silver grade averaged 4.8 g/t. Gold recovery was 51.5% and silver recovery was 82.8%. Combined gold and silver credits for FYE 2015 are expected by SRL to be approximately \$4.1 million. Combined gold and silver credits for FYE 2014 were \$4.0 million. SRL's life-of-mine plan assumes gold recovery of 42% and silver recovery of 76%. AMC considers that the assumed recoveries are reasonable.

### 3.9.4 Metallurgy of new projects

#### Avoca Tank

The Avoca Tank deposit is described as a volcanic-associated massive sulphide. It is generally similar in character to the other nearby deposits that are contributing to the run-of-mine feed to the Tritton processing plant. The mineralisation is dominated by pyrite [FeS<sub>2</sub>], with minor chalcopyrite [CuFeS<sub>2</sub>], and occasional sphalerite [(Zn,Fe)S]. In general, the grades of copper and gold at Avoca Tank are higher than elsewhere at Tritton, as is the grade of potentially deleterious zinc.

Avoca Tank ore will form less than 16% of Tritton processing plant feed during the three years of mine production.



Three domains have been defined for Avoca Tank. In November 2012, three composite samples of drill core that represent the three domains were sent to Australian Minmet Metallurgical Laboratories Pty Ltd (AAML) for metallurgical testing. Bond Ball Mill Work Index (BBMWI) testing and a programme of flotation evaluation was conducted. Avoca Tank is regarded as having medium hardness and is expected to have negligible effect of the throughput capacity of the crushing and grinding sections of the plant. Average production rates of 205 dry tonnes per hour can be expected to continue.

Flotation test work appears to show that the Avoca Tank ore can be expected to behave similarly to other Tritton ores in the Tritton plant. A copper recovery of 94% was estimated in the Avoca Tank PFS, and AMC considers that this is reasonable. The concentrate copper grade estimate of 26% may be high. A value from 23% to 24% would be more conservatively in line with test work results.

The gold content of the composite samples tested averaged 2.8 g/t and the average concentrate gold content was 8.6 g/t, however with significant spread in the data (15.5 g/t to 4.6 g/t). The chosen PFS value of 6 g/t Au is reasonable. The gold recovery selected in the PFS is 75% which is between the rougher average recovery of 77.7% and the final (cleaned) average recovery of 69.1%. Plant gold recovery will also be heavily influenced by flotation parameters that will primarily be optimised for the recovery of copper. Consequently, it is difficult to predict gold performance at this early stage, and the value chosen in the PFS is reasonable.

As with gold, the silver recovery chosen in the PFS of 65% is between the rougher recovery of 75.2% and the final concentrate recovery of 58.3%. AMC considers that 65% recovery is reasonable at this stage of the study process.

The presence of sphalerite in the Avoca Tank ore can be expected to result in increased levels of zinc in final concentrate. Zinc levels in concentrate during laboratory testing ranged from 1.63% to 3.45%. A typical concentrate marketing contract will often specify an upper limit for zinc of 3.0%, with penalties applying. Blending Avoca Tank ore with other feeds should result in zinc levels well below penalty limits.

## **Murrawombie**

During testing, Murrawombie ore was found to be softer than Tritton plant feed, which could permit increased plant throughput. Murrawombie ore was found to exhibit a considerable degree of intergrowth of chalcopyrite and pyrite particles. Unless flotation feed is ground sufficiently fine to liberate the two sulphides from each other, chalcopyrite will be lost to tailings resulting in reduced recovery; and pyrite will report to concentrate which will decrease concentrate grade. At a grinding product size  $P_{80}$  of 15–20  $\mu\text{m}$ , some degree of interlocking was still observed.

The Tritton grinding plant currently delivers a  $P_{80}$  between 30  $\mu\text{m}$  and 40  $\mu\text{m}$ . The circuit features a tertiary grinding circuit (Vertimill) that reduces the feed size distribution to approximately  $P_{80}$  of 30  $\mu\text{m}$  prior to flotation.

Copper grade from Murrawombie is expected to be approximately 1.3% copper. This is significantly below the average historical Tritton feed grade, which has ranged between 1.9% copper and 2.4% copper in recent years. Plant recovery will be negatively impacted by lower grade due to the 'fixed tail effect'. That is, during flotation some fixed fraction of copper sulphide particles will be lost to tailings irrespective of feed grade, which results in lower recovery at lower head grade. Copper recovery can be expected to be lower for Murrawombie ore than for the current Tritton mill feed. Adjustments to the tertiary grinding circuit Vertimills to lower the  $P_{80}$  grind size will be required to enhance liberation of chalcopyrite from pyrite. A  $P_{80}$  of less than 14  $\mu\text{m}$  will be required to achieve the upper end of the PFS recovery range of 89–92%. Further testing of Murrawombie ore and evaluation of the capability of the Vertimill circuit at Tritton will be required to reliably estimate the recovery of Murrawombie ore through the Tritton plant.

The ratio of pyrite to chalcopyrite in Murrawombie ore is greater than five, which could be double the ratio of pyrite to chalcopyrite in ore currently being processed at the Tritton plant. A larger mass of flotation concentrate will be recovered during the roughing phase of flotation when all sulphides are recovered. A higher pH will be required during cleaning to ensure depression of pyrite and thus recovery of clean chalcopyrite concentrate.

In AMC's opinion, a recovery of 89% which is at the lower end of the PFS estimate, producing a 23% copper concentrate would be a reasonable assumption pending more definitive test work.

Capital expenditure requirements to enable the Tritton plant to process Murrawombie ore are expected to be minimal. Tertiary grinding is already in place, and plant operators have been upgrading and improving flotation capacity. Some minor modification to the Vertimills may be necessary.

The impact of treatment of Murrawombie ore on operating costs should be minimal. Lime consumption for pH control could increase, and additional power will be required for the finer grind requirement. These increases will be balanced by the softer ore permitting higher feed rates to be used.

## **Budgery**

A preliminary study for the Budgery project was completed in 2010. The ore was found to be quite soft compared to Tritton ore, and is not expected to negatively impact the throughput capacity of the plant.

Flotation test work established the expected grade to be 1.2% copper, with 25% of the ore being oxide and the remainder transition / fresh sulphide. Nominal recovery for oxide ore was determined to be 75% while the figure established for transition/fresh sulphide was 90%. Thus, the recovery for Budgery is estimated to be 86%.

Plant operators will establish new flotation reagent parameters suitable for the increased percentage of oxide ore in the feed following more detailed test work.

### **3.10 Infrastructure and services**

#### **3.10.1 Power supply**

Power is supplied by Stanwell Corporation via the Nyngan-to-Bourke main distribution line. The capacity of the system is well in excess of demand.

#### **3.10.2 Water supply**

Water is supplied from the Bogan River. Tritton is licensed to use 935 MLpa. 770 MLpa was used in 2013, while the annual average has been 650 MLpa.

SRL also has the ability to recover water from the Murrawombie pit.

#### **3.10.3 Paste fill plant**

The paste fill plant was commissioned in 2011. The plant is designed for a nominal paste production rate of 109 m<sup>3</sup>/hr. At a paste plant utilisation of 52%, all tailings from the Tritton processing plant, operating at 1.6 Mtpa, can be converted to paste if required.

Tailings flow from a 500-tonne capacity holding tank to a 131 m<sup>2</sup> belt filter, then to a mixing tank where cement is added and the moisture content is adjusted prior to delivery underground.

#### **3.10.4 Cementation plant**

A small copper cementation plant is operated at the Murrawombie open pit site. Between 50 and 100 dry metric tonne per month of approximately 75% copper is deposited by cementation on scrap iron. Leach solution is circulated over largely depleted oxide ore dumps. No new ore or acid is added to the process.

Production from the cementation plant has significantly decreased since 2010 as the grade of pregnant leach solution exiting the dumps has continued to fall. This is to be expected, as no new ore is being added to the dumps and pH of the leach solution is not being managed by the addition of sulphuric acid. Cemented copper production for FYE 2015 is expected to be approximately 200 t at a grade of 72% copper, which is acceptable for the market.

#### **3.10.5 Waste rock management**

##### **Tritton**

Waste rock from Tritton is disposed of in an above-ground waste rock dump, or underground in mine voids. Generally, non-acid forming (NAF) rock is disposed of in the above-ground waste rock dump, and potentially acid forming (PAF) rock, defined as rock having more than 1% sulphur, is disposed of underground.

In April 2015, the capacity of the Tritton waste rock dump was increased by the approval of an application to increase the height of the dump from 10 m to 20 m above natural ground level. SRL estimates that this will provide sufficient NAF waste rock storage capacity for the life-of-mine.

SRL advised that limited capacity for disposal of PAF rock in underground voids has the potential to become a constraint to waste mining. However, site personnel are aware of the issue, and report that options are available to alleviate the issue and are under consideration. AMC considers it reasonable to assume that sufficient capacity for underground disposal of PAF rock will be made available.

### **Murrawombie**

The existing Murrawombie waste rock dump consists of a paddock-style rock dump constructed in two lifts of approximately 10 m each. The second lift has not been completed to its full southern extent, and still has some capacity. The waste rock dump has been partially rehabilitated, and remains under care-and-maintenance.

A new southern waste rock dump is proposed as part of the Murrawombie open pit extension project. SRL estimates that this will provide capacity of approximately 3.5 million cubic metres of waste rock, which is sufficient for the open pit extension project.

### **North East**

There are two above-ground waste rock dumps at North East:

- The North East waste rock dump
- The Hartmans and Larsens waste rock dump

Both dumps have been partially rehabilitated and are under care-and-maintenance.

Waste rock from current underground workings at North East and Larsens is stored in the bottom of the Hartmans pit and may be returned underground for use as stope fill. SRL is not planning to construct any additional waste rock dumps at North East. The current life-of-mine plan suggests that a further 318 kt of waste will be generated, and can be accommodated within the existing pit and underground workings.

#### **3.10.6 Tailings storage facilities**

The Tritton processing plant has two tailings disposal options:

- A tailings storage facility (TSF) located on ML 1544 on the eastern side of Yarrandale Road, which accommodates an average of approximately 766,000 m<sup>3</sup> of tailings per year.
- Underground disposal in Tritton mine via paste production, which averages approximately 360,000 m<sup>3</sup> per year.

The TSF is a valley-type embankment constructed in stages to meet capacity requirements:

- The Stage 1 construction to 260 metres above local datum (mRL) included an upstream underdrainage water collection system, a downstream interceptor trench, downstream sump pump to recover underdrainage, a central decant water recovery system and a spillway located through the northern abutments.
- The Stage 2 raise to 262 mRL. The Stage 2 raise, and all subsequent raises used the upstream raise construction method.
- The Stage 3 raise to 264 mRL provided a total capacity of 4.4 Mm<sup>3</sup>.
- The Stage 4 raise to 266 mRL provided an additional 2.683 Mm<sup>3</sup> of tailings capacity.

The Stage 4 raise was completed in 2015 and provides an additional 4.5 years of capacity at current operational rates. The raise included an extension of the main embankment across natural ground on both abutments; a raise of the northern saddle embankment; and a raise and extension of the southern saddle embankment and abutments. The spillway invert channel was raised from 263 mRL to RL 265 mRL within the newly raised northern saddle embankment.

Tailings are deposited from a perimeter pipeline distribution system at approximately 60% solids, settling out to form beaches that slope away from the perimeter embankments allowing tailings bleed water to drain towards the central decant pond and dewatering pump.

The dam spillway has been designed to pass a 1-in-100-year rainfall event, which comprises a flow depth of 500 mm over the spillway invert and the Probable Maximum Precipitation event at less than 1 m depth. An upstream diversion channel redirects upstream flows around the TSF.

The hazard rating for the TSF was assessed in the Stage 4 design report based on *NSW Dam Safety Committee guideline 13 "Hazard Ratings of Dams" 1992*. The Stage 4 design report concluded that the primary assessment of the Sunny Day Hazard Rating and Incremental Flood Hazard Category are both assessed as 'Low'. The secondary assessment based on the same two criteria has also been assessed as 'Low'. An operations manual for the TSF was finalised and submitted to the NSW Dam Safety Committee in 2005.

