Straits Resources Limited
ABN 22 056 601 417
Level 1, 35 Ventor Avenue
West Perth WA 6005

T (08) 9480 0500
F (08) 9480 0520
www.straits.com.au

Demerger Scheme Booklet

Demerger Scheme Booklet

Straits Resources Limited

ABN 22 056 601 417

Demerger of Straits Metals Limited
ACN 147 131 977

Straits

RECOMMENDATION

Each of the Straits Directors recommends that you **VOTE IN FAVOUR** of the Demerger in the absence of a superior proposal.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. YOU SHOULD READ THE DOCUMENT IN ITS ENTIRETY BEFORE YOU DECIDE WHETHER TO VOTE IN FAVOUR OF THE DEMERGER. IF YOU ARE IN DOUBT AS TO WHAT YOU SHOULD DO, YOU SHOULD CONSULT YOUR LEGAL, FINANCIAL OR OTHER PROFESSIONAL ADVISER.

If, after reading this Demerger Scheme Booklet, you have any questions about the Demerger, please call the shareholder information line on 1800 421 712 (within Australia) or +61 2 8280 7486 (outside Australia) Monday to Friday between 8.30 am and 5.30 pm. If you have questions regarding the number of Straits Shares you hold or how to vote, please contact the Share Registry on 1300 729 525 (within Australia) or +61 3 9415 4395 (outside Australia) Monday to Friday between 9.00am and 5.00pm.

If you have recently sold all of your Straits Shares, please disregard this document.

Standard Chartered

CORRS CHAMBERS WESTGARTH
lawyers

Contents

What is this document for?

On 11 November 2010, the Straits Directors recommended a transaction under which Straits Shareholders would **receive one share in a new listed entity, Straits Metals, for every Straits Share they hold on the Demerger Scheme Record Date**. Straits Metals is the entity which will hold Straits' Metals Business (the **Demerger**).

It is proposed that the Demerger will be effected by Straits through the Demerger Scheme, and associated Capital Reduction and Demerger Dividend (if any).

This document is designed to provide Straits Shareholders with information to consider before voting on the resolutions needed to effect the Demerger at the Meetings of Straits Shareholders scheduled for Friday, 21 January 2011.

The Straits Directors have also recommended a transaction under which Straits Shareholders would be paid $1.72[1] cash for each Straits Share (after the Demerger) they hold on the Acquisition Scheme Record Date (the **Acquisition Proposal**). Further information about the Acquisition Proposal is set out in the Acquisition Scheme Booklet, which you will receive at or about the same time as you receive this Demerger Scheme Booklet. The Demerger is independent of the Acquisition Proposal.

1 *Which will be reduced to $1.56 cash if an Adverse Adjustment Event occurs.*

Important notices

Reading this Demerger Scheme Booklet

This document is important. You should carefully read this document in its entirety before making a decision as to how to vote on the Demerger Resolutions to be considered at the Meetings. If you have any questions or require further information please contact the shareholder information line on 1800 421 712 (within Australia) or +61 2 8280 7486 (outside Australia) on weekdays between 8.30am and 5.30pm. If you are in any doubt about anything in this Demerger Scheme Booklet please contact your legal, financial or other professional adviser.

Capitalised terms used in this Demerger Scheme Booklet are defined in the Glossary in **Section 11**. The Glossary also sets out some rules of interpretation that apply to this Demerger Scheme Booklet.

Purpose of this Demerger Scheme Booklet

This Demerger Scheme Booklet sets out the effects of the Demerger, certain information required by law and all other information known to the Straits Directors which is material to the decision of Straits Shareholders to vote in favour of, or against, the Demerger Resolutions to effect the Demerger (other than information previously disclosed to Straits Shareholders) and includes:

- the Explanatory Statement, as required by Part 5.1 of the Corporations Act, in relation to the Demerger Scheme; and
- a statement of all the information known to Straits that is material to Straits Shareholders in deciding how to vote on the Capital Reduction Resolution, as required by section 256C(4) of the Corporations Act.

Responsibility for information

1 Except as provided in paragraphs (2), (3) and (4) below, the information in this Demerger Scheme Booklet has been provided by Straits and the Straits Directors and is the responsibility of Straits. However, if the Acquisition Scheme proceeds, Straits Metals (which will at that time own Straits' Metals Business) has agreed to reimburse Straits for any loss Straits suffers in respect of the information contained in this Demerger Scheme Booklet.

2 Ernst & Young Transaction Advisory Services Limited has prepared the Independent Expert's Report, which is contained in **Annexure A**. Ernst & Young Transaction Advisory Services Limited takes responsibility for that report. Ernst & Young Transaction Advisory Services Limited does not assume any responsibility for the accuracy or completeness of the information contained in this Demerger Scheme Booklet other than that contained in **Annexure A**.

3 PricewaterhouseCoopers Securities Ltd has prepared the Investigating Accountant's Reports relating to each of Straits Metals and Straits ICH (being the new name of Straits post-Demerger) and takes responsibility for those reports. Copies of those reports are attached as **Annexure B**. PricewaterhouseCoopers Securities Ltd does not assume any responsibility for the accuracy or completeness of the information contained in this Demerger Scheme Booklet other than that contained in **Annexure B**.

4 PricewaterhouseCoopers has prepared the letter regarding the Australian taxation implications of the Demerger for Scheme Shareholders and takes responsibility for that letter. A copy of that letter is set out in **Section 9**. PricewaterhouseCoopers does not assume any responsibility for the accuracy or completeness of the information contained in this Demerger Scheme Booklet other than the general taxation information contained in **Section 9** of this Demerger Scheme Booklet.

Role of ASIC and ASX

A copy of this Demerger Scheme Booklet was lodged with ASIC in accordance with section 256C(5) of the Corporations Act and registered by ASIC pursuant to section 412(6) of the Corporations Act. ASIC has been requested to provide a statement, in accordance with section 411(17)(b) of the Corporations Act, that ASIC has no objection to the Demerger Scheme. If ASIC provides the no objection statement, the statement will be produced to the Court at the time of the Second Court Hearing. Neither ASIC nor any of its officers takes any responsibility for the contents of this Demerger Scheme Booklet.

Straits Metals will apply for admission to the Official List and for official quotation of all Straits Metals Shares on the ASX. A copy of this Demerger Scheme Booklet has been lodged with ASX. Neither ASX nor any of its officers takes any responsibility for the contents of this Demerger Scheme Booklet. The fact that ASX may admit Straits Metals to the Official List does not make any statement regarding, and should not be taken in any way as an indication of, the merits of an investment in Straits Metals.

Important notice associated with Court order under section 411(1) of the Corporations Act

A copy of this Demerger Scheme Booklet has been submitted to the Court to obtain an order of the Court approving the convening of the Demerger Scheme Meeting.

The fact that under section 411(1) of the Corporations Act the Court has ordered that a meeting be convened and has approved the Explanatory Statement required to accompany the notice of the meeting does not mean that the Court:

- has formed any view as to the merits of the proposed Demerger Scheme or as to how you should vote (on this matter, you must reach your own decision); or
- has prepared, or is responsible for the content of, the Explanatory Statement.

Investment decisions

This Demerger Scheme Booklet does not take into account your individual investment objectives, financial situation or needs. The information in this document should not be relied upon as the sole basis for any investment decision. You should seek independent legal, financial and other professional advice before making any investment decision.

Forward-looking statements

Certain statements in this Demerger Scheme Booklet are about the future. You should be aware that there are a number of risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Straits and, following implementation of the Demerger, Straits Metals and Straits ICH, to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct to be materially different from historical conduct. Such risks, uncertainties, assumptions and other important factors include, among other things, the risks described in **Section 3**. Deviations as to future conduct, results, performance and achievements are both normal and to be expected.

None of Straits, the Straits Directors, officers and advisers, nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Demerger Scheme Booklet will actually occur. You are cautioned about relying on any such forward-looking statements.

Forward looking statements (continued)

The forward-looking statements in this Demerger Scheme Booklet reflect views held only as of the date of this Demerger Scheme Booklet. Subject to the Corporations Act and any other applicable laws or regulations, Straits and, following the Demerger, Straits Metals and Straits ICH disclaim any duty to update these statements other than with respect to information that they become aware of prior to the Demerger Scheme Meeting which is material to the making of a decision regarding whether or not to vote in favour of the Demerger Scheme.