A detailed independent assessment of design, construction and operation of the TSF is outside the scope of AMC's review. However, surveillance reviews of the TSF have been undertaken every year since 2006. The findings from the most recent TSF surveillance report (2014 calendar year) indicates that the TSF is currently designed, constructed and operated in accordance with regulatory requirements and good general operational practice.

The TSF will accommodate tailings at the projected deposition rate until approximately 2019. The next TSF raise is at a conceptual level of planning and has been budgeted in the life-of-mine plan.

There is a localized groundwater mound near the main TSF embankment that is a subject of discussion with the Department of Primary Industries – Mineral Resources. SRL believes the issue is unrelated to leakage of solutions from the TSF.

### **3.11 Approvals, environment and community**

#### **3.11.1 Introduction**

This section provides an appraisal of the regulatory requirements, compliance, environmental and social liabilities, performance and potential constraints and opportunities that apply to the Tritton Copper Mines. The assets considered in this appraisal include:

- Tritton Mine and its associated mineral processing facilities on ML 1544.
- Murrawombie / Girilambone Mine and mineral processing facilities on ML 1280.
- Murrawombie / Girilambone North East Mine and mineral processing facilities on ML 1383, and MPL 294 and MPL 295.
- Hartmans open pit mine, and North East, and Larsens open pit and underground mines on ML 1383.

The appraisal also considers two proposed projects:

- Murrawombie open cut extension project.
- Avoca Tank open pit project.

These projects are currently subject to regulatory approval.

The appraisal is based on a review of published and unpublished data and reports provided by SRL and a site inspection by AMC's Principal Environmental Engineer, Peter Allen, on 29 and 30 June 2015.

#### **3.11.2 Mining and real property tenure**

##### **Mining tenure**

The relevant tenements are presented in Table 3.12 and Figure 2.1.

Table 3.12 Tenements

Lease Name	Project	Holder	Status	Date Granted	Expiry Date
EL 6346	Hermidale	Tritton Resources Pty Ltd	Granted	23/11/2004	22/11/2017
EL 6126	Girilambone	Tritton Resources Pty Ltd	Granted	15/09/2003	14/09/2016
EL 6785	Miandetta	Tritton Resources Pty Ltd	Granted	22/05/2007	22/05/2016
EL 4962	Tritton	Tritton Resources Pty Ltd	Granted	19/03/1996	25/04/2017
EL 8083	Girilambone	Tritton Resources Pty Ltd	Granted	10/05/2013	10/05/2015
EL 8084	Girilambone	Tritton Resources Pty Ltd	Granted	10/05/2013	10/05/2015
ML 1383	Girilambone	Tritton Resources Pty Ltd	Granted	13/01/1996	12/01/2017
ML 1544	Tritton	Tritton Resources Pty Ltd	Granted	22/12/2003	21/12/2024
ML 1280	Girilambone	Tritton Resources Pty Ltd	Granted	6/08/1992	5/08/2034
MPL 294	Girilambone	Tritton Resources Pty Ltd	Granted	6/08/1992	5/08/2034
MPL 295	Girilambone	Tritton Resources Pty Ltd	Granted	6/08/1992	5/08/2034
EL 6105	Canbelego	Tritton Resources Pty Ltd (30%) JV with Oxley (70%, owner/operator)	Granted	28/07/2003	27/06/2015

Source: SRL tenements list, undated.

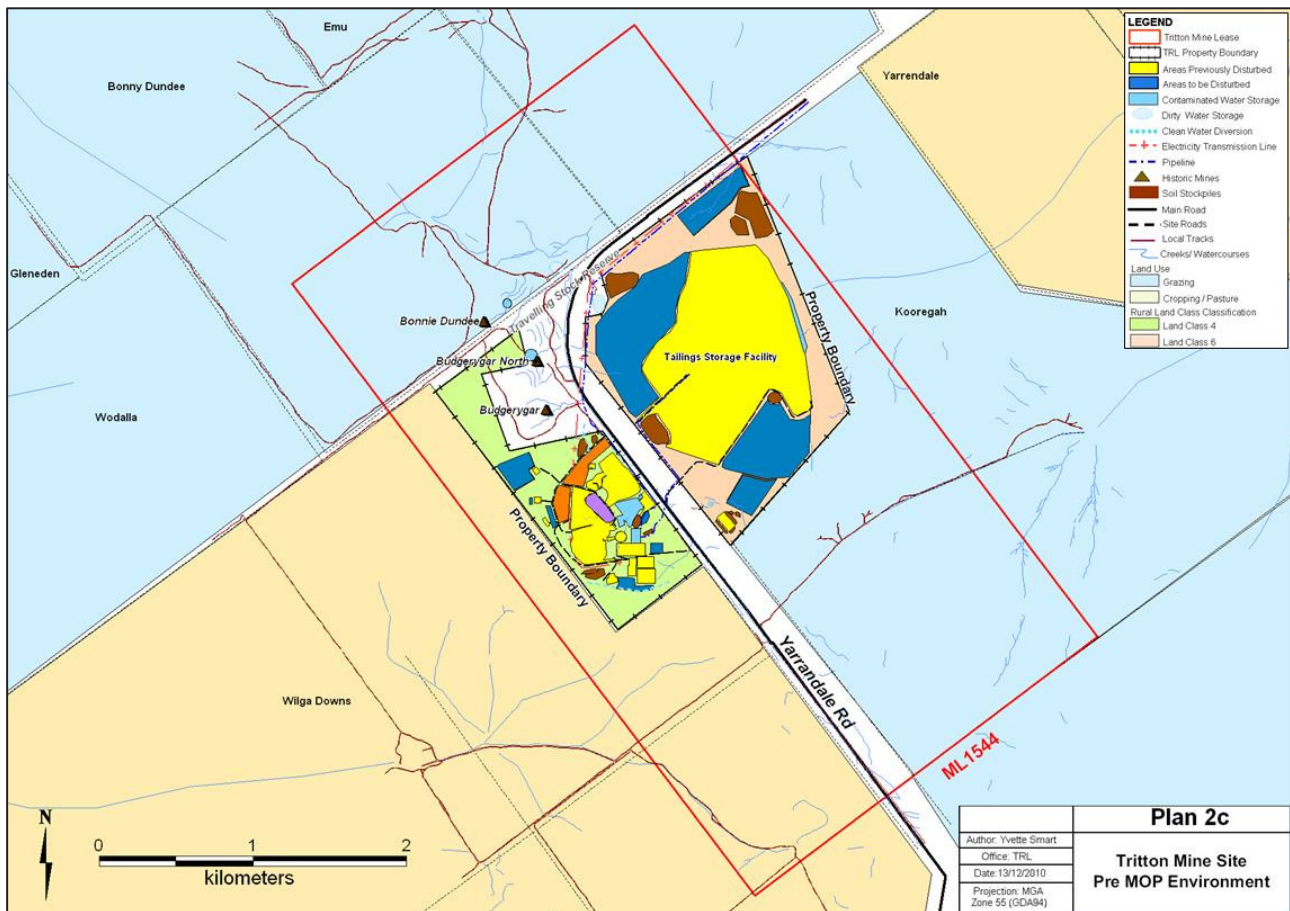
SRL advises that exploration license renewal applications have been submitted to NSW Department within the designated timeframe for EL8083 and 8084.

### Real property tenure

The Tritton mining lease (ML 1544) encompasses approximately 1,400 ha of land. SRL holds freehold title to 617 ha of this land, containing the active and disturbed areas of the mine and the TSF, as shown in Figure 3.9.



Figure 3.9 Land ownership at Tritton



Source: Tritton MOP, 2010.

At Murrawombie, land within ML 1280 and MPL 295 is freehold land owned by SRL, with the exception of crown land comprising the Booroomugga Road and Yarrandale Road reserves. Access to the mine is via these roads.

The North East mining lease (ML 1383) encompasses approximately 1,279 ha. SRL owns all of this land, with the exception of some crown land road reserves.

The Avoca Tank project area is currently privately held, however, SRL advises that it is in discussions with the property owner regarding a potential acquisition of the required land.

### 3.11.3 Consents, authorities, and licenses

At Tritton mine (ML 1544) the following primary approvals are in place:

- Development Consent DA 41/98 for Tritton Mine, granted under the *Environmental Planning and Assessment Act 1979*, on 12 September 1998, and amended most recently on 7 April 2015 to permit the increase in height of the waste rock dump.
- Environment Protection License No. 11254, issued under the *Protection of the Environment Operations Act 1997*.
- Mining Lease 1544 granted under the *Mining Act 1992*.
- Mining Operations Plan for ML 1544, January 2011 to December 2015.

Copies of primary approvals were provided for review. An extensive list of secondary approvals was provided in the ML 1544 Mine Operations Plan. Copies of selected secondary approvals were available for review.

Based on a high-level review of the primary and secondary approvals, it is apparent that appropriate permits are in place and SRL has a statutory licence to operate at the Tritton mining complex.

## Murrawombie

At Murrawombie, the following primary approvals are in place:

- Development Consent DA 1/91 for Murrawombie Mine open pit and heap leach, granted under the *Environmental Planning and Assessment Act 1979*, on 12 September 1998, and amended on 13 December 2007 (underground mine and cementation).
- Environment Protection License No. 4501, issued under the *Protection of the Environment Operations Act 1997*. It is noted that a Pollution Reduction Program (an enforceable requirement to improve environmental performance) has been included in this license, and is discussed further below.
- Mining Lease 1280 (mine activities) and Mining Purpose Leases 294 and 205 (river water pipeline and road diversion, respectively) granted under the *Mining Act 1992*.
- Mining Operations Plan for Murrawombie mine nominally expiring on 8 January 2015. SRL advises that the plan has been extended to 2016.

Copies of primary approvals were provided for review. An extensive list of secondary approvals was provided in the ML 1280 Mine Operations Plan. Copies of selected secondary approvals were also available.

Based on a high-level review of the primary and secondary approvals, it is apparent that appropriate permits are in place and SRL has statutory licence to operate the Murrawombie mine (in its current care-and-maintenance status).

## Murrawombie open cut extension project approvals

A Statement of Environmental Effects and an application to modify Development Consent DA 1/91 have been submitted for the extension project. The application has been publicly exhibited and comments have been received from government organisations. SRL advises that biodiversity offsets are currently one of the main points under negotiation in the approvals process. SRL advises that the negotiations centre on the mechanism of offsets, rather than the need for offsets. SRL advises that it is likely to already have sufficient land to accommodate the required offsets, and that the implementation of the offsets is unlikely to incur significantly costs.

Following grant of the modification to the development consent, it is understood that the Mining Operations Plan will be updated to reflect changes in proposed operations. Following approval of the plan by the Department of Trade, Investment, Regional Infrastructure and Services, it is understood that all primary approvals will be in place for the extension.

SRL advises that, apart from biodiversity offsets, there are no other material issues or objections to the application from the exhibition phase of the application to date. AMC considers that there is a reasonable expectation that the outstanding approvals will be provided in due course.

## North East complex

At North East (including Hartmans and Larsens pits), the following primary approvals are in place:

- Development Consent DA 6/95 for the three Northeast pits and DA 18/10 for the Northeast run-of-mine ore pad, granted under the *Environmental Planning and Assessment Act 1979*, on 15 October 1995, and 2 July 2010, respectively.
- Environment Protection License No. 4501, issued under the *Protection of the Environment Operations Act 1997*.
- Mining Lease 1383 granted under the *Mining Act 1992*.
- Mining Operations Plan for North East, expiring in 2017.

Copies of primary approvals were provided to AMC for review. An extensive list of secondary approvals was also provided in the ML 1383 Mine Operations Plan. Copies of selected secondary approvals were available.

Based on a high-level review of the primary and secondary approvals, it is apparent that appropriate permits are in place and SRL has a statutory licence to operate North East mine.

### Avoca Tank approvals

The Avoca Tank PFS identifies the following suite of approvals that are required for the Avoca Tank project:

- Development consent in accordance with the provisions of the *Environmental Planning and Assessment Act 1979* (EP&A Act).
- An Environment Protection Licence under Section 47 of the *Protection of the Environment Operations Act 1997*.
- A Mining Lease issued under the *Mining Act 1992*.
- A Water Access Licence will be required under the *Water Management Act 2000*.
- Construction and occupation certificates from Bogan Shire Council.
- Modification of the Development Consent 41/98 for the Tritton Copper Mine to permit importation of ore material from the Avoca Tank Project.

The PFS concludes that the project will not affect Matters of National Environmental Significance under the *Environment Protection and Biodiversity Conservation Act 1999*.

An Environmental Impact Statement (EIS) has been prepared and submitted to support an application for development consent (and other approvals) for the project. The application has been publicly exhibited and comments from various government departments have been received. SRL advises that the requirement for environmental offsets is potentially one of the main issues for negotiation prior to completion of the development application process. As per comments on the Murrawombie pushback approvals, SRL advises that offsets are unlikely to be a significant cost or approval impediment. SRL and its EIS consultants advise that there are no other material issues or objections to the application from government agencies or others from the exhibition phase.

In conclusion, by way of previous project approvals for Tritton operations, and the general absence of sensitive environments, SRL believes there are reasonable grounds to expect that approvals should be obtained. AMC agrees that this expectation is reasonable.

#### 3.11.4 Compliance with regulatory requirements

Independent consultants carried out an environmental and safety review of Tritton in 2010. The key findings of the audit were that hydrocarbon storage, handling and management was inadequate, and that waste rock management including management of PAF rock, was inadequate.

The Division of Resources and Energy of Department of Trade and Investment conducted a comprehensive compliance audit in August 2014 to assess the level of compliance against the applicable requirements of mining licence numbers ML 1280, ML 1383, ML 1544, EL 6126, MPL 294, and MPL 295 issued under the *Mining Act 1992*.

The audit found that, of the 302 compliance obligations identified and reviewed during the audit, there were 27 non-compliances and 10 observations of concern. Non-compliance and observations of concern issues were identified in relation to:

- Hazardous materials and hydrocarbon management:
  - Hydrocarbon, storage and spillage.
  - Leach pad liquid escape from containment.
- Rehabilitation and erosion controls and monitoring specified in Mining Operations Plans and management plans.
- Timeframes for the completion of reporting.

The findings of the audit are summarised by AMC as follows:

- SRL does not systematically comply with a number of obligations contained in Mining Operations Plans and management plans referenced in the plans.
- Inspection/audit and maintenance processes are not systematically addressing issues arising in a timely and comprehensive manner.



- Rehabilitation has not progressed to the extent predicted in various approval documents and management plans.

An independent environmental audit was carried out by consultants in November 2014 over the Tritton mining operations on ML 1544. The audit did not consider operations at Murrawombie and North East. The audit assessed compliance with the development consent and environmental protection license, but not mining lease conditions. The findings of the audit are summarised by AMC as follows:

- Overall, SRL was able to demonstrate that the operations has prevented or minimised the likelihood of unauthorised environmental harm from the operations.
- There was no evidence of significant environmental impact/harm occurring as a result of the operations.
- One major non-compliance, 11 minor non-compliances, nine potential non-compliances, five partial non-compliances and seven historical minor non-compliances were recorded from the audit.
- A significant number of non-compliances were associated with historical activities or administrative issues, specifically associated with records and documentation from pre-2008 not being readily available.
- A reasonable level of environmental performance and operational control in the field was observed, demonstrating compliance with 63 of the 93 applicable consent and license conditions.

The major non-compliance was associated with historical and undocumented disposal of PAF rock within the above-ground waste rock dump, and not appropriately contained or encapsulated.

SRL noted that the Environmental Protection Authority (EPA) carried out a site audit in December 2014, followed by a number of information requests. SRL advised that to date (30 June 2015), an audit report had not been received, and no requests for action had been received as a result of the audit.

AMC notes that SRL is aware of the audit findings, that there were numerous outstanding compliance issues, and that SRL advised that actions were planned to address outstanding issues. AMC has not been provided with evidence of a systematic plan and budget to address these matters; however, SRL advised that actions had been programmed in work calendars.

AMC notes that a consolidated approvals register, setting out the numerous mining lease and development consent conditions, license conditions, EIS and development application commitments and secondary approval requirements is not in place for the various operations. AMC considers that the absence of a register would make systematic compliance with approvals and regulatory requirements challenging to achieve and demonstrate.

AMC notes that the Murrawombie and North East (including Hartmans and Larsens) were excluded from the independent environmental audit. However, these were covered in the Department of Trade and Investment audit to some extent. The absence of a thorough compliance audit introduces some uncertainty to current and historical performance at these mines.

In conclusion, AMC considers that SRL is achieving a fundamental level of environmental compliance; however, it is some way from strict regulatory compliance. The current level of compliance does not pose an immediate and material issue, in the context of AMC's review. However, future risks associated with the historical and current performance could arise from errors or incidents that result in significant environmental harm, incur regulatory enforcement or prosecution, and potentially significant "make good" costs. The inability to demonstrate strict compliance with regulatory requirements leaves SRL potentially susceptible to enforcement actions and prosecution from regulators, and susceptible to adverse media and community perceptions.

AMC considers that there is scope for improvement in environmental performance at SRL's operations and that strict regulatory compliance should become a priority. AMC considers the required improvement in performance and compliance will probably require an increase in environmental personnel and budget allowances.

### 3.11.5 Pre-existing environmental liabilities

Pre-existing liabilities typically result from prior land uses and historical mining operations. Social liabilities can include unresolved grievances, claims, court actions or unpaid compensation claims.

AMC reviewed the Tritton EIS (R.W. Corkery, 1998), the Murrawombie Open Cut Extension Statement of Environmental Effects (SEE) and Avoca Tank EIS. There are no known material pre-existing liabilities and AMC considers that it is unlikely that there are any as yet unknown liabilities associated with the SRL assets.

The original Murrawombie heap leach operation could be considered a pre-existing liability, given that much of the value had been extracted, and it was un-rehabilitated at the time of acquisition by SRL. However, the rehabilitation liability associated with the heap leach is included in current security bonds and mine closure plans, discussed in section 3.11.8 of this report.

Potential environmental liabilities that might arise from future mine development are discussed in environmental management.

### 3.11.6 Environmental management

#### Policy, management systems, and management plans

SRL has a published environmental policy, and a health and safety policy, signed by the executive chairman of the company. SRL also has policy statements on community management and mine closure.

SRL does not have an integrated environment, social, safety, and quality management system or accredited environmental management system.

SRL has an Environmental Management Plan (EMP) comprised of a Framework EMP document (SRL December 2014), and EMP topic specific sub plans. The EMP, prepared to meet approval requirements, contains some elements of an environmental management system.

AMC sighted the framework document and selected sub-plans. SRL personnel advised that some sub-plans were scheduled to be updated and upgraded with new information and new management requirements, such as the surface water management plan.

#### Tritton annual environmental management report 2014 – ML 1544

Mine disturbance area at 31 December 2014 was 175.9 ha.

A groundwater mound near the TSF suggests the potential for a leak. A variation to the Tritton Environmental Protection License under the *Protection of the Environment Operations Act 1997* (POEO Act) was issued, requesting the preparation of a Remedial Action Plan (RAP). A report on investigations by environmental consultants (report dated June 2013), concluded that there are no leakage issues and that no significant remedial actions are required. The plan recommends that monitoring continue (for groundwater level and quality). These findings were formally accepted by the EPA on 14 July 2014.

Key actions required from the previous annual environmental management report (AEMR) were centered on the following aspects:

- Minor improvements required for monitoring and reporting.
- Minor to moderate improvements required for surface water management.
- Various other minor issues (such as mapping requirements).

Table 3 of the AEMR includes responses to these issues. It is anticipated that actions to address some of these issues, such as surface water management, are ongoing.

#### Murrawombie / Girilambone Mine AEMR 2014 – ML 1280

The total mine disturbance area was 132.94 ha at 31 December 2014. There was no additional land disturbance in the previous year.

There is a known groundwater pollution issue at the Girilambone mine site. An RAP (June 2013) was developed in response to directives from EPA via a variation to the sites Environmental Protection License (under the POEO Act) and submitted to EPA for consideration. The proposed RAP has been formally accepted by the EPA. The source of the groundwater pollution event was a leak in the liner of one of the pregnant liquor ponds. The leak has been repaired, and the nearby monitoring bore has been converted to an abstraction bore, to draw down and pump out the contaminated groundwater plume.

The RAP conclusions are summarised by AMC as:

- The groundwater impact has been shown to be contracting over the past five years and does not extend beyond the site boundary at concentrations above background.
- The combination of source removal – primarily the maintenance and repair of the pregnant liquor ponds in conjunction with maintaining the containment dams in a dewatered state except during periods of wet weather – with pumping of impacted groundwater, will reduce the extent of the issue over time.

SRL advises that no new leaks had been detected and the existing groundwater contamination management approach is working well.

### **North East Mine AEMR 2014 - ML 1383**

Mine disturbance at 31 December 2014 was 94.1 ha. There was no additional land disturbance in 2014.

Key actions required from the previous AEMR review (AEMR Section 1.4) were considered by AMC to be minor and immaterial for the purposes of this review.

A few minor improvements and adaptive management is proposed in the further improvements aspects of the report. In most aspects, a business as usual approach was proposed.

### **Operational environmental management - conclusions**

The environmental and compliance audits conducted by government agencies identified areas of non-compliance and environmental management concerns in a range of areas, including:

- Groundwater contamination and monitoring.
- Mine water management system capacity and adequacy.
- Surface water management (including erosion and sediment controls).
- Waste rock characterisation and management practices.
- Contaminated land management.
- Rehabilitation.

The review of AEMRs for the existing operations did not identify any significant additional environmental management issues.

AMC considers that SRL is aware of these areas of concern and has plans in place to improve performance in these areas. AMC sighted examples of where actions had been completed or partially completed, demonstrating that actions were being progressed.

AMC considers that the areas of non-compliance and areas of concern can be addressed with conventional methods and actions, and are not material risks to the project. AMC considers that existing environmental management resources are likely to be inadequate to maintain current performance, and hence additional resources (environment personnel and budget) may be required to implement all of the proposed actions and achieve full compliance and high levels of environmental performance in a timely manner.

### **Avoca Tank project – potential environmental issues**

The Avoca Tank EIS (2014) used a community consultative process to prioritise potential environmental and social issues associated with the development.

The EIS concluded that the development can be implemented in accordance with regulatory requirements and reasonable community expectations. Key issues are discussed below:

- Surface water and groundwater:
  - The project area does not contain any significant drainage lines. Surface water drainage is unlikely to significantly affect the viability of the project.
  - Saline groundwater inflows and disposal could be an issue for ongoing management, but is unlikely to become a significant constraint to the viability of the project.
- Cultural heritage:
  - An Aboriginal cultural heritage assessment concluded that while some sites were located in the surrounding area they would not be disturbed by the proposed development of the Avoca Tank ore reserve.
- Waste rock and tailings:
  - Sampling and analyses of waste rock and ore for acid mine drainage assessment has been carried out, and 27 samples have been analysed. The assessment concluded that some waste rock and tailings could be acid forming. Acid mine drainage prevention and management measures are proposed. These are used on other SRL operations and it is expected that this issue can be routinely managed.
  - The existing TSF will provide capacity that exceeds that required to accept tailings from the Avoca Tank Ore Reserve.

In AMC's opinion, the rigorous implementation of environmental mitigation measures proposed in the EIS should adequately address the environmental issues identified for the project. AMC concludes that the environmental issues to date should materially affect the implementation of the Avoca Tank project.

#### **Murrumbidgee extension project – potential environmental issues**

The main potential environmental issues and observations for the Murrumbidgee extension project are summarised by AMC as:

- Land, land use, and soils:
  - The Murrumbidgee extension project will be within the existing mining lease, and use existing roads, the existing Tritton processing plant and the existing TSF. All activities will be within existing mining and transport land use areas.
  - SRL advises that the Murrumbidgee Waste Rock Emplacement is currently shaped and spread with soil. Revegetation success has been variable, with remedial action required to achieve the relevant closure and relinquishment criteria.
  - Remaining sections of the mine, including the open cut and underground workings, run-of-mine ore pad, heap leach pad and associated infrastructure remain un-rehabilitated.
- Flora and fauna:
  - The activities are to be carried out largely within existing disturbed mining areas. Significant flora and fauna issues are not anticipated.
- Water:
  - The Siburys Creek drains in a south-easterly direction and is located approximately 500 m from the existing open pit. A flood protection levee is in place; however, the design flood level could not be determined by AMC from the available documents.
  - A mine water management system of diversion drains, sediment dams and other infrastructure are in place. It is anticipated that these could be easily upgraded (if not already sufficient) to manage mine water for the Murrumbidgee extension project.
- Groundwater:
  - There is a RAP in place for the Murrumbidgee mine. The extension is unlikely to affect the groundwater system or the actions required under the RAP.
  - The effects of the Murrumbidgee extension project on existing groundwater resources are unlikely to be significant, given that the existing underground workings already intercept aquifers at the proposed new pit depths, without significant impacts.