Status of this Demerger Scheme Booklet

This Demerger Scheme Booklet is not a prospectus lodged under Chapter 6D of the Corporations Act. Section 708(17) of the Corporations Act provides that Chapter 6D of the Corporations Act does not have effect in relation to any offer of securities if it is made under a compromise or arrangement under Part 5.1 of the Corporations Act, approved at a meeting held as a result of an order made by the Court in accordance with section 411(1) or (1A) of the Corporations Act.

Notice to Straits Shareholders in jurisdictions outside Australia, the United Kingdom, the United States, countries within the European Economic Community, Switzerland, Singapore and Hong Kong.

Ineligible Foreign Shareholders will not receive Straits Metals' Shares under the Demerger. Such shareholders will have the Straits Metals Shares to which they would otherwise be entitled transferred to a nominee appointed by Straits to be sold on the ASX on behalf of such Ineligible Foreign Shareholders. The applicable net proceeds of such sale will be remitted to Straits and paid by Straits to Ineligible Foreign Shareholders. Refer to **Sections 1.5** and **1.8** for further information.

This Demerger Scheme Booklet does not in any way constitute an offer of securities in any place in which, or to any person to whom, it would be unlawful to make such an offer.

Notice to Straits Shareholders in the United States

The Straits Metals Shares to be issued pursuant to the Demerger Scheme have not been, and will not be, registered under the US Securities Act, or the securities laws of any other jurisdiction, and may not be offered or sold in the US or to US Persons unless the securities are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act is available.

Any Straits Metals Shares issued pursuant to the Demerger Scheme will be issued in reliance on the exemption from the registration requirements of the US Securities Act provided in Section 3(a)(10) of the US Securities Act based on the approval of the Demerger Scheme by the Court.

If the Court approves the Demerger Scheme, its approval will constitute the basis for the Straits Metals Shares to be issued without registration under the US Securities Act, in reliance on the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10).

Straits Metals Shares received pursuant to the Demerger Scheme by any person who may be deemed to be an "affiliate" of Straits Metals under Rule 145 under the US Securities Act, including, without limitation, directors and certain executive officers, may not be resold in the United States or to a US Person except in accordance with the provisions of Rule 144 under the US Securities Act, outside of the United States in reliance upon Regulation S under the US Securities Act, or as otherwise permitted by the US Securities Act.

Financial information

Straits Shareholders should note that this Demerger Scheme Booklet contains pro forma historical financial information. In preparing the pro forma historical financial information, certain adjustments were made to the historical financial information of Straits that Straits considered appropriate to reflect the effect of the Demerger contemplated, as described in this Demerger Scheme Booklet.

The pro forma financial information contained in this Demerger Scheme Booklet is historical only. Straits Shareholders should note that past financial performance is not necessarily a guide to future financial performance.

Straits Shareholders should be aware that the financial information contained in this Demerger Scheme Booklet has been prepared in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board, which comply with the recognition and measurement principles of International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board and in accordance with accounting policies consistent with those set out in the Straits Annual Report for the year ended 30 June 2010.

Privacy and personal information

Straits needs to collect personal information to implement the Demerger Scheme. The personal information may include the names, contact details and details of holdings of Straits Shareholders, together with contact details of individuals appointed as proxies, representatives of bodies corporate or attorneys at the Meetings. The collection of some of this information is required or authorised by the Corporations Act.

Straits Shareholders who are individuals, and other individuals in respect of whom personal information is collected, have certain rights to access the personal information collected about them. Straits Shareholders may contact the Share Registry if they wish to exercise those rights.

The information may be disclosed to Straits, Straits Metals, and their respective Related Bodies Corporate and advisers, print and mail service providers, share registries, securities brokers and any other service provider to the extent necessary to effect the Demerger Scheme.

If the information outlined above is not collected, Straits may be hindered in, or prevented from, conducting the Meetings or implementing the Demerger Scheme effectively, or at all.

Straits Shareholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meetings should inform that individual of the matters outlined above.

Entitlement to inspect Share Register

It is noted that all persons are entitled, under section 173 of the Corporations Act, to inspect and copy the Straits Share Register. This register contains personal information about Straits Shareholders.

Date of this Demerger Scheme Booklet

This Demerger Scheme Booklet is dated 17 December 2010.

Supplementary information

Refer to **Section 10.20** for information about the steps that Straits will take if information about the Demerger and/or the Demerger Scheme needs to be updated.

Letter from the Chairman of Straits

Straits

17 December 2010

Dear Straits Shareholders,

On behalf of the Board of Directors of Straits, I am pleased to present you with the opportunity to approve the Demerger. The Demerger is intended to unlock value for Straits Shareholders. As you are aware, Straits' assets currently comprise interests in coal, copper, gold, silver, antimony and certain other investments. The proposed Demerger involves the separation of the Metals Business into a newly created entity, Straits Metals, with the Coal Business remaining within Straits. Following the Demerger, Straits Metals will also apply for listing on the ASX. The Demerger of the Metals Business into a separate entity will enable the market to separately value the Coal Business and the Metals Business.

I am pleased to provide this Demerger Scheme Booklet to you, which sets out the detail of the Demerger and the formation of Straits Metals.

The Straits Directors are of the opinion that, for the reasons set out in this document, in the absence of a superior proposal, you should vote in favour of the Demerger Resolutions at the Meetings to be held on 21 January 2011. Each Straits Director who holds or controls Straits Shares intends to vote in favour of the Demerger Resolutions.

Standard Chartered Private Equity Limited (**SCPE**) holds Straits Convertible Notes that will, if converted, convert into 19.4% of the issued share capital of Straits (to be renamed Straits ICH) and will, if the Demerger proceeds, also hold 19.4% of Straits Metals. SCPE has also agreed with PTTML to vote all of the Straits Shares that it receives upon conversion of its Straits Convertible Notes, in favour of the Demerger Resolutions.

The Independent Expert, Ernst & Young Transaction Advisory Services Limited, considers that the advantages of the Demerger outweigh its disadvantages and has concluded that the proposed Demerger is in the best interests of Straits Shareholders. The Independent

Expert's Report is included in **Annexure A** of this Demerger Scheme Booklet and I encourage you to read it before voting on the Demerger.

On 11 November 2010, the Straits Board announced that Straits has entered into an Acquisition Scheme Implementation Agreement with PTTML, under which PTTML would acquire all of the issued and outstanding Straits Shares at a price of $1.72[2] per share, via a scheme of arrangement following implementation of the Demerger. You will also receive a separate Acquisition Scheme Booklet, which sets out the detail of the Acquisition Scheme and the Acquisition Proposal. The Acquisition Scheme is conditional upon the prior approval and implementation of the Demerger Scheme, but the Demerger Scheme is not conditional upon the approval and implementation of the Acquisition Scheme and therefore the Demerger may proceed even if the Acquisition Proposal does not. If the Demerger does not proceed, the Acquisition Proposal will not proceed.

The Demerger involves the distribution of Straits Metals Shares to Straits Shareholders by way of a scheme of arrangement referred to in this Demerger Scheme Booklet as the Demerger Scheme. If the Demerger Scheme is approved, Eligible Shareholders will continue to hold the same number of Straits Shares and will hold a separate, direct shareholding in Straits Metals. In conjunction with the Demerger, Straits Metals is seeking to list on the ASX so your new Straits Metals Shares can be easily traded in Australia. Following implementation of the Demerger, Straits Shareholders will hold an interest in two distinct ASX-listed entities:

[2] *Which will be reduced to $1.56 cash if an Adverse Adjustment Event occurs.*

Straits (intended to be renamed International Coal Holdings Limited)

Following implementation of the Demerger, Straits (renamed as International Coal Holdings Limited and referred to as Straits ICH in this Demerger Scheme Booklet) will remain as a global coal investment and management vehicle, holding a 40% interest in PTTAPM that holds investments in Indonesia, Brunei and Madagascar. Straits, via its interest in PTTAPM, will continue to be well positioned to leverage global coal demand and the favourable outlook for the thermal coal sector.

Straits Metals

Straits Metals will be a metals exploration, development and production company focused on copper and gold. In addition to copper and gold, Straits Metals will have interests in silver, antimony and certain other investments. Straits Metals will aim to build over the medium to long term a sustainable earnings platform through a mixture of cash generating producing assets (Tritton Copper Project) and advancing its exploration portfolio (Goldminco and Torrens). Straits Metals will also actively manage its other existing metal operations at Mt Muro and Hillgrove. The proposed Demerger will allow Straits' management team to focus on the Metals Business and pursue organic and inorganic growth opportunities aimed at developing Straits Metals into a sizeable pure metals business focused on copper and gold.