- Nearest sensitive receptors, air quality, blasting, noise and vibration:
  - Nearest sensitive receptors (approximately 10-20 residences) are in the hamlet of Girilambone, approximately 2.5 km to the east of the mine site. The next nearest receptor is 3 km away (Ferndale – possible residence).
  - Air blast overpressure, vibration, and noise have been assessed and are considered unlikely to result in significant impacts. These issues will require careful planning, assessment, management and monitoring to achieve compliance and avoid unacceptable impacts to the nearest sensitive receptors.
  - SRL (PFS 2014) advises that ongoing metal analysis of deposited dust continues to identify the presence of elevated heavy metal concentrations, particularly copper, iron, lead and zinc within the local area.
  - The monitored levels are generally consistent with background levels previously established for both yearly and seasonal deposited dust averages.
  - Actual deposited dust levels are relatively consistent with historical levels and remain below criteria levels.
- Waste rock and tailings:
  - Waste from processing will be disposed of at the existing TSF or consumed in paste fill.
  - Any PAF waste will be encapsulated within the waste dump on the surface or is placed underground in completed stopes as backfill.

In AMC's opinion, the rigorous implementation of environmental mitigation measures proposed in the SEE should adequately address the environmental issues identified for the project. AMC concludes that the environmental issues to date should not materially affect the implementation of the Murrawombie open cut extension project.

### **3.11.7 Social and community impact management**

#### **Policy and social impact management plan**

SRL has a published Community and Cultural Heritage policy. AMC was not provided with a social and community management plan.

#### **Workforce accommodation**

SRL employs a workforce of 300 full-time employees and 65 contractors on a variety of roster arrangements, including fly-in/fly-out, drive-in/drive-out and residential in Nyngan local government area. SRL maintains an accommodation facility for approximately 35 personnel in Nyngan.

Approximately 75% of the workforce is based in Nyngan, and as such, the Tritton mines are a significant employer in the local area.

#### **Sensitive receptors**

The assets are remote from urban areas, and historical operations and current operations generally appear to enjoy support of the local community and affected and neighbouring property owners.

#### **Community consultation and grievance mechanisms**

SRL coordinates and facilitates a Community Consultative Committee, to provide a mechanism for dialogue with a broad representation of the local community, amongst other purposes. The committee meets every three months. SRL advised that the committee functions well and rarely attracts criticism.

SRL maintains a grievance mechanism via a complaints hotline, complaints register, and actionable items and reports to management. A total of seven complaints were received since 2008, generally of minor nature. All reasonable complaints had been addressed and closed out.

### 3.11.8 Security deposits, mine closure, and rehabilitation

#### Security deposits

An email from Department of Trade and Investment, Regional Infrastructure and Services was provided by SRL, to confirm the security deposits held by the Department in regard to titles held by Tritton Resources Pty Ltd. These were as follows:

- A group security of \$173,500 is held for Exploration Licences No's 4962, 6105, 6126, 6346, 6785, 8083, and 8084.
- A group security of \$4,800,000 is held for Mining Lease No. 1280 and Mining Purposes Leases No 295.
- An individual security of \$436,000 is held for Mining Lease No. 1383.
- An individual security of \$5,022,000 is held for Mining Lease No. 1544.

AMC notes that the security deposits for the three mining leases and the two mining purposes leases have not changed since 2008, and hence these are likely to be underestimated, given the effects of inflation. An updated calculation of the security bond was provided by SRL for the recent extension of the Murrawombie mining operations plan (MOP) to 2016. This was estimated at \$5,769,038.

A preliminary estimate of the additional security deposit required for the Murrawombie open pit extension project was estimated by AMC to be approximately \$150,000. The additional bond will be required following approval of the updated Murrawombie MOP in 2016. A preliminary estimate of \$400,000 was calculated by SRL as the likely security bond for the Avoca Tank project.

A policy change or environmental incident at the mine could trigger the immediate requirement for updates and increases to the current security deposit. The uplift of seven years using a 3% inflation index would be 23%. Including the Avoca Tank bond, increased Murrawombie bond, and effect of applying inflation on the other mining leases, provides a potential increase in total bond requirement from \$10,431,500 to approximately \$13,305,877.

#### Mine closure plan

SRL has prepared a mine closure plan, dated July 2009. SRL proposes to update the plan by the end of 2015 to include changes in legislation and regulatory requirements and new developments and projects currently under consideration in the life of mine plan.

#### Rehabilitation

Progressive rehabilitation has been implemented in some areas with varying degrees of success. To date, no rehabilitation works have been signed off by regulators as complete.

### 3.12 Costs

#### 3.12.1 Capital costs

Recent historical capital expenditure related to the operation and development of the Tritton complex is summarised in Table 3.13.

**Table 3.13 Summary of capital expenditure 2012 to 2015**

Item	FYE 2012	FYE 2013	FYE 2014	FYE 2015*
Property, plant, and equipment	8.0	5.5	9.8	11.2
Exploration	7.6	5.2	2.0	2.1
Capitalised mine development	25.7	18.6	13.7	12.4
Total	41.5	29.4	25.6	25.7

\*Budget for FYE 2015

A summary of SRL's planned capital expenditure programme for the remaining life-of-mine is summarised in Table 3.14.



Table 3.14 Summary of planned capital expenditure 2015 to 2023

Item	Total (\$m)	FYE 2016 (\$m)	FYE 2017 (\$m)	FYE 2018 (\$m)	FYE 2019 (\$m)	FYE 2020 (\$m)	FYE 2021 (\$m)	FYE 2022 (\$m)	FYE 2023 (\$m)
<b>Tritton</b>									
Property, plant, and equipment	40.8	10.8	10.4	12.4	6.2	0.6	0.5	–	–
Exploration	3.8	3.8	–	–	–	–	–	–	–
Capitalised mine development	30.5	6.3	6.5	6.5	6.0	5.3	–	–	–
Subtotal	75.0	20.8	16.9	18.9	12.2	5.9	0.5	–	–
<b>North East &amp; Larsens</b>									
Property, plant, and equipment	0.4	0.4	–	–	–	–	–	–	–
Exploration	–	–	–	–	–	–	–	–	–
Capitalised mine development	–	–	–	–	–	–	–	–	–
Subtotal	0.4	0.4	–	–	–	–	–	–	–
<b>Murrawombie underground</b>									
Property, plant, and equipment	25.5	–	11.9	7.6	1.3	3.3	1.3	–	–
Exploration	–	–	–	–	–	–	–	–	–
Capitalised mine development	11.5	–	9.2	1.1	1.3	–	–	–	–
Subtotal	37.0	–	21.1	8.7	2.6	3.3	1.3	–	–
<b>Murrawombie pit</b>									
Property, plant, and equipment	0.5	–	–	–	–	–	–	0.5	–
Exploration	–	–	–	–	–	–	–	–	–
Capitalised mine development	13.5	–	–	–	–	–	–	11.5	2.0
Subtotal	14.0	–	–	–	–	–	–	12.0	2.0
<b>Avoca Tank</b>									
Property, plant, and equipment	14.1	–	–	4.8	6.8	1.4	1.2	–	–
Exploration	–	–	–	–	–	–	–	–	–
Capitalised mine development	15.2	–	–	–	11.9	1.1	2.2	–	–
Subtotal	29.2	–	–	4.8	18.7	2.4	3.3	–	–
<b>Budgery pit</b>									
Property, plant, and equipment	0.5	–	–	–	–	–	–	0.5	–
Exploration	–	–	–	–	–	–	–	–	–
Capitalised mine development	4.5	–	–	–	–	–	–	4.5	–
Subtotal	5.0	–	–	–	–	–	–	5.0	–
<b>Site and processing plant</b>									
Property, plant, and equipment	18.4	1.0	6.2	3.5	1.0	1.3	4.0	1.0	0.4
Exploration	15.8	2.3	2.3	2.3	2.3	2.3	2.3	2.3	–
Capitalised mine development	–	–	–	–	–	–	–	–	–
Subtotal	34.2	3.3	8.5	5.8	3.3	3.5	6.3	3.3	0.4
<b>Total</b>									
Total property, plant, equipment	100.2	12.2	28.6	28.3	15.2	6.5	7.0	2.0	0.4
Total exploration	19.5	6.0	2.3	2.3	2.3	2.3	2.3	2.3	–
Total capitalised mine develop't	75.2	6.3	15.7	7.6	19.2	6.3	2.2	16.0	2.0
Total	194.9	24.4	46.5	38.1	36.6	15.1	11.4	20.3	2.4

AMC has reviewed the cost breakdowns for property plant and equipment, and for capitalised mine development, and considers that the estimates are comprehensive and reasonable. The plan contemplates spending \$195 million over the next eight years. The cost estimates for property plant and equipment are based on supplier's indicative quotes and first-principles estimates of required fleet sizes. The cost estimates for capital development are based on historical unit rates and the physical quantities indicated by mine designs.

The capital for the site and processing plant includes expenditure to replace aging float cells in the rougher, scavenger, and cleaner sections. The programme includes replacement of key components of the water supply system, and essential infrastructure components of the electrical supply system.

A further two lifts of the tailings storage facility embankment walls are required. These have not been designed, but SRL has made reasonable allowances of \$4 million and \$3 million respectively based on historical costs for previous lifts.

Tritton requires expenditure on ventilation infrastructure including a new ventilation shaft and primary fan. The expenditure is required to allow safe operation at increasing depth. SRL has estimated \$11 million is required. AMC considers that the estimate is reasonable.

### 3.12.2 Operating costs

Based on the actual total operating costs for Tritton for the period FYE2013 to April 2015, AMC has calculated the unit costs per tonne of ore processed as shown in Table 3.15. These costs are exclusive of treatment and refining charges and gold and silver credits.

Table 3.15 Unit costs for 2012 to 2015

	FYE 2013	FYE 2014	FYE 2015*
Tonnes processed (t)	1,267,700	1,568,800	1,364,800
Mining costs (\$/t)	70.40	59.10	57.20
Processing (\$/t)	20.10	16.70	15.80
Other (\$/t)	23.20	20.10	20.30
Total (\$/t)	113.80	95.90	93.30

\*to April 2015

AMC has reviewed the breakdown of the historical operating costs, and compared them to the breakdown of estimated operating costs, provided by SRL, for future projects. The estimates of future operating unit costs for each project, averaged over the life of each project, including an allocation of site support and processing plant fixed costs, are shown in Table 3.16. AMC considers that SRL's estimates for future costs are reasonable.

Table 3.16 Projected unit costs

	Tritton (\$/t)	North East & Larsens (\$/t)	Murrawombie Underground (\$/t)	Murrawombie Open Pit (\$/t)	Avoca Tank (\$/t)	Budgery Open Pit (\$/t)
Mining costs	63	60	33	14	59	60
Processing	19	16	16	17	16	20
Other	21	20	18	17	23	20
<b>Total</b>	<b>103</b>	<b>96</b>	<b>67</b>	<b>48</b>	<b>98</b>	<b>101</b>

The off-site costs including treatment and refining costs assumed by SRL are shown in Table 3.17. AMC considers that these are reasonable.

Table 3.17 Offsite costs

	Unit	FYE 2016	FYE 2017	Long term
Copper treatment charges (TC)	US\$/t	107	97	92
Copper refining charges (RC)	US\$/lb	0.107	0.097	0.092
Copper payability	%	96	96	96
Royalty	%	3	3	3

### 3.13 AMC production case

AMC's has developed a single production case for Tritton. The case is a projection of mining and processing tonnages, metal grades, and costs. The case is provided to BDO for consideration of value.



AMC's production case is based on SRL's 2015 life-of-mine plan, with adjustments where AMC considered that certain aspects of SRL's planning are unlikely to be achieved.

The aspects of SRL's mine planning that AMC has adjusted are as follows. AMC believes that these adjustments are based on reasonable grounds:

- The rate at which Avoca Tank will be mined from the time that the first stope ore is produced to the completion of mining. An average vertical rate of advance of 60 m was adopted by AMC, which matches AMC's benchmarks for good performance.
- The total tonnage produced at Murrawombie underground. AMC adjusted the ore tonnage recovered by assuming that only 60% of ore contained in pillars that will be mass blasted will ultimately be recoverable. AMC considers that it is likely that early dilution will prevent greater recovery.
- Because of the lower head grade, the metallurgical recovery of Murrowombie ore is estimated by AMC at 89%, rather than 94.5%.
- The operating costs for Avoca Tank and Murrawombie underground were adjusted to proportionally match the adjusted production profiles, and the capital expenditure schedule was adjusted to match the adjusted open pit schedules.
- The operating costs for all projects have been adjusted upwards to cover the cost of employing one additional full-time environmental management professional and allow for limited sampling, auditing, and consultancy fees.

AMC's production scenario is based on ore reserves, mineral resources, and an exploration target. The relative proportions of the sources of the production target are shown in Table 3.18. Given the history of resource to reserve conversion, and previous exploration success, AMC considers that the inclusion of all these material types in the proportions shown below is reasonable.

**Table 3.18** Proportions of sources of AMC's production scenario

Material Type	Proportion by tonnage	Proportion by contained copper
Proved ore reserve	11%	14%
Probable ore reserve	47%	44%
Measure mineral resource	4%	5%
Indicated mineral resource	21%	20%
Inferred mineral resource	4%	3%
Exploration target	13%	14%

There is a low level of geological confidence associated with inferred mineral resources and there is no certainty that further exploration work will result in the determination of indicated mineral resources or that the production target itself will be realised.

The potential quantity and grade of an exploration target is conceptual in nature, there has been insufficient exploration to determine a mineral resource and there is no certainty that further exploration work will result in the determination of mineral resources or that the production target itself will be realised.

AMC's production scenario is shown in Table 3.19.

Table 3.19 AMC's production case as at 30 June 2015

	Total	FYE 2016	FYE 2017	FYE 2018	FYE 2019	FYE 2020	FYE 2021	FYE 2022	FYE 2023
<b>Production</b>									
Tritton (kt)	7,800	1,250	1,300	1,300	1,200	1,050	1,000	700	–
North East and Larsens (kt)	330	330	–	–	–	–	–	–	–
Murrumbidgee underground (kt)	2,876	–	250	500	600	594	487	445	–
Murrumbidgee open pit (kt)	850	–	–	–	–	–	–	–	850
Avoca Tank (kt)	681	–	–	–	8	103	225	229	116
Budgerie sulphide (kt)	572	–	–	–	–	–	–	–	572
Budgerie oxide (kt)	364	–	–	–	–	–	–	364	–
Total (kt)	13,473	1,580	1,550	1,800	1,808	1,747	1,712	1,738	1,538
<b>Recovered grade</b>									
Tritton (%Cu)	1.7	1.9	1.8	1.7	1.7	1.7	1.7	1.7	–
North East and Larsens (%Cu)	1.8	1.8	–	–	–	–	–	–	–
Murrumbidgee underground (%Cu)	1.3	–	1.3	1.3	1.3	1.3	1.3	1.3	–
Murrumbidgee open pit (%Cu)	1.1	–	–	–	–	–	–	1.1	1.1
Avoca Tank (%Cu)	2.5	–	–	–	1.0	2.4	2.5	2.7	2.3
Budgerie sulphide (%Cu)	1.2	–	–	–	–	–	–	–	1.2
Budgerie oxide (%Cu)	1.2	–	–	–	–	–	–	1.2	–
Average (%Cu)	1.6	1.9	1.7	1.6	1.6	1.6	1.7	1.6	1.2
<b>Metallurgical recovery</b>									
Tritton (% recovered)	94.8	94.8	94.8	94.8	94.8	94.8	94.8	94.8	94.8
North East and Larsens (% recovered)	94.8	94.8	–	–	–	–	–	–	–
Murrumbidgee underground (% recovered)	89	–	89	89	89	89	89	89	–
Murrumbidgee open pit (% recovered)	89	–	–	–	–	–	–	89	89
Avoca Tank (% recovered)	94	–	–	–	94	94	94	94	94
Budgerie sulphide (% recovered)	89	–	–	–	–	–	–	–	89
Budgerie oxide (% recovered)	80	–	–	–	–	–	–	80	–
Average (% recovered)	92.5	94.8	93.9	93.2	92.9	92.8	93.0	90.1	89.4
<b>Capital costs</b>									
Property, plant, and equipment (\$m)	100.2	12.2	28.6	28.3	15.2	6.5	7.0	2.0	0.4
Exploration (\$m)	19.5	6.0	2.3	2.3	2.3	2.3	2.3	2.3	–
Pre-strip/capital development (\$m)	74.2	6.3	15.7	7.6	19.2	6.0	1.6	16.0	2.0
Total (\$m)	193.9	24.4	46.5	38.1	36.6	14.7	10.8	20.3	2.4
<b>Operating costs</b>									
Haulage (\$m)	30.3	1.7	1.3	2.6	3.2	3.7	3.9	4.8	9.2
Processing (\$m)	203.0	24.9	24.6	27.0	27.1	26.2	25.7	21.5	26.0
Mining (\$m)	579.5	79.6	81.6	83.7	78.8	78.5	77.1	70.1	30.2
Other fixed costs (\$m)	17.5	2.5	2.5	2.5	2.5	2.5	1.8	1.8	1.2
Transport (\$m)	91.3	12.4	11.4	12.1	11.8	11.8	12.4	10.6	8.8
Other site costs (\$m)	143.7	18.0	18.0	18.0	18.0	18.0	18.0	18.0	18.0
TC/RC (\$m)	147.9	22.6	18.9	19.0	18.6	18.6	19.6	16.7	14.0
Royalties (\$m)	51.6	6.5	6.3	7.0	6.8	6.7	7.1	6.1	5.1
Corporate costs (\$m)	36.8	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Total operating costs (\$m)	1,301.7	172.8	169.2	176.5	171.3	170.6	170.1	154.1	117.0

## 4 Exploration valuation

In addition to the Tritton mining operation, SRL holds six contiguous exploration licences in the Tritton region and a suite of exploration projects in Queensland, NSW and South Australia. AMC has estimated a market value for each of these projects.

### 4.1 Valuation methods

The value of a mineral asset is the amount of money (or the cash equivalent of some other consideration) for which the asset would change hands on the valuation date in an open and unrestricted market between a willing buyer and a willing seller in an "arm's length" transaction, with each party acting knowledgeably, prudently and without compulsion (VALMIN. 2005).

Values for exploration properties vary widely with time and also with the nature of the deal, the purpose of the valuation, and the strategic value of the property to the hypothetical buyer.

The valuation of exploration projects, particularly those for which it is not possible to quantify Mineral Resources, is very subjective. There are, however, several generally accepted procedures to value exploration projects and AMC has used such methods as appropriate to arrive at balanced judgments of value.

Where possible, AMC attempts to use more than one method before selecting the valuation appropriate to that project. Values have been rounded, and outliers in contributing estimates sometimes excluded. AMC has considered the following methods of valuation:

#### The multiples of exploration expenditure method

The multiples of exploration expenditure (MEE) method considers the relevant and effective past exploration expenditure to derive a base value for a tenement. This value is multiplied by a prospectivity enhancement multiplier (PEM), generally between 0.5 and 3.0. The selection of PEM value is subjective but the following scale is commonly used as a guideline:

1 = Exploration to date justifies the next stage of exploration.

2 = Strong indications of potential for economic mineralisation have been identified and there are untested targets or anomalies.

3 = Potentially 'ore grade' intersections have already been intersected, indicating high potential for discovery of economic mineralisation.

#### The yardstick value method

Rules-of-thumb, or yardstick, values can be used for properties where a Mineral Resource has been quantified. A value per contained unit of metal (for example, ounces of gold, pounds of copper) or metal equivalent (based on treatment recoveries and net smelter return factors) is assigned to an actual Mineral Resource, or to a preliminary mineralisation estimate. The yardstick values AMC has considered are based on assessment of transactions in recent years.

#### Actual or comparable transaction method

A value is determined by reference to either actual transactions for the property in question, or to recent transactions for projects considered to be similar to those under review. Comparable transactions are normally converted to a value per unit area.

#### Joint venture terms method

Many transactions on exploration tenements are of a farm-in nature, and AMC estimates a "cash equivalent" value for them by assessing the terms the "deemed expenditure" on the property at the time of the deal, discounted by a time and probability factor for the likelihood that the farm-in will complete its earning

requirement. AMC adjusts the resulting value in consideration of any other terms of the joint venture, or for the results of work carried out since the commencement of the farm-in.

#### 4.2 Exploration projects within Tritton region

The Tritton region has proven to be highly prospective for Besshi-type copper deposits. Development of an appropriate genetic model for the mineralisation, geochemical sampling of the regolith, aeromagnetic surveys, electromagnetic surveys, RC and diamond core drilling have been effective at identifying copper sulphide deposits down-dip of oxide deposits and also 'blind' sulphide deposits.

The known deposits are surrounded by almost 2,000 km<sup>2</sup> of Exploration Licences, held by SRL or its subsidiaries. The key features of these tenements are summarised in Table 4.1.

**Table 4.1 Tritton regional exploration tenements—key features**

Tenement	Components of Exploration Valuation	Exploration Licence Units	Area (km <sup>2</sup> )
EL4962	Includes the Tritton mafic complex (outside the MLs), Budgery Mineral Resource and Budgerygar Mineral Resource of 1.6 Mt grading 1.5% copper (the latter is inside the MLs).	107	321
EL6126	Avoca Tank mineral resource, Kurrajong, Carters, Naringa and Exley deposits, Kurrajong, Rockdale, and Exley mafic complexes.	270	810
EL6346	Hermidale South area. Underexplored extension of the Tritton-Budgery belt.	69	207
EL6785	Miandetta area. Underexplored mafic complex.	60	180
EL8083	Coolabah area. Possible extension of Girilambone mafic complex or structural corridor.	23	69
EL8084	Girilambone East area. Possible extension of Kurrajong belt through area with no outcrop and weak magnetics.	100	300

In estimating the value of the Tritton regional tenements, AMC considers that the value of the known Mineral Resources at Tritton, North East, Larsens, Murrawombie, Avoca Tank and Budgery is best estimated through a discounted cash flow analysis. These Mineral Resources mostly lie within granted Mining Leases.

AMC considers that, in 2015, the market for advanced exploration properties is subdued and has been so since 2012. Market transactions prior to 2012 may not fairly reflect the current appetite for acquisition of mineral projects. The price of copper has been in decline since 2010.

AMC reviewed 14 market transactions reported between 2013 and 2015 for Australian copper projects in which a whole or partial interest was sold. Of these, three involved properties with a reported Mineral Resource, and a further two also had reported Ore Reserves. The price paid per pound of copper in Mineral Resources ranged from \$0.027 per pound to \$0.083 per pound. The price paid per pound of copper in Ore Reserves and Mineral Resources were \$0.035 per pound and \$0.078 per pound. These transactions are summarised in Table 4.2.