The Demerger is anticipated to deliver the following benefits to Straits Shareholders:

- Unlocks value by underpinning a more appropriate and transparent value for both the Metals Business (to be owned by Straits Metals) and the Coal Business (owned by Straits ICH);
- Provides greater clarity of identity to both businesses through creation of a pure metals company and a pure coal company both listed on ASX;
- Provides greater visibility to the Metals Business, which has a particular focus on copper and gold with an existing production base and an exploration portfolio;
- Enables investors to pursue specific investment preferences and deal with each investment separately;
- Allows improved ability and flexibility for the management teams of both demerged entities to articulate a distinct strategy for each business and to pursue suitable growth opportunities;
- Provides dedicated capital to each of the businesses to enable execution of their respective business plans;
- Provides flexibility to implement independent capital structures and funding choices; and
- Creates a more liquid investment in the Coal Business for Straits Shareholders.

There are also reasons that may lead you to decide to vote against the Demerger. These reasons are set under the heading "Key reasons to vote for or against the Demerger" and in **Section 2.4**.

Important details of the Demerger and the steps associated with its implementation are set out in this Demerger Scheme Booklet. You are urged to read this Demerger Scheme Booklet carefully. If you have any questions, please call the shareholder information line on 1800 421 712 (within Australia) or +61 2 8280 7486 (outside Australia) on weekdays between 8.30am and 5.30pm. Alternatively, contact your financial, legal, taxation or other professional adviser.

The Straits Directors recommend you vote in favour of the Demerger Resolutions at the Meetings (in the absence of a superior proposal), irrespective of how you intend to vote on the Acquisition Scheme at the Acquisition Scheme Meeting.

We look forward to the continued support of our fellow shareholders for the direction that we are guiding the company. I urge you to show your support by attending and voting for the Demerger Resolutions at the forthcoming Demerger Scheme Meeting and General Meeting on 21 January 2011 or by completing and returning the enclosed Demerger Scheme Proxy Form and General Meeting Proxy Form in accordance with the instructions set out in that form.

Yours sincerely,

Alan Good
Chairman

Straits Resources Limited

Overview of the Demerger

Throughout this Demerger Scheme Booklet and unless otherwise specified:

- references to **Straits** are references to Straits Resources Limited (which will be renamed International Coal Holdings Limited if the Demerger proceeds and the Name Change Resolution is approved);
- references to **Straits ICH** are references to Straits following approval of the Demerger and the Name Change Resolution at which time it will be called International Coal Holdings Limited. The ABN of Straits ICH (specified on the front page of this Demerger Scheme Booklet) will not change as a result of the approval of the Name Change Resolution;
- references to **Straits Shares** are to ordinary shares in Straits, including following approval and implementation of the Demerger and the Name Change Resolution;
- references to **Straits Metals** are to Straits Metals Limited ACN 147 131 997, which is the entity that will hold the Metals Business if the Demerger Scheme is implemented in the manner set out in this Demerger Scheme Booklet;
- references to "**$**", "**dollar**" and "**cent**" are references to Australian currency, unless stated otherwise; and
- references to time are to Sydney Time.

Timetable of key dates and times

EVENT	INDICATIVE DATE
First Court Hearing On which the Court convened the Demerger Scheme Meeting	17 December 2010
Latest time and date by which completed proxy forms for the Demerger Scheme Meeting and the General Meeting must be received by the Share Registry	10.00am (Perth Time) on 19 January 2011
Time and date for determining eligibility to vote at the Demerger Scheme Meeting and the General Meeting	7.00pm (Sydney Time) on 19 January 2011
Demerger Scheme Meeting	10.00am (Perth Time) on 21 January 2011
General Meeting	10.30am (Perth Time) on 21 January 2011
Restructure Date	24 January 2011
Second Court Hearing For approval of the Demerger Scheme	31 January 2011
Effective Date On which the Demerger Scheme becomes Effective	1 February 2011
Straits Shares commence trading on ASX without an entitlement to Straits Metals Shares	2 February 2011
Straits Metals Shares commence trading on ASX on a deferred settlement basis (Subject to ASX agreeing to admit Straits Metals to the Official List and to commence quotation of Straits Metals Shares on that date)	2 February 2011
Demerger Scheme Record Date	8 February 2011
Demerger Scheme Implementation Date Capital Reduction, Demerger Dividend (if any) and transfer of Straits Metals Shares to Demerger Scheme Shareholders	11 February 2011
Despatch of transaction confirmation statements for Straits Metals Shares and last day of deferred settlement trading for Straits Metals Shares	11 February 2011
Normal trading of Straits Metals Shares commences	11 February 2011
Settlement of all deferred settlement trades of Straits Metals Shares	16 February 2011
Expected latest day for despatch of payment to Ineligible Foreign Shareholders	14 March 2011

All dates following the date of the Demerger Scheme Meeting are indicative only and are subject to the Court approval process, ASX approval and the satisfaction or, where applicable, waiver of the conditions to the implementation of the Demerger Scheme. Any changes to the above timetable will be announced to ASX and available on its website, www.asx.com.au.

What to do and how to vote

1 Carefully read this Demerger Scheme Booklet

This Demerger Scheme Booklet is an important document and you should read it carefully and in its entirety, including the advantages, disadvantages and risks of the Demerger and an investment in Straits Metals as set out in **Sections 2.3, 2.4** and **3**, before making any decision on how to vote on the Demerger Resolutions.

There are answers to questions you may have about the Demerger set out in the Section “Frequently asked questions”. If you have any additional questions in relation to this Demerger Scheme Booklet or the Demerger, please call the shareholder information line on 1800 421 712 (within Australia) or +61 2 8280 7486 (outside Australia) on weekdays between 8.30am and 5.30pm (Sydney Time).

2 Vote on the Demerger Scheme and Capital Reduction

A Who is entitled to vote

If you are registered on the Straits Share Register as a Straits Shareholder at 7.00pm (Sydney Time) on 19 January 2011, then you will be entitled to attend and vote at the Demerger Scheme Meeting and the General Meeting.

B Your vote is important

In order for the Demerger to be implemented:

- the Demerger Scheme Resolution must be approved by Straits Shareholders at the Demerger Scheme Meeting; and
- the Capital Reduction Resolution must be approved by Straits Shareholders at the General Meeting.

The Straits Directors unanimously recommend that you vote in favour of the Demerger Scheme Resolution and the General Meeting Resolutions, in the absence of a superior proposal.

C Location and details of the Meetings

The notice convening the Demerger Scheme Meeting is set out in **Annexure G**.

The details of the Demerger Scheme Meeting are as follows:

Location	The Celtic Club, 48 Ord Street, West Perth WA 6005
Date	21 January 2011
Time	10.00am (Perth Time)

C Location and details of the Meetings (continued)

The notice convening the General Meeting is set out in **Annexure H**. The General Meeting will be held at the same place on the same date as the Demerger Scheme Meeting, and will commence at the later of 10.30am (Perth Time) or immediately following the conclusion or adjournment of the Demerger Scheme Meeting (whichever is the later to occur).

D How to vote on the Demerger

Straits Shareholders can vote:

- **in person**, by attending the Demerger Scheme Meeting and the General Meeting;
- **by mailing** the enclosed blue Demerger Scheme Meeting Proxy Form and/or white General Meeting Proxy Form to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001, Australia (using the reply paid envelope provided);
- **by faxing** the enclosed blue Demerger Scheme Meeting Proxy Form and/or white General Meeting Proxy Form to Computershare Investor Services Pty Limited on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia); or
- for **Intermediary Online Subscribers** (custodians), by visiting www.intermediaryonline.com to submit your voting intentions.

To be valid, proxy forms for the Demerger Scheme Meeting and the General Meeting must be received by the methods outlined above by NO LATER THAN 10.00am (Perth Time) and 10.30am (Perth Time) respectively on 19 January 2011.