Table 4.2 Comparative Australian copper project transactions

Buyer	Seller	Project	Development Stage	Date	Equity Acquired (%)	Deal Value (\$m)	Copper Contained in Reserves (t)	Equivalent Copper Contained in Reserves (t)	Copper Contained in Resources and Reserves (t)	Equivalent Copper Contained in Resources and Reserves (t)	Price Paid per Pound of Copper in Reserve (\$/lb)	Price Paid per Pound of Equivalent Copper in Reserve (\$/lb)	Price Paid per Pound of Copper Contained in Resources and Reserves (\$/lb)	Price Paid per Pound of Equivalent Copper Contained in Resources and Reserves (\$/lb)
KGL Resources Ltd	Mithril Resources	Yambah tenements	Exploration	Apr 2015	100	0.02	–	–	–	–	–	–	–	–
Sandfire Resources NL	Sipa Resources Ltd	Thaduna	Target outline	Jan 2015	100	1.56	–	–	–	–	–	–	–	–
Encounter Resources	Hammer Metals	Paterson tenements	Exploration	Dec 2014	–	0.08	–	–	–	–	–	–	–	–
Cu-River Mining Australia Pty Ltd	IMX Resources Ltd	Mt Woods	Target outline	Nov 2014	100	3.17	–	–	–	–	–	–	–	–
Stavely Minerals Ltd	Diatreme Resources Ltd	Glenthompson	Exploration	Oct 2014	100	0.0	–	–	–	–	–	–	–	–
Aeon Metals Ltd	Aston Copper Pty Ltd	Isa North, Mt Guide, Walford Creek	Mineral resources	Jun 2014	100	30.70	–	–	188,580	69,3913	–	–	0.088	0.024
Queensland Mining Corporation Ltd	Goldsearch Ltd	Two tenements	Exploration	Jun 2014	–	0.03	–	–	–	–	–	–	–	–
Kiwinda Group LLC	Silver Lake Resources Ltd	Mt Desmond, RAV 8	Mineral resources	Mar 2014	19.9	0.13	–	–	1,353	1,673	–	–	0.045	0.036
Marmosa Pty Ltd	Monax Mining Ltd	Ambrosia	Exploration	Jan 2014	50	2.0	–	–	–	–	–	–	–	–
Unnamed	Cape Lambert Resources Ltd	Leichhardt	Ore reserves	Apr 2013	100	14.85	15,000	15,000	89,200	89,200	0.450	0.450	0.076	0.076
Gold Fields Ltd	Clancy Exploration Ltd	Myall	Target outline	Mar 2013	49	1.02	–	–	–	–	–	–	–	–
Northern Platinum Pty Ltd	BCD Resources NL	Stavely	Mineral resources	Mar 2013	100	2.79	–	–	48,000	48,000	–	–	0.026	0.026
Gold Fields Ltd	Clancy Exploration Ltd	Wellington North	Exploration	Feb 2013	20	1.52	–	–	–	–	–	–	–	–
Snow Peak Mining Pty Ltd	Kagara Ltd	Balcooma, Einsleigh, Maitland, Mt Garnet	Ore reserves	Jan 2013	100	29.51	18,500	35,264	402,569	868,890	0.728	0.382	0.034	0.015

None of the public announcements of the 14 transactions provided detailed information about the area of the tenements. However from the Sandfire Resources NL – Sipa Resources Limited transaction it can be inferred that the tenement area was about 800 km<sup>2</sup>. Sandfire acquired tenements including E52/1673, E52/1674, E52/1858, E52/2356, E52/2357, and E52/2405 in the Thaduna area from Sipa. The tenements lie along strike from Sandfire's De Grussa copper mine and surround the Green Dragon and Thaduna base metals discoveries. Sandfire paid \$2.0 million in common stock and will also pay a 1% royalty on all minerals produced and sold from the Thaduna tenements. Sandfire therefore paid approximately \$2,500 per km<sup>2</sup>.

AMC has valued each of the six Tritton regional Exploration Licences using the Comparable Transactions method. AMC considers that the strategic setting of the Thaduna tenements with respect to Sandfire's mining operation at De Grussa is broadly comparable to the Tritton regional tenements and therefore AMC has applied a range of values from \$1, 500 per km<sup>2</sup> to \$3, 500 per km<sup>2</sup> to the ELs. The tenements are shown in Figure 2.1.

It is also appropriate to consider valuation of the ELs using the MEE method. AMC considers that the exploration expenditure by SRL on the six ELs since 2010 has enhanced the prospectivity of the tenements by improving the geological understanding of the mineralisation, and identifying prospective mafic complexes, geochemical, and geophysical anomalies. This work includes the discovery of copper sulphide mineralisation at Kurrajong with grades comparable to the mined sulphide deposits at Tritton, Larsens and North East. In applying the MEE method, AMC has made no allowance for inflation, currency exchange movements, or changes in exploration costs such as drilling rates over time, as these variables are smaller in influence than the influence of judgements about comparable transactions and tenement prospectivity.

EL4962 surrounds the Tritton Mining Leases. Geophysical surveys using SIROTEM™ and geochemical surveys have been completed. Two mafic complexes have been defined and many targets have already been tested. There remains potential for further discoveries. AMC considers that the exploration expenditure by since 2010 has enhanced the prospectivity of the EL by improving the geological understanding of the mineralisation, and identifying the Budgery and Budgerygar deposits (the latter within the Tritton ML). AMC has applied a PEM range of between 2.0 and 3.0. This implies a value of between \$4.4 million and \$6.6 million, compared to a value using the Comparable Transactions method of between \$0.48 million and \$1.1 million. AMC considers that the MEE valuation is more appropriate.

EL6126 includes the Avoca Tank mafic complex, the Kurrajong mafic complex, the Exley Mafic complex, and copper mineralisation at Kurrajong, Carters, and Naringa. There is good potential to define an economic resource at Kurrajong and to make further discoveries. AMC considers that the exploration expenditure since 2010 has enhanced the prospectivity of the EL. AMC has applied a PEM range of between 2.5 and 3.0. This implies a value of between \$12 million and \$14 million, compared to a value using the Comparable Transactions method of between \$1.2 million and \$2.8 million. AMC considers that the MEE valuation is more appropriate.

EL6346 covers the Hermidale South area, a relatively lightly explored extension of the Tritton-Budgery sequence. Large mafic complexes have not been identified by the aeromagnetic surveys but there remains potential for further discoveries. AMC considers that the exploration expenditure since 2010 has moderately enhanced the prospectivity of the EL. AMC has applied a PEM range of between 1.0 and 2.0. This implies a value of between \$0.55 million and \$1.1 million, compared to a value using the Comparable Transactions method of between \$0.31 million and \$0.72 million. AMC has selected the average of the two methods as the preferred range of values.

EL6785 includes the Miandetta mafic complex, which is relatively underexplored. AMC considers that the exploration expenditure since 2010 has moderately enhanced the prospectivity of the EL. AMC has applied a PEM range of between 1.0 and 2.0. This implies a value of between \$0.67 million and \$1.3 million, compared to a value using the Comparable Transactions method of between \$0.27 million and \$0.63 million. AMC has selected the average of the two methods as the preferred range of values.

EL8083 covers a possible extension of the Girilambone sequence. Mafic complexes have not been identified from the aeromagnetic surveys but there remains potential for further discoveries. AMC considers that the exploration expenditure by since 2010 has moderately enhanced the prospectivity of the EL. AMC has applied a PEM range of between 1.0 and 1.5. This implies a value of between \$0.07 million and \$0.11 million, compared to a value using the Comparable Transactions method of between \$0.10 million and \$0.24 million. AMC has selected the average of the two methods as the preferred range of values.

EL8084 covers a possible extension of the Kurrajong sequence through an area with no outcrop and a weak magnetic signature. Mafic complexes have not been identified but there remains potential for further discoveries. AMC considers that the exploration expenditure by since 2010 has moderately enhanced the prospectivity of the EL. AMC has applied a PEM range of between 1.0 and 1.5. This implies a value of between \$0.15 million and \$0.22 million, compared to a value using the Comparable Transactions method of between \$0.45 million and \$1.05 million. AMC has selected the average of the two methods as the preferred range of values.

The results of the valuations for Tritton regional tenements are presented in Table 4.3. Considering all six ELs, AMC considers the market valuation to lie between \$18 million and \$24 million with a preferred value of \$21 million.

**Table 4.3 Summary of valuations of Tritton regional tenements**

Tenement	Comments on Prospectivity	Valuation method	Valuation Low (\$million)	Valuation Preferred (\$million)	Valuation High (\$million)
EL4962	Includes the Tritton mafic complex (outside the MLs), the Budgery mafic complex and Budgerygar Mineral Resource (the latter is inside the MLs).	Multiples of exploration expenditure	\$4.4	\$5.5	\$6.6
EL6126	Includes targets near to the Avoca Tank mineral resource, Kurrajong identified mineralisation, Carters mineralisation, Naringa mineralisation, and the Kurrajong and Exley mafic complexes.	Multiples of exploration expenditure	\$12	\$13	\$14
EL6346	Hermidale South area. Underexplored extension of Tritton-Budgery belt.	Average of Multiples of exploration expenditure and Comparable Transactions	\$0.48	\$0.74	\$1.0
EL6785	Miandetta area. Underexplored mafic complex.	Average of Multiples of exploration expenditure and Comparable Transactions	\$0.52	\$0.80	\$1.1
EL8083	Coolabah area. Possible extension of Girilambone mafic complex or structural corridor.	Average of Multiples of exploration expenditure and Comparable Transactions	\$0.14	\$0.19	\$0.25
EL8084	Girilambone East area. Possible extension of Kurrajong belt through area with no outcrop and weak magnetics	Average of Multiples of exploration expenditure and Comparable Transactions	\$0.25	\$0.31	\$0.37
<b>Total</b>			<b>\$18</b>	<b>\$21</b>	<b>\$24</b>

### 4.3 Exploration projects outside Tritton region

SRL and its wholly owned subsidiaries have interests in a number of exploration tenements that are not in the Tritton region. These are listed in Table 4.4.



Table 4.4 Exploration projects outside the Tritton region

Tenement	Components of Exploration Valuation
EL 5979 and EL 7321	Cheesemans Creek, NSW. Prospective for porphyry-related copper-gold mineralisation. Anomalous rock chip and soil samples, and geophysical anomalies.
EL 5792	Currumburrama, NSW. Prospective for porphyry-related gold-copper mineralisation.
EL 6105	Canbelego, NSW. No information.
EL 5922	Blayney, NSW. Prospective for porphyry-related copper and gold mineralisation. Indicated and Inferred Mineral Resource inventory at Discovery Ridge of 14 Mt grading 1.1 g/t gold, containing 500 koz of gold, and an Inferred Mineral Resource inventory at Bald Hill of 37 Mt grading 0.5 g/t gold, containing 600 koz of gold.
EL 6845 and EL 5864	Temora, NSW. Prospective for epithermal gold and porphyry-related copper-gold-molybdenum mineralisation. Resource estimate of 279 Mt grading 0.3% copper and 0.2 g/t gold for the Temora porphyry copper projects and 23.8 Mt grading 0.1% copper and 1.0 g/t gold for remnant mineralisation adjacent to or below the historical Gidginbung mine.
EL 5614	Torrens, SA. Large gravity anomaly and a coincident magnetic anomaly prospective for Olympic Dam style iron ore copper gold (IOCG) style of mineralisation.
EPM 8257, two MLs	Yandan, Qld. Mineral Resource estimate of 8.6 Mt grading 1.5 g/t gold adjacent to the old Yandan gold mine.

AMC reviewed nine market transactions reported between 2012 and 2014 for Australian gold projects without defined Mineral Resources, in which a whole or partial interest was sold and the area of the purchased tenements is known. These ranged from \$1,100/km<sup>2</sup> to \$27,000/km<sup>2</sup>. After removal of the \$27,000/km<sup>2</sup> transaction, which is an outlier, the price paid ranged from \$1,100/km<sup>2</sup> to \$8,310/km<sup>2</sup> with an average value of \$4,840/km<sup>2</sup>. Of these transactions, only one was for a property in NSW; the sale of the Clonbinane gold project to Nagambie Mining for a value of \$1,900/km<sup>2</sup>, in 2014.

AMC also reviewed 25 market transactions reported between 2013 and 2015 for Australian gold projects with defined Mineral Resources, in which a whole or partial interest was sold and examined the price paid per ounce of gold resources. There is a very wide range of values, reflecting the quality of the deposits (tonnage and grade), the development stage of the projects, and factors such as proximity to other mines operated by the purchaser. Of these, seven include gold deposits judged to be particularly relevant to SRL's NSW and Queensland gold projects, as a consequence of their size, grade and early stage of assessment. The price paid per ounce of gold contained in the Mineral Resources for these seven projects ranged from \$2.77/oz to \$6.38/oz.

#### 4.3.1 Cheesemans Creek, NSW

SRL holds a 100% interest in EL5979 and EL7321, located approximately 22 km north-west of Orange, NSW. The area is prospective for porphyry-related copper-gold mineralisation. SRL and a previous part owner, Gold Fields Limited (Gold Fields) identified anomalous rock chip and soil samples, and geophysical anomalies.

Gold Fields entered into a Joint Venture agreement with SRL in August 2012, under which it could earn a 60% interest by spending \$4 million over four years. Annual reports to the Department of Mines indicate combined expenditure on the two ELs between 2010 and 2014 of \$537,372. AMC estimates that Gold Fields spent approximately \$200,000 of this amount before withdrawing from the joint venture in March 2014. The work generated several drilling targets.

AMC has valued the ELs using the MEE method and considers that the exploration expenditure by SRL and Gold Fields on the ELs since 2010 has enhanced the prospectivity of the tenements by improving the geological understanding of the mineralisation, and identifying alteration minerals indicative of porphyry-related mineralisation, geochemical and geophysical anomalies. AMC has made no allowance for inflation, currency exchange movements, or changes in exploration costs such as drilling rates over time, as these variables are immaterial. Work to date has been sufficient to justify further exploration and as such a PEM value between 0.5 and 1.5 is considered appropriate by AMC. On this basis, AMC estimates a value of between \$0.27 million and \$0.8 million, with a preferred value of \$0.54 million.



#### 4.3.2 Currumburruma, NSW

SRL holds EL5792, which is located 50 km north-east of Temora and is considered by SRL to be prospective for porphyry-related gold-copper mineralisation.

AMC has not been provided with sufficient data relating to the geology and exploration of the tenement and has therefore been unable to form an independent view of the prospectivity of the ground.

In April 2012, Sandfire Resources NL (Sandfire) signed an option agreement with SRL under which Sandfire could earn 65% of the tenement by spending \$4 million on exploration within 42 months, with the option of spending a further \$4 million within the following 30 months to earn an additional 15% interest in the exploration licence. At the last annual reporting date (November 2014), Sandfire's expenditure totalled approximately \$3.9 million, so AMC infers that it is highly likely that Sandfire will complete its Phase 1 earn-in.

AMC has used the terms of this agreement to derive a value for the tenement. AMC assumed that the probability of Sandfire completing the Phase 1 earn-in is 97.5%, and if Phase 1 is successful, the probability of completing the Phase 2 earn-in is 30% to 50%. On this basis AMC values the exploration licence between \$1.6 million and \$1.8 million with a preferred value of \$1.7 million.

#### 4.3.3 Canbelego, NSW

SRL holds EL6105, near Canbelego in NSW, approximately 45 km south-west of Tritton. AMC has not been provided with sufficient data relating to the geology and exploration of the tenement and has therefore been unable to form an independent view of the prospectivity of the ground. However, two significant intersections of copper mineralisation with grades similar to Tritton have been reported.

Oxley Exploration Pty Ltd earned a 70% interest in the tenement in September 2013 by spending \$0.86 million. On the basis of this transaction, AMC values SRL's remaining 30% interest in the tenement at \$0.37 million.

#### 4.3.4 Blayney, NSW

SRL holds EL5922 in central western NSW. The licence, of approximately 597 km<sup>2</sup>, is prospective for porphyry-related copper and gold mineralisation. There are many historical mines and known mineral deposits in the area.

The tenement includes the Bald Hill gold deposit, which was discovered by Hargreaves Resources in the mid-1990s. Bald Hill is a hydrothermal gold deposit associated with a granodiorite stock and shearing. The deposit was explored by RC and diamond core drilling and was modelled by independent mining consultants. Methods used for sample collection, assaying, data analysis and resource estimation were suitable for a project of this nature and resource estimation. SRL has published an Inferred Mineral Resource inventory at Bald Hill of 37 Mt grading 0.5 g/t gold, containing 600 koz of gold. In AMC's opinion the Bald Hill resource is too low grade and too small in tonnage to have reasonable prospects of economic extraction in the foreseeable future and holds no significant value as a Mineral Resource at the present time.

Approximately 3 km south-west of Bald Hill is the Discovery Ridge gold deposit. Gold mineralisation occurs in association with hydrothermal alteration, quartz, and arsenopyrite veining within folded and sheared metasediments. The deposit has been delineated by RC, diamond core, aircore, and rotary airblast drilling, and costeaning. Sampling and assaying procedures and QAQC results are incompletely documented but the Competent Person for the mineral resource estimate concluded sampling error and biases were likely to be relatively low risk to the project. AMC concurs with this view. The Mineral Resource was modelled to a depth of 550 m. SRL reported an Indicated and Inferred Mineral Resource inventory at Discovery Ridge of 14 Mt grading 1.1 g/t gold, containing 540 koz of gold.

In August 2014, Macquarie Holdings signed an option agreement with SRL under which Macquarie could earn 60% of the tenement by spending \$5 million on exploration within three years, with the option of spending a further \$10 million within the following three years to earn an additional 20% interest in the exploration licence.

AMC has used the terms of this agreement to derive a value for the tenement. AMC has assumed that the probability of Macquarie completing the Phase 1 earn-in lies in the range from 30% to 50%, and if Phase 1 is successful, the probability of completing the Phase 2 earn-in is a compounding 50%. That is, at present, the probability of completing Phase 2 ranges from 15% to 25%. On this basis AMC values the exploration licence between \$0.90 million and \$1.5 million with a preferred value of \$1.2 million.

By way of comparison, AMC also valued the property by applying a yardstick metal value to the Discovery Ridge Mineral Resource. Applying a range of values from \$2.77 to \$6.38 per ounce resulted in a value from \$1.5 million to \$3.5 million with a median value of \$2.5 million. Thus the value of the exploration licence in the present market, as indicated by the joint venture terms, is about 50% of AMC's technical valuation based on metal value in comparable transactions, reflecting the depth of the mineralisation, low grade, and general market conditions.

#### 4.3.5 Temora, NSW

Templar Resources Pty Ltd holds a 100% interest in EL6845 (Temora) and EL5864 (Gidginbung), contiguous licences located between Temora and West Wyalong. The tenements cover the Gidginbung Volcanics, a suite of Palaeozoic-age, mafic to intermediate volcanic and intrusive rocks that host epithermal gold and porphyry-related copper-gold-molybdenum mineralisation. The ELs have been extensively explored by SRL/Goldminco, Newcrest Mining Limited, Gold Fields and others using geochemistry, geophysics and drilling.

Exploration has defined five discrete porphyry copper-gold deposits to a level sufficient to estimate Inferred Resources, and a small portion of Indicated Resources at the Dam deposit. The deposits have been delineated with RC, diamond core and aircore drilling. Sampling, assaying and quality control, data analysis and resource modelling methods were appropriate and suitable for resource estimation. Preliminary metallurgical testing indicated that copper recoveries of over 90% could be achieved at marketable concentrate grades of over 20%.

SRL reported an Indicated and Inferred Resource reported in compliance with JORC Code (2004) in March 2012 of 279 Mt grading 0.3% copper and 0.2 g/t gold for the combined deposits using a 0.3% copper equivalent cut-off grade. The copper equivalent values were based on spot copper and gold prices on 4 November 2011 with no allowance for metallurgical recovery. The resources were modelled and reported to maximum depths of between 300m and 450m. AMC infers that at the present time the Mineral Resources are too low grade for economic extraction.

EL5864 includes the old Gidginbung gold mine 14 km north of Temora. Gidginbung is a high-sulphidation epithermal gold deposit occurring within Palaeozoic-age, mafic to intermediate volcanic rocks and was mined by open pit methods between 1986 and 1996 for the recovery of around 540 koz of gold. SRL holds a large database of historical drilling data. The information on sampling, assaying and quality control methods is incomplete but resource modelling by independent mining consultants in 2011 using the database produced estimates of in-pit resources broadly comparable to the reported historical mine production. Independent consultants estimated a Mineral Resource of 23.8 Mt grading 0.07% copper and 1.0 g/t gold beneath and adjacent to the old mine, using the RC and diamond core data. The estimate was publicly reported by SRL as 23.8 Mt grading 0.1% copper and 1.0 g/t gold.

SRL reported that a previous owner, Goldminco, spent \$11.4 million on the combined tenements between 2004 and 2011, during which period, SRL progressively increased its ownership of Goldminco, acquiring full ownership in 2011. The exploration was primarily directed at identification and testing of porphyry copper-gold targets. There was no significant expenditure on the old Gidginbung mine. The Temora project has been for sale for at least the last 12 months and SRL has not been actively exploring the tenements.

AMC valued the the Gidginbung gold Mineral Resources using a Yardstick Method based on metal value in comparable transactions. Comparable transactions for projects containing remnant gold Mineral Resources in Eastern Australia are Mantle Mining's acquisition of the Norton Gold Mine and GBM Resources acquisition of Mt Coolon Gold Mines. These transactions valued the remnant Mineral Resources at \$2.77/oz and \$6.38/oz, respectively. The present market for exploration investment is depressed and much of the mineral resource is deeper than the old Gidginbung pit. AMC considers that, as for the Blayney tenement, a 50% discount to the technical value would probably prevail. Applying these values to the Gidginbung gold Mineral

Resources (assuming no net contribution to value by the contained copper), implies a technical value in the range of \$1.0 million to \$2.5 million.

AMC considers that the Yardstick Method of valuation based on contained metal is not appropriate, at the present time, for the porphyry copper-gold Mineral Resources because the grades are very low, the tonnages are small for this type of deposit and the stripping ratios are likely to be prohibitively high.

AMC considers that a MEE method is appropriate for valuation of the Temora and Gidginbung ELs. Notwithstanding the reported Mineral Resources, AMC infers that the prospectivity of the tenements for porphyry copper-gold deposits has not been significantly increased by the Goldminco expenditure. The tenements have been relatively well-explored, major targets tested, and the tenor of the mineralisation that has been discovered is consistently low grade. Nonetheless, the EL remains prospective and there are untested targets. Therefore AMC considers that a PEM of between 0.5 and 1.0 is appropriate. Applying these values implies a value of between \$5.7 million and \$11.4 million.

Combining the valuations of the Gidginbung gold resource with the valuation of the ELs based on their porphyry copper-gold potential, AMC values the project at between \$6.7 million and \$13.9 million with a preferred value of \$10.3 million.

#### 4.3.6 Torrens, SA

EL5614 covers the Lake Torrens Gravity Anomaly in South Australia. Western Mining Corporation (WMC) identified the gravity anomaly and a coincident magnetic anomaly as an exploration target in the 1970s and drilled three holes to test it. These holes intersected hematite alteration consistent with iron ore copper gold (IOCG) style of mineralisation at depths of more than 500 m. WMC subsequently abandoned the project and the ground was later taken up by Kelaray Pty Ltd (Kelaray).

SRL entered a farm-in agreement with Kelaray in October 2003 and, as of 9 January 2012, had earned a 70% interest by spending \$7 million. After SRL had completed more detailed gravity and aeromagnetic surveys and drilled three holes that confirmed IOCG-style alteration but failed to intersect potentially economic mineralisation, a court judgement in January 2011 determined that SRL did not have adequate consent from indigenous groups to continue drilling. The matter remains before the courts.

AMC has been provided with very limited data relating to the geology and exploration of the tenement with which to form an independent view of the prospectivity of the ground.

AMC considers that a MEE method is appropriate for valuation of EL5614. Although the full extent of the anomalies has not yet been tested, the results of SRL's drilling were disappointing. No significant zones of potentially economic mineralisation have been intersected and the drilling by SRL has not enhanced the prospectivity since the earlier WMC drilling. In view of this, AMC considers that a PEM range of 0.5 to 1.0 is appropriate and the likely technical value of SRL's interest in the project ranges from \$3.5 million to \$7.0 million, with a preferred value of \$5.25 million.

It should be noted that this is a high-risk project in terms of the likelihood of proving an economically viable deposit at great depth beneath a lake-bed and a National Park. However, similar geophysical anomalies are associated with the very large copper-gold deposits at Olympic Dam, Prominent Hill and Carapateena, which occur within the same geological province and are world-class deposits.

There are several factors that AMC considers make the project less commercially attractive than when SRL earned its interest in the project. These include:

- SRL has been unable to secure an access agreement with local indigenous groups to continue drilling the prospect since 2008. There is a high risk that it may not be possible to secure long-term access to the site and eventual approvals, should an economically viable mineral deposit be defined.
- There are overlapping Native Title claims.
- The appetite for greenfields exploration is depressed.