3 Seek further information

If you have any questions in relation to the Demerger you can call the shareholder information line weekdays between 8.30am and 5.30pm (Sydney Time) on:

Australia: 1800 421 712
Outside Australia: +61 2 8280 7486

If you have any questions regarding the number of Straits Shares you hold or how to vote, please contact the Share Registry weekdays between 9.00am and 5.00pm (Sydney Time) on:

Australia: 1300 729 525
Outside Australia: +61 3 9415 4395

If you are in any doubt about anything in this Demerger Scheme Booklet, please contact your legal, financial or other professional adviser.

Summary of the Demerger

Demerger	The Demerger involves the separation of Straits Metals from Straits to create two new ASX-listed companies: • Straits Metals Limited; and • International Coal Holdings Limited (formerly Straits and referred to in this Demerger Scheme Booklet as Straits ICH). If the Demerger proceeds, Straits Shareholders' investment in Straits will be divided into separate investments in Straits Metals and Straits ICH. The Demerger is subject to a number of conditions, details of which are set out directly below and in **Section 1.3C**.
Conditions to the Demerger	There are a number of key conditions to the Demerger Scheme that remain outstanding as at the date of this Demerger Scheme Booklet which include: • Court and Straits Shareholder approval of the Demerger Scheme; • Straits Shareholder approval of the Capital Reduction Resolution; • admission of Straits Metals to the Official List and quotation of Straits Metals Shares on the ASX; • necessary ASIC and ASX approvals; and • conversion of the Straits Convertible Notes. All of these conditions need to be satisfied (or waived) for the Demerger Scheme to proceed.
Demerger entitlement	If the Demerger proceeds, Eligible Shareholders will: • keep their existing shares in Straits (which will then be known as Straits ICH); and • receive one Straits Metals Share for every Straits Share they hold as at the Demerger Scheme Record Date. Eligible Shareholders do not need to pay any money for the Straits Metals Shares they receive. Their distribution under the Capital Reduction and Demerger Dividend (if any) will be applied to the acquisition of the Straits Metals Shares. If the Demerger proceeds, Ineligible Foreign Shareholders will: • keep their existing shares in Straits (which will then be known as Straits ICH); and • have the Straits Metals Shares to which they would otherwise be entitled transferred to a nominee appointed by Straits to be sold on their behalf. The net proceeds of sale (after the deduction of any applicable brokerage, registry fees, duties or other charges) will be remitted to Straits and paid by Straits to each such Ineligible Foreign Shareholder as soon as practicable following the sale of those shares, as described further in **Section 1.8**.
Summary of Straits Metals after the Demerger	Straits Metals will be a pure metals company focused on copper and gold with a portfolio of producing assets and exploration assets. Subject to obtaining the necessary approvals, Straits Metals will be listed on the ASX. Straits Metals, which is currently wholly owned by Straits, will hold after the Demerger is implemented: • 100% interest in the Tritton Copper Project with copper mine operations in New South Wales, Australia.

Summary of Straits Metals after the Demerger (continued)	• 100% interest in the Mt Muro gold mine in Central Kalimantan, Indonesia. • 100% interest in Hillgrove, a gold / antimony mine in New South Wales, Australia. • 71% interest in Goldminco Corporation (TSX-V:GCP), a mineral exploration company, which holds porphyry copper-gold and gold exploration tenements in New South Wales, Australia. • Exploration projects in Australia, including the right to earn a 70% interest in the Torrens Joint Venture, a joint venture between Argonaut Resources NL and Straits Metals, which is exploring for iron-oxide copper-gold systems in the Stuart Shelf region of South Australia. • Magontec, a supplier of magnesium products with plants in Germany and China. • Cash and listed investments.
Summary of Straits after the Demerger (to be renamed International Coal Holdings Limited, referred to in this Demerger Scheme Booklet as Straits ICH)	Straits ICH's primary assets, after the Demerger is implemented, will comprise of a 40% stake in PTT Asia Pacific Mining Pty Ltd (**PTTAPM**) and the Retained Cash Amount. The key assets of PTTAPM are: • 45.6% interest in Straits Asia Resources Limited (**SAR**) which is listed on the Singapore Stock Exchange and operates the Sebuku and Jembayan coal mines located in Kalimantan, Indonesia. • 35% interest in a joint venture with FEE Pty Ltd (**FEE**) relating to certain rights to survey a coal resource in Brunei. • 33.5% interest in Red Island Minerals (**RIM**) which is the holder of certain exploration rights over coal deposits in the Sakoa basin in Madagascar. • 100% stake in the Yannarie salt exploration licences in Western Australia.
Rationale for the Demerger	The reasons the Straits Directors are recommending the Demerger are: • It unlocks value by underpinning a more appropriate and transparent value for both the Metals Business (to be owned by Straits Metals) and the Coal Business (owned by Straits ICH). • It provides greater clarity of identity to each of the businesses by creating a pure metals company and a pure coal company both listed on ASX. • It provides greater visibility to the Metals Business, which has a particular focus on copper and gold with an existing production base and an exploration portfolio. • It enables investors to pursue specific investment preferences and deal with each investment separately. • It allows improved ability and flexibility for the management teams of both demerged entities to articulate a distinct strategy for each business and to pursue suitable growth opportunities for each business. • It provides dedicated capital to each of the businesses, to enable execution of the respective business plans. • It provides flexibility to implement independent capital structures and funding choices. • It creates a more liquid investment in the Coal Business for Straits Shareholders. A summary of the reasons to vote for or against the Demerger is contained under the heading "Key reasons to vote for or against the Demerger" and in **Section 2.3** "Advantages of the Demerger" and **Section 2.4** "Disadvantages of the Demerger".

Summary of the Demerger

Straits Directors' recommendation

Each Straits Director recommends that you **VOTE IN FAVOUR** of the Demerger Resolutions at the Demerger Scheme Meeting and the General Meeting, in the absence of a superior proposal.

Each Straits Director who holds or controls Straits Shares intends to vote in favour of the Demerger Resolutions, in the absence of a superior proposal.

Independent Expert's opinion

The Independent Expert has concluded that, in its opinion, the potential advantages of the Demerger outweigh the potential disadvantages to Straits Shareholders as a whole and that the Demerger Scheme is therefore in the best interests of Straits Shareholders.

The Independent Expert has also concluded that the Capital Reduction will not materially prejudice Straits' ability to pay its creditors.

Advantages, disadvantages and risks

The advantages of the Demerger are summarised in the Rationale for the Demerger section above.

The main disadvantages of the Demerger include:

- Straits Metals will be a smaller company and may not be admitted to the S&P/ASX 200 index and consequently, certain institutional investors may not be permitted to buy shares in Straits Metals under the terms of their investment mandate. This may lead to reduced liquidity and may impact the price at which Straits Metals Shares will trade.
- Straits ICH may also be removed from the S&P/ASX 200.
- Straits ICH and Straits Metals will become less diversified companies after the Demerger.
- Straits ICH and Straits Metals will incur additional costs because of the Demerger. Straits Metals will incur costs as an independent entity that it would not have otherwise incurred and will lose the potential benefit of existing Straits' income tax losses.
- Straits Metals will not have the financial support of Straits ICH and is likely to have a different credit profile.
- Demerger Tax Relief may not be available or the status of the ruling applications may not be known prior to the Demerger Scheme Meeting.

The main risks of the Demerger include:

- It is not possible to predict the market values of Straits Metals Shares and shares in Straits ICH following the proposed implementation of the Demerger.
- There has not previously been a separate public market for Straits Metals Shares and there is no assurance that a liquid market in Straits Metals Shares and Straits Shares will develop following the proposed implementation of the Demerger Scheme.
- The Court may not approve the Demerger Scheme or that the approval of the Court may be delayed.
- Demerger Tax Relief may not be available. As outlined in **Section 9**, Demerger Tax Relief, if granted, will result in relief from any capital gains tax payable by Straits Shareholders that may arise from the transfer of shares in Straits Metals to Scheme Shareholders and no part of the Distribution Amount being assessable in the hands of Scheme Shareholders. At the time of the Demerger Scheme Meeting, the ATO may not have issued a draft or final class ruling confirming the Australian income tax implications for Scheme Shareholders outlined in **Section 9**, which means the ultimate tax implications of the Demerger will not be known.