As a consequence, AMC believes it appropriate to discount the technical valuation by 50%, resulting in an estimated value between \$1.8 million and \$3.5 million with a preferred value of \$2.6 million.

#### 4.3.7 Yandan, Qld

SRL holds a 100% interest in EPM 8257, which is located approximately 50 km west of Mt Coolan in Queensland. The tenement package lies within the Drummond Basin, which is host to significant epithermal gold deposits at Pajingo and Mt Coolan and includes two granted mining leases (ML 1095 and ML 1096) covering the old Yandan open pit gold mine.

In May 2009, Drummond Gold entered into an agreement to farm-in to the project by spending \$1 million on exploration within 12 months and a further \$2 million within three years to earn 51%. In addition the agreement also required Drummond to assume 51% of the financial assurance relating to rehabilitation of the old mine site. Drummond withdrew from the farm-in in 2011. The farm-in agreement would have seen Drummond contribute \$3 million to earn a 51% interest. However Drummond withdrew from the farm-in. From this, AMC infers that Drummond valued the project at less than \$6 million in 2011.

SRL reports two Mineral Resource estimates for the Yandan Project: Yandan East Hill and Illamahta.

Mineral Resources for Yandan East Hill, including South Pit, were estimated by an independent consulting company using multiple indicator kriging (MIK). The mineralisation was modelled to depths of 300 m below surface and was estimated to contain an Inferred Resource of 8.6 Mt grading 1.5 g/t gold.

The Illamahta Mineral Resource was estimated in 1993 using a cross-sectional method. It is of low grade and has not been reported in accordance with the JORC Code.

AMC valued the project using a Yardstick Method based on metal value in comparable transactions.

The Mineral Resources estimated at Yandan East Hill contain 415 koz of gold. Comparable transactions for projects containing remnant gold mineral resources in Queensland are Mantle Mining's acquisition of the Norton Gold Mine and GBM Resources acquisition of Mt Coolan Gold Mines. These transactions valued the remnant Mineral Resources at \$2.77/oz and \$6.38/oz, respectively. AMC has applied these values to the Yandan East Hill deposit, to estimate a technical value in the range of \$1.1 million to \$2.6 million. AMC considers that the Illamahta resource is not suitable to be valued using the Yardstick Method based on metal content.

The present market for exploration investment is depressed and much of the mineral resource is deep and of low grade. AMC considers that, as for the Blayney tenement, a 50% discount to the technical value would likely prevail. AMC therefore values the Yandan tenements between \$0.57 million and \$1.3 million with a preferred value of \$0.90 million.

AMC also notes that SRL has a financial assurance commitment of \$3.7 million associated with closure of the mines and tailings facilities.

#### 4.3.8 Summary

The results of the valuation of the projects outside the Tritton region are presented in Table 4.5.

**Table 4.5 Summary of valuations of projects outside the Tritton region**

Tenement	Project name	Valuation method	Valuation Low (\$million)	Valuation Preferred (\$million)	Valuation High (\$million)
EL 5979 and EL 7321	Cheesemans Creek	Multiples of exploration expenditure	\$0.27	\$0.54	\$0.80
EL 5792	Currumburrama	Joint Venture Transaction	\$1.6	\$1.7	\$1.8
EL 6105	Canbelego	Joint Venture Transaction	\$0.37	\$0.37	\$0.37
EL 5922	Blayney	Joint Venture Transaction	\$0.90	\$1.2	\$1.5
EL 6845 and EL 5864	Temora	Multiples of Exploration Expenditure and Yardstick Method	\$6.7	\$10.3	\$13.4
EL 5614	Torrens	Multiples of Exploration Expenditure	\$1.8	\$2.6	\$3.5
EPM 8257, and two MLs	Yandan	Yardstick Method	\$0.57	\$0.90	\$1.3
<b>Total</b>			<b>\$12</b>	<b>\$18</b>	<b>\$23</b>

## 5 Qualifications

AMC is a firm of mineral industry consultants whose activities include the preparation of independent technical specialist reports, and due diligence reports on, and reviews of, mining and exploration projects for purposes related to equity and debt funding, and public reports. In these assignments, AMC and its subconsultants act as an independent party.

AMC has carried out several technical consulting assignments for SRL over recent years, including reviews of its Mineral Resource and Ore Reserve estimates for SRL's Tritton assets.

Neither AMC nor its subconsultants have any business relationship or association with SRL, other than the carrying out of individual technical consulting assignments as engaged.

While some employees of AMC and its subconsultants may have small direct or beneficial shareholdings in SRL, neither AMC nor the contributors to this report nor members of their immediate families have any interests in SRL that could be reasonably construed to affect their independence. AMC has no pecuniary interest, association or employment relationship with BDO or SRL.

SRL will pay AMC a professional fee of approximately \$80,000, according to AMC's normal per diem rates, for the preparation of this ITSR, plus reimbursement of out-of-pocket expenses. The fee is not contingent upon the outcome of the Proposed Refinancing. AMC will receive no other benefit for the preparation of this ITSR.

In letters relating to our engagement, SRL agreed to comply with those obligations of the commissioning entity under the VALMIN Code including that to the best of its knowledge and understanding, complete, accurate and true disclosure of all relevant material information will be made.

In preparing this report, AMC has relied on information provided by SRL, and AMC has no reason to believe that information is materially misleading or incomplete or contains any material errors. SRL has been provided with drafts of our report to enable correction of any factual errors and notation of any material omissions. The views, statements, opinions and conclusions expressed by AMC are based on the assumption that all data provided to it by SRL are complete, factual and correct to the best of its knowledge.

SRL represented in writing that, to the best of its knowledge, it has provided AMC with all material information relevant to its operations and projects described in this ITSR.

This ITSR and the conclusions in it are effective at 1 July 2015. Those conclusions may change in the future with changes in relevant metal prices, exploration and other technical developments in regard to the operations and projects and the market for mineral properties.

SRL has provided AMC with indemnities in regard to damages, losses and liabilities related to or arising out of its engagement other than those arising from illegal acts, bad faith or negligence on its part or its reliance on unauthorised statements from third parties.

This ITSR has been provided to BDO for the purposes of forming its opinion in relation to the Proposal. AMC has given its consent for its report to be appended to BDO's report and for it to be provided to shareholders and has not withdrawn that consent before their lodgement with the Australian Securities & Investments Commission. Neither this report nor any part of it may be used for any other purpose without written consent.

The signatories to this report are corporate members of the AusIMM and are bound by its Code of Ethics.

Yours faithfully

# Appendix A

## Independent Verification of Material Tenements



## SCHEDULE 1

TENEMENT	REGISTERED HOLDER	GRANT DATE	EXPIRY DATE	STATUS	AREA (UNITS)	ANNUAL RENTAL FEE	ANNUAL ADMIN LEVY	SECURITY REQUIRED (JOINT)	SECURITY HELD (JOINT)	EXPENDITURE COMMITMENT (PA)	NOTES	MINERAL
EL 4962 (1992)	Tritton Resources Pty Ltd	19-Mar-1996	25-Apr-2017	Current	107	\$6,420	\$266.67	\$160,000	\$160,000	\$137,000		Group 1
EL 6126 (1992)	Tritton Resources Pty Ltd	15-Sep-2003	14-Sep-2016	Current	270	\$16,200	\$266.67	\$160,000	\$160,000	\$300,000		Group 1
EL 6346 (1992)	Tritton Resources Pty Ltd	23-Nov-2004	22-Nov-2017	Current	69	\$4,140	\$266.67	\$160,000	\$160,000	\$99,000		Group 1
EL 6785 (1992)	Tritton Resources Pty Ltd	22-May-2007	22-May-2016	Current	60	\$3,600	\$266.67	\$160,000	\$160,000	\$90,000		Group 1
EL 8083 (1992)	Tritton Resources Pty Ltd	10-May-2013	10-May-2015	Current	23	\$1,380	\$266.67	\$160,000	\$160,000	\$31,500	(1)	Group 1
EL 8084 (1992)	Tritton Resources Pty Ltd	10-May-2013	10-May-2015	Current	100	\$6,000	\$266.67	\$160,000	\$160,000	\$70,000	(1)	Group 1

Notes:

(1) Tenement expired, renewal pending.

## SCHEDULE 2 – SOUTH AUSTRALIA

TENEMENT	REGISTERED HOLDER	GRANT DATE	EXPIRY DATE	STATUS	AREA	ANNUAL RENTAL FEE	ANNUAL ADMIN FEE	ANNUAL REGULATION COMPONENT	SECURITY REQUIRED	SECURITY HELD	EXPENDITURE COMMITMENT	NOTES	MINERALS
EL 4296 (1971)	70% Straits Exploration (Australia) Pty Ltd 30% Kelaray Pty Ltd	18-Aug2009	17-Aug-2014	Expired	295 Square Kilometres	N/A	N/A	N/A	N/A	N/A	N/A	(1)	Copper, Gold, Silver, Uranium, Zinc
EL 5614 (1971)	70% Straits Exploration (Australia) Pty Ltd 30% Kelaray Pty Ltd	18-Aug2014	17-Aug-2019	Current	295 Square Kilometres	N/A	\$154	\$3,451.50	\$TBA	\$35,000	\$540,000	(2)(3)	Copper, Gold, Lead, Rare Earths, Silver, Uranium, Zinc

### Notes:

- (1) Expired.
- (2) Expenditure is over the five (5) year term of the Exploration Licence.
- (3) EL 5614 is the subsequent grant of EL 4296, as the aggregate term of an Exploration Licence can not be for a period greater than 5 years (Section 30A of the Mining Act 1971 (SA)).



## SCHEDULE 1 – NEW SOUTH WALES

TENEMENT	REGISTERED HOLDER	GRANT DATE	EXPIRY DATE	STATUS	AREA	ANNUAL RENTAL FEE	ANNUAL ADMIN LEVY	SECURITY REQUIRED	SECURITY HELD	EXPENDITURE COMMITMENT (PA)	LABOUR	NOTES	MINERALS
EL 5864 (1992)	Templar Resources Pty Ltd	29-May-2001	28-May-2016	Current	23 Units	\$1,380	\$100	\$10,000	\$10,000 (Cash)	\$53,000	N/A	N/A	Group 1
EL 6845 (1992)	Templar Resources Pty Ltd	03-Aug-2007	03-Aug-2016	Current	90 Units	\$5,400	\$100	\$10,000	\$10,000 (Cash)	\$120,000	N/A	N/A	Group 1
ML 1280 (1973)	Tritton Resources Pty Ltd	06-Aug-1992	05-Aug-2034	Current	322.3 Hectares	\$2,094.95	\$16,000	\$4,800,000 (Joint)	\$4,800,000 (Certificate)	\$0	15	(1)	Copper, Gold, Silver
ML 1383 (1992)	Tritton Resources Pty Ltd	13-Jan-1996	12-Jan-2017	Current	1311 Hectares	\$8,521.5	\$4,360	\$436,000	\$436,000 (Certificate)	\$100,000	5	N/A	Copper, Lead, Zinc, Gold, Silver
ML 1544 (1992)	Tritton Resources Pty Ltd	22-Dec-2003	21-Dec-2024	Current	1400 Hectares	\$9,100	\$50,220	\$5,022,000	\$5,022,000 (Certificate)	\$1,050,000	60	N/A	Cobalt, Galena, Iron Minerals, Silver, Copper, Gold, Lead, Sulphur, Zinc
MPL 294 (1973)	Tritton Resources Pty Ltd	06-Aug-1992	05-Aug-2034	Current	3.458 Hectares	\$100	\$16,000	\$4,800,000 (Joint)	\$4,800,000 (Certificate)	\$0	Nil	(1)(2)	NIL
MPL 295 (1973)	Tritton Resources Pty Ltd	06-Aug-1992	05-Aug-2034	Current	89.23 Hectares	\$580	\$16,000	\$4,800,000 (Joint)	\$4,800,000 (Certificate)	\$0	Nil	(1)(3)	NIL

### Notes:

- (1) Joint Security group containing ML 1280, MPL 294 and MPL 295.
- (2) Mining Purpose Lease for a pipeline.
- (3) Mining Purposes Lease for dumping of ore and mine residues, and treatment of tailings.

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