Advantages, disadvantages and risks (continued)	These disadvantages and risks, together with certain other disadvantages and risks of the Demerger, are discussed in more detail in **Sections 2.4** and **3.4**. **Section 3** also includes a discussion of the risks associated with holding Straits Metals Shares and shares in Straits ICH. You should review these sections carefully before deciding whether or not to vote in favour of the Demerger Resolutions.
Demerger Scheme Meeting and General Meeting	A Demerger Scheme Meeting of Straits Shareholders will be held at 10.00am (Perth Time) on Friday, 21 January 2011 at The Celtic Club, 48 Ord Street, West Perth, Western Australia. A General Meeting of Straits Shareholders will be held at the later of 10.30am (Perth Time) and the adjournment or conclusion of the Demerger Scheme Meeting on Friday, 21 January 2010 at The Celtic Club, 48 Ord Street, West Perth, Western Australia.
Key steps to implement the Demerger	At the First Court Hearing on 17 December 2010, Straits obtained an order from the Court to convene the Scheme Meeting. The key remaining steps to implement the Demerger are: • approval of the Demerger Scheme by Straits Shareholders at the Demerger Scheme Meeting; • approval of the Capital Reduction by Straits Shareholders at the General Meeting; • the declaration of the Demerger Dividend (if any) by Straits; • approval of the Demerger Scheme by the Court at the Second Court Hearing; and • approval of admission of Straits Metals to the Official List of ASX and official quotation of Straits Metals Shares by ASX. Following lodgement of the Court order with ASIC, the Demerger Scheme will become Effective and be implemented. This will involve the Capital Reduction Amount and the Demerger Dividend Amount (if any) being applied by Straits, on behalf of Straits Shareholders, to the transfer to those shareholders, on the Demerger Scheme Implementation Date, of one Straits Metals Share for each Straits Share held on the Demerger Scheme Record Date (except in the case of Ineligible Foreign Shareholders). No amount of cash will be paid to Straits Shareholders as a result of the Capital Reduction or any Demerger Dividend. If the Demerger Scheme becomes Effective, Straits Metals Shares will trade separately to shares in Straits (which will then be known as Straits ICH) on the ASX. This is, subject to ASX agreeing to admit Straits Metals to the Official List and commencing quotation of Straits Metals Shares expected to be on and from 2 February 2011 (initially on a deferred settlement basis).

Summary of the Demerger

Ineligible Foreign Shareholders	Ineligible Foreign Shareholders are Straits Shareholders whose addresses are shown in the Straits Share Register on the Demerger Scheme Record Date as being outside Australia, New Zealand, Canada, the United Kingdom, countries within the European Economic Community, Switzerland, Singapore, Hong Kong, the United States and the other countries referred to in **Section 1.5B(2)**. Ineligible Foreign Shareholders will not receive Straits Metals Shares under the Demerger. Such shareholders will have the Straits Metals Shares to which they would otherwise have been entitled transferred to a nominee appointed by Straits to be sold on their behalf. The net proceeds of sale (after the deduction of any applicable brokerage, registry fees, duties or other charges) will be remitted to Straits and paid by Straits to each such Ineligible Foreign Shareholder as soon as practicable following the sale of those shares, as described further in **Section 1.8**.
Relationship between Straits Metals and Straits (to be renamed Straits ICH subject to approval of the Name Change Resolution)	Straits ICH will not own any shares in Straits Metals following implementation of the Demerger. Certain contractual arrangements have been entered into between Straits (which will then be named Straits ICH assuming the Name Change Resolution is approved) and Straits Metals in relation to the separation of their businesses. Refer to Sections **1.1A** and **10.4** and **Annexure C** for further information.

Straits Metals business summary

A Straits Metals business summary

Straits Metals business following implementation of the Demerger, is summarised as follows:

1 Producing Asset Base

Straits Metals' primary producing assets will be the Tritton Copper Project in New South Wales, Australia, which produced 20,847 tonnes of copper in the year ended 30 June 2010 and Mt Muro located in Central Kalimantan, Indonesia, which produced 45,521 oz of gold and 143,496 oz of silver in the year ended 30 June 2010.

2 Exploration Portfolio

Straits Metals' primary exploration assets include Canadian TSX Venture Exchange listed Goldminco and various prospects in South Australia (including the Torrens Project).

a Goldminco

Goldminco holds an interest in approximately 1,800 km^2 of exploration tenements in the prospective Lachlan Fold Belt of New South Wales, Australia. The tenements contain a range of active projects for gold and porphyry copper/gold. Goldminco has three main projects namely, Temora, Blayney and Tick Hill. Straits holds 71% of the outstanding ordinary shares of Goldminco.

b Torrens

The Torrens Joint Venture project is located near the eastern margin of South Australia's Gawler Craton region, and is currently awaiting final approvals that would allow it to explore for iron-oxide copper-gold (**IOCG**) systems on over 5,000 km^2 of area in the prospective Stuart Shelf region of South Australia. The Stuart Shelf is a well-endowed, copper province hosting the major deposits of Olympic Dam, Prominent Hill and Carrapateena. Straits Metals has a number of prospective walk up drill targets at Torrens based on gravity and magnetic geophysical anomalies as well as a drilling program undertaken in 2008.

c Others

In addition to Goldminco and Torrens, Straits Metals is also focusing on near mine exploration programs at the sites making up the Tritton Copper Project and Mt Muro with the stated aim to convert Mineral Resources to Ore Reserves and to identify additional Mineral Resources.

3 Management and operations personnel

Straits Metals' management team has experience in developing resource businesses. The team created SAR and established it as a producer of high quality thermal coal from Indonesia. SAR has grown its production from approximately 2.0 Mtpa in 2003 to 9.8 Mtpa in 2010 and was successfully listed on the Singapore Stock Exchange in November 2006 when Straits sold a 39.6% stake to new investors.

4 Funding plans

Straits Metals will be funded to fulfil its anticipated funding needs and execute its business plan, based on current market conditions and assumptions. Straits is currently implementing capital investment work programs at a number of its assets, including the Tritton Copper Project and Mt Muro. Straits Metals' initial funding position, in conjunction with cash inflows from sales, is expected to provide sufficient capital to enable Straits Metals to execute these investment work programs, undertake exploration activities at the Tritton Copper Project, Goldminco and Torrens and for other normal business operating expenditure.

Key reasons to vote for or against the Demerger

Directors' recommendation

The Straits Directors unanimously believe that the advantages of the Demerger outweigh its disadvantages and risks and therefore unanimously recommend Straits Shareholders to vote in favour of the Demerger Resolutions in the absence of a superior proposal. Each Straits Director who holds or controls Straits Shares intends to vote in favour of the proposed Demerger in respect of all of their Straits Shares. Further information on these key reasons is contained in **Section 2.3** "Advantages of the Demerger" and in **Section 2.4** "Disadvantages of the Demerger".

Reasons to vote in favour of the Demerger

1 Unlocks value by underpinning a more appropriate and transparent value for the Metals Business (to be owned by Straits Metals) and the Coal Business (owned by Straits ICH).

2 Provides greater clarity of identity to both Straits Metals and Straits ICH through creation of a pure metals company and a pure coal company both listed on ASX.

3 Provides greater visibility to the Metals Business, which has a particular focus on copper and gold with an existing production base and an exploration portfolio.

4 Enables investors to pursue specific investment preferences and deal with each investment separately.

5 Allows improved ability and flexibility for the management teams of both demerged entities to articulate a distinct strategy for each business and pursue suitable growth opportunities.

6 Provides dedicated capital to each business to enable execution of their respective business plans.

7 Provides flexibility to implement independent capital structures and funding choices.

8 Creates a more liquid investment in the Coal Business for Straits Shareholders.

9 The Independent Expert has concluded that the Demerger is in the best interests of Straits Shareholders.

Reasons to vote against the Demerger

1 Straits Metals will be a smaller company and may not be admitted in the S&P/ASX 200 index and, consequently certain institutional investors may not be permitted to buy shares in Straits Metals under the terms of their investment mandate. This may lead to reduced liquidity and potentially an impact on the price at which Straits Metals Shares will trade.

2 Straits ICH may also be removed from the S&P/ASX 200 Index.

3 Straits ICH and Straits Metals will become less diversified companies after the Demerger.

4 Straits ICH and Straits Metals will incur additional costs because of the Demerger. Straits Metals will incur costs as an independent entity that it would not have otherwise incurred and will lose the potential benefit of existing Straits income tax losses.

5 Straits Metals will not have the financial support of Straits ICH and is likely to have a different credit profile.

6 Demerger Tax Relief may not be available or the status of the Class Ruling application may not be known at the time of the Demerger Scheme Meeting.

Frequently asked questions

Question	Answer	Further Information
Why have I received this Demerger Scheme Booklet?	This Demerger Scheme Booklet has been sent to you because you are a Straits Shareholder and Straits Shareholders are being asked to vote on the Demerger. If approved and implemented, the Demerger will result in the creation of a new listed public company, Straits Metals, which is currently a wholly owned subsidiary of Straits and which will hold the Metals Business. This Demerger Scheme Booklet is intended to help you to decide how to vote on: • the Demerger Scheme Resolution which needs to be passed at the Demerger Scheme Meeting to allow the Demerger to proceed; and • the Capital Reduction Resolution to be considered at the General Meeting which needs to be passed to allow the Demerger to proceed. The Straits Directors recommend that you read the Demerger Scheme Booklet and, if necessary, consult your legal, financial or other professional adviser before voting on the Demerger Scheme Resolution and General Meeting Resolutions.	**All**
What will I receive if the Demerger proceeds and what is the impact of the Demerger on my Straits Shareholding?	If the Demerger proceeds: • you will receive one Straits Metals Share for every Straits Share you hold on the Demerger Scheme Record Date (unless you are an Ineligible Foreign Shareholder). You will not be required to pay any cash for the Straits Metals Shares that you receive under the Demerger Scheme. Instead, you will be credited with the Capital Reduction Amount and, potentially, a Demerger Dividend for each Straits Share you hold on the Demerger Scheme Record Date and those amounts will be applied as consideration for the Straits Metals Shares you receive under the Demerger Scheme. If you are an Ineligible Foreign Shareholder, the Straits Metals Shares that you would have received under the Demerger Scheme will be transferred to and sold by a nominee appointed by Straits, with the net proceeds of sale being remitted to you, as further described in **Section 1.8**. • you will continue to hold the same number of Straits Shares as you hold on the Demerger Scheme Record Date.	**Sections 1.4, 1.5** and **1.8**

Frequently asked questions

Question	Answer	Further Information
Why is Straits proposing the Demerger?	The principal objective of the Straits Directors in proposing the Demerger is to create what is believed to be a more appropriate business structure for the Coal Business and the Metals Business. Following implementation of the Demerger, Straits Shareholders are expected to realise the benefits set out in **Section 2.3**, which the Straits Directors believe provide a superior long term outcome than what would be achieved if Straits Metals were to remain part of Straits.	**Letter from the Chairman, "Key reasons to vote in favour of the Demerger", Sections 2.1** and **2.3**
What is Straits Metals?	Straits Metals, which is currently wholly owned by Straits, will hold the Metals Business after the Demerger is implemented. Straits Metals will primarily be focused on copper and gold.	**"Summary of the Demerger", "Summary of Straits Metals after the Demerger", "Straits Metals business summary"** and **Section 4**
Who can vote at the Meetings and how do I vote?	If you are registered on the Straits Share Register as a Straits Shareholder at 7.00pm (Sydney Time) on 19 January 2011, then you will be entitled to attend and vote at the Demerger Scheme Meeting and the General Meeting. Voting at the Demerger Scheme Meeting and the General Meeting may be in person, by attorney, by proxy or, in the case of corporations, by corporate representative. If you wish to vote in person, you must attend the Demerger Scheme Meeting and General Meeting. If you cannot attend the Demerger Scheme Meeting or General Meeting, you may vote by proxy, attorney or if you are a body corporate, by appointing a corporate representative. Please refer to the part of this "Overview of the Demerger" Section entitled "What to do and how to vote" for further details.	**"What to do and how to vote"**
Do the Straits Directors recommend the Demerger Scheme?	The Straits Directors unanimously recommend that you vote in favour of the resolutions relating to the Demerger at the Demerger Scheme Meeting and the General Meeting in the absence of a superior proposal, even if you do not intend to vote in favour of the Acquisition Scheme at the separate Acquisition Scheme Meeting. The reasons for the Straits Directors' unanimous recommendation are set out in detail in **Section 2.3**.	**"Key reasons to vote in favour of the Demerger", Sections 2.1** and **2.3**

Question	Answer	Further Information
What is the Independent Expert's opinion on the Demerger?	The Independent Expert has concluded that, in its opinion, the potential advantages of the Demerger outweigh the potential disadvantages to Straits Shareholders as a whole and that the Demerger Scheme is therefore in the best interests of Straits Shareholders. The Independent Expert has also concluded that the Capital Reduction will not materially prejudice Straits' ability to pay its creditors. A full version of the Independent Expert's Report is contained in Annexure A. Straits Shareholders are encouraged to read the Independent Expert's Report in full.	**Annexure A**
Why might I vote against the Demerger?	Though the Straits Directors recommend that you **VOTE IN FAVOUR** of the Demerger, there are a number of reasons as to why you may choose to vote against the Demerger. For more information on the reasons why you may consider voting against the Demerger, see the section headed "Key reasons to vote for or against the Demerger" which sets out the key reasons to vote for or against the demerger and **Section 2.4**.	**Section 2.4** and **"Key reasons to vote for or against the Demerger"**
What are the voting thresholds for approval of the Demerger Resolutions and the General Meeting Resolutions?	**Demerger Scheme** For the Demerger Scheme to proceed, it must be approved by: • a majority in number (more than 50%) of Straits Shareholders present and voting at the Demerger Scheme Meeting (whether in person or by proxy); and • at least 75% of the total number of votes cast on the resolution by Straits Shareholders present and voting at the Demerger Scheme Meeting (whether in person or by proxy). **Capital Reduction** The Capital Reduction must be approved by a simple majority of votes cast by Straits Shareholders on the Capital Reduction Resolution. **Name Change Resolution** The Name Change Resolution must be approved by a special majority (i.e. at least 75%) of votes cast by Straits Shareholder on the Name Change Resolution.	**Notice of Demerger Scheme Meeting in Annexure G** and **Notice of General Meeting in Annexure H**

Frequently asked questions

Question	Answer	Further Information
What if I do not vote at the Meetings or if I vote against the Demerger Resolutions?	If you do not vote or vote against the Demerger Resolutions, but these resolutions are approved by the requisite majorities of Straits Shareholders, then, subject to the other conditions to the Demerger being satisfied or waived, and Court approval, the Demerger will be implemented and binding on all Straits Shareholders, including those who did not vote or voted against the Demerger Resolutions.	**Annexure G** and **Annexure H**
When will I receive my Straits Metals Shares?	Provided the Demerger Scheme becomes Effective, Straits Shareholders on the Straits Share Register on the Demerger Scheme Record Date will receive, on the Demerger Scheme Implementation Date, one Straits Metals Share for every Straits Share held on the Demerger Scheme Record Date. Note that if you are an Ineligible Foreign Shareholder, the Straits Metals Shares that you would otherwise have received under the Demerger Scheme will be transferred to and sold by a nominee appointed by Straits, with the net proceeds of sale remitted to you. For more information on what Ineligible Foreign Shareholders will receive, see **Section 1.8**.	**Sections 1.4, 1.5** and **1.8**
How will the Demerger be implemented?	The mechanics for implementing the Demerger are summarised in **Sections 1.2** and **1.3**. However, in order for the Demerger to be implemented it is necessary for Straits Shareholders to approve the Demerger Resolution and the Capital Reduction Resolution at the Meetings. The required voting majorities for these resolutions are summarised in Section **1.3A(3)** and **1.3B(3)**. In addition, the Court must approve the Demerger Scheme following the Straits Shareholders approving the Demerger Resolutions, which Straits will be asking the Court to do on the date of the Second Court Hearing.	**Sections 1.2** and **1.3**
Are there any conditions that must be satisfied in order for the Demerger to be implemented?	Yes there are. Information about the key conditions which remain outstanding as at the date of this Demerger Scheme Booklet is provided in the Summary of the Demerger Scheme under the heading "Conditions to the Demerger Scheme". Further information about these conditions is provided in **Section 1.3C** and Part 1 of **Annexure C**.	**"Summary of the Demerger Scheme", Section 1.3C** and **Annexure C**
What happens if these conditions are not satisfied?	If the conditions to the Demerger Scheme are not satisfied or (where applicable) waived, the Demerger Scheme will not proceed and Straits will continue to own Straits Metals and the Metals Business and you will not receive any shares in Straits Metals.	**Section 8.1**

Question	Answer	Further Information
What happens if these conditions are not satisfied? (continued)	In these circumstances: • Straits Shareholders will not be able to realise the expected benefits of the Demerger; • the Acquisition Scheme will not proceed; • Straits may be liable to pay a break fee to PTTML; and • the market price of Straits Shares may fall. For more information on what happens if the Demerger is not implemented, please see **Section 8.1**.	
What is the break fee and why would it be payable?	Straits has acknowledged and agreed with PTTML that if the Acquisition Scheme does not proceed, the PTTML Group will have incurred significant costs and expenses (which cannot accurately be ascertained at present) and that Straits should reimburse PTTML for those costs and expenses in certain circumstances. The break fee agreed with PTTML as a genuine and reasonable estimate of the costs and expenses that have been or will be actually incurred by the PTTML Group if the Acquisition Scheme does not proceed is $5,441,000 (approximately 1% of the aggregate consideration payable by PTTML in accordance with the Acquisition Scheme). The circumstances in which the break fee will be payable generally include if any member of the Straits Board withdraws their recommendation of the Acquisition Proposal, or if a competing proposal emerges or an alternative transaction is entered into by Straits, such that the Acquisition Proposal does not proceed, or if a SAR Proposal emerges which the PTTAPM board resolves to accept and Straits has consented to. The full terms governing the payment of the break fee are set out in **Annexure D** of the Acquisition Scheme Booklet.	**Annexure D** of the Acquisition Scheme Booklet
What happens if the Demerger Scheme is approved, all conditions are satisfied and it is implemented?	For every Straits Share held as at the Demerger Scheme Record Date, each Scheme Shareholder will receive one Straits Metals Share (or, in the case of an Ineligible Foreign Shareholder, the applicable net cash proceeds of sale of Straits Metals Shares on their behalf, as described in **Section 1.8**). **Section 1.2** also provides information about the timing for transfer of Straits Metals Shares to Straits Shareholders under the Demerger Scheme and trading of Straits Metals Shares on the ASX.	**Sections 1.2, 1.3, 1.4, 1.5** and **1.8**

Frequently asked questions

Question	Answer	Further Information
Can I receive cash instead of Straits Metals Shares?	No. Straits Shareholders cannot elect to receive cash instead of Straits Metals Shares as a result of the proposed implementation of the Demerger Scheme. Ineligible Foreign Shareholders will not receive Straits Metals Shares but will instead receive the applicable net cash proceeds of the sale of Straits Metals Shares on their behalf as described in **Section 1.8**.	**Section 1.8**
Will I be taxed on the proceeds?	The taxation implications of the Demerger Scheme being approved and implemented for Scheme Shareholders will depend on the specific taxation circumstances of each Scheme Shareholder. However, a general overview of the likely Australian taxation implications of the Demerger Scheme for Scheme Shareholders who hold their Straits Shares on capital account is set out in the PricewaterhouseCoopers letter dated 13 December 2010, a copy of which is set out in **Section 9**. The Australian tax implications set out in the PricewaterhouseCoopers letter in **Section 9** do not take into account the specific circumstances of each Scheme Shareholder, and are not intended to constitute formal tax advice and Scheme Shareholders should consult their own taxation adviser about the taxation implications for them if the Demerger Scheme is implemented.	**Section 9**
What are the alternatives to the Demerger?	The alternatives to the Demerger include: • Dealing separately with Straits' interest in the PTTAPM Joint Venture. However, the PTTAPM Shareholders' Agreement contains restrictions on Straits dealing with its interest, as well as pre-emptive rights in favour of PTTML, thereby restricting Straits' freedom to deal with its interest. • Selling the Metals Business (whether by private sale or initial public offering). While a sale would crystallise value for Straits Shareholders, the main operating mines of Straits Metals are undergoing a substantial capital investment program and the Straits Board is of the view there is a better prospect of increased value being realised by Straits Shareholders by them continuing to hold the Metals Business under the stewardship of the existing Straits management team until these capital investment programs have been implemented.	

Question	Answer	Further Information
What are the alternatives to the Demerger? (continued)	The Straits Directors have considered the advantages and disadvantages of the alternatives and have concluded that the Demerger provides the best outcome for Straits Shareholders in the current circumstances. In particular, in relation to the Acquisition Proposal, the Straits Directors' view is that this is most appropriately put to Straits Shareholders pursuant to a scheme of arrangement proposal, which enables Straits Shareholders to vote on whether or not to exit from Straits' underlying investment in PTTAPM, and can do so with the benefit of the independent expert's report and the material provided in the Acquisition Scheme Booklet. By proceeding in this way, Straits Shareholders may make their decision based on the prevailing market conditions as at the date of the Acquisition Scheme Meeting, including as to whether or not a superior proposal has then emerged.	
When will Straits Metals Shares commence trading separately on the ASX?	It is expected that Straits Metals Shares will commence trading on ASX on 2 February 2011, initially on a deferred settlement basis. It is the responsibility of Eligible Shareholders to confirm their holding before trading in Straits Metals Shares. Trading on ASX of Straits Metal Shares on a normal settlement basis is expected to commence on 11 February 2011.	**Timetable**
What will be Straits Metals' share price?	There is no certainty as to the price of Straits Metals Shares after the Demerger. The price of Straits Metals Shares will be determined by normal market supply and demand factors that exist at the time trading in Straits Metals Shares commences.	
What if I want further information?	If you have any questions about the Demerger or you would like additional copies of this Demerger Scheme Booklet, please contact the shareholder information line on 1800 421 712 (within Australia) or +61 2 8280 7486 (outside Australia) Monday to Friday between 8.30am and 5.30pm. If you have questions regarding the number of Straits Shares you hold or how to vote, please contact the Share Registry on 1300 729 525 (within Australia) or +61 3 9415 4395 (outside Australia) Monday to Friday between 9.00am and 5.00pm. For information about your individual financial or taxation circumstances please consult your legal, financial or other professional adviser.	Shareholder information line Individual legal, financial or other professional adviser

Relationship between the Demerger and the Acquisition Proposal

Summary	
Acquisition Proposal	Following implementation of the Demerger, Straits ICH and PTTML will seek to implement the Acquisition Scheme, which involves the acquisition of all issued Straits Shares (after the Demerger) for $1.72 per Straits Share (after the Demerger) which will be reduced to $1.56 per Straits Share if an Adverse Adjustment Event occurs. The Straits Directors recommend that the Demerger proceed even if the Acquisition Scheme does not proceed. Further information about the Acquisition Proposal, including how to vote on the Acquisition Scheme, is set out in the Acquisition Scheme Booklet, which you will receive at or about the same time as you receive this Demerger Scheme Booklet.
Relationship between the Demerger and the Acquisition Proposal	The Demerger and the Acquisition Proposal will be effected by two separate schemes of arrangement. The Acquisition Scheme is conditional on, and therefore will not be effected unless the Demerger Scheme is approved and implemented. The Demerger Scheme is not conditional on the Acquisition Scheme being approved or implemented. This means that the Demerger Scheme may be implemented even if the Acquisition Scheme does not proceed. Straits Directors recommend you vote in favour of the Demerger Resolutions irrespective of how you intend to vote on the Acquisition Scheme. If the Acquisition Scheme proceeds, the relationship between Straits Metals and Straits ICH will be varied by the Indemnity and Adjustment Deed summarised in **Section 1.9** and Straits ICH will retain approximately $13 million more of cash and cash equivalents than it would have had on the Demerger Implementation Date[3].

[3] *This assumes the aggregate current and non-current liabilities of Straits ICH calculated in accordance with the accounting principles set out in the Indemnity and Adjustment Deed are $13 million and that no amounts are invested in PTTAPM by Straits between 11 November 2010 and the Acquisition Scheme Implementation Date.*

Detailed information sections

1 Detailed summary of the Demerger

This Section 1 contains a summary of the key features of the Demerger. This summary should be read in conjunction with the additional detailed information for Straits Shareholders set out in this Demerger Scheme Booklet.

1.1 Internal restructure and separation

A Overview

If the Demerger is implemented, Straits Metals will become a standalone listed entity and Straits (proposed to be renamed Straits ICH on approval of the Name Change Resolution at the General Meeting) and Straits Metals will operate independently of each other, except for certain transitional arrangements.

A Demerger Deed was entered into between Straits and Straits Metals on 11 November 2010, which is described in **Annexure C**. The agreement provides for continuing indemnities between Straits ICH (formerly Straits) and Straits Metals to give effect to the fundamental separation principle that, following implementation of the Demerger, Straits Metals will have the entire economic benefit, commercial risk and liabilities of the Metals Business as if Straits Metals had owned and operated this business at all times.

Not all of the transactions underlying the organisational or capital restructuring have been entered into or effected on the same terms as would have applied between independent third parties. In particular, agreements for the transactions underlying the reorganisation have not included terms such as certain warranties that might have been obtained from third parties as a result of arms' length negotiations.

Straits (which will then be named Straits ICH assuming the Name Change Resolution is approved and the Demerger is implemented) and Straits Metals have also entered into certain contractual arrangements dealing with the ongoing business relationships and operations between Straits Metals and Straits ICH as independent companies.

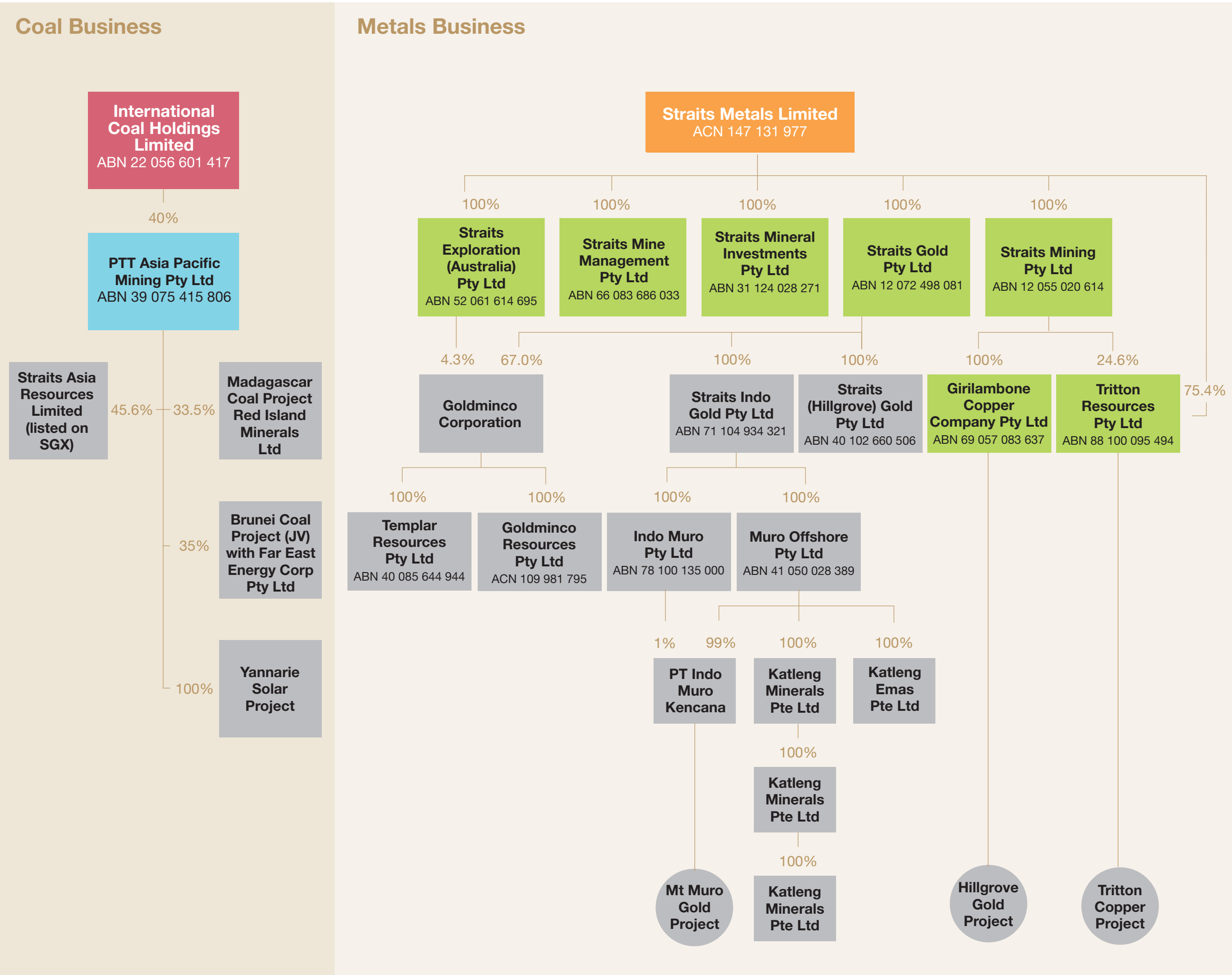
The organisational changes and commercial arrangements to implement the separation are outlined below.

B Organisational restructure

To facilitate the implementation of the Demerger, a number of share and asset transfers are required to be effected within the Straits Group in order to transfer all assets that are not part of the Coal Business (including shares in Straits Group companies which own assets that are not part of the Coal Business) to Straits Metals. These intra-group transfers will be undertaken prior to the intended Effective Date of the Demerger Scheme. In consideration for the transfer of these assets, Straits Metals will issue shares to Straits which will ultimately be transferred to Straits Shareholders, as further described in the terms of the Demerger Scheme set out in **Annexure E**.

Following this intra-group organisational restructure, and on implementation of the Demerger Scheme, the corporate structure of Straits Metals (which is also summarised in Figure 4.1A) and Straits ICH will be as shown in Figure 1.1B.

Figure 1.1B: Corporate Structure of Straits Metals and Straits ICH post-Demerger



1 Detailed summary of the Demerger

1.1 Internal restructure and separation (continued)

C Name change

Following implementation of the Demerger and subject to the approval of the Name Change Resolution at the General Meeting:

- Straits will be renamed International Coal Holdings Limited; and
- Straits Metals will be renamed Straits Resources Limited.

D Straits Metals capital structure

As part of the implementation of the Demerger, it is necessary to establish a capital structure for Straits Metals, separate from Straits. On the Demerger Scheme Implementation Date, it is expected that Straits Metals will have 316.3 million shares on issue.

E Straits Metals employees

Employees of the Straits Group engaged in the Metals Business will automatically become employees of the Straits Metals Group, other than executive and administrative employees of Straits. If the Demerger proceeds, Straits will terminate the employment of all executive employees of Straits engaged under executive employment agreements and will pay out their accrued entitlements, other than James Carter (who will continue as the Chief Financial Officer of Straits ICH). Non-executive employees of Straits will be offered employment with the Straits Metals group of companies, but in the case of senior personnel, on different and reduced terms and conditions commensurate with the smaller size of Straits Metals (and, concurrent with accepting employment in the Straits Metals group, such employees will resign from employment with Straits).

James Carter, together with any employees of Straits who decline these offers of employment by the Straits Metals group and remain employees of Straits ICH following the Demerger will be made redundant by Straits ICH if the Acquisition Scheme is implemented. Any such redundancies will be effected in accordance with all applicable legal and contractual entitlements and these entitlements will be taken into account in the determination of the Adjusted Retained Cash.

F Date of separation for accounting purposes

For accounting purposes, the expected effective date of separation of Straits Metals from Straits is the Effective Date.

From the Effective Date, Straits will not consolidate the results of Straits Metals for its accounting purposes (and correspondingly, the accounts of Straits Metals will not include any information relating to Straits).

G Ownership of Straits Metals Shares

Straits will not own any shares in Straits Metals after implementation of the Demerger.

H Employee incentive arrangements

Subject to the Demerger Scheme being approved, Straits Shares held at the Demerger Scheme Record Date under Straits incentive plans (whether held in the employees own name or by the Trustee) will provide an entitlement for the beneficial owners of such Straits Shares to participate in the Demerger Scheme on the same basis as other Straits Shareholders.

All holders of Straits Options that would otherwise be exercisable as at the Demerger Scheme Implementation Date have agreed to the cancellation of their Straits Options for a total consideration of less than $15,000. None of the option holders are officers of Straits.

1.1 Internal restructure and separation (continued)

I Straits Cross Guarantee

Straits, Straits Mining Pty Limited and Straits (Hillgrove) Gold Pty Ltd are parties to the Straits Cross Guarantee.

Steps will be taken to revoke the Straits Cross Guarantee at the appropriate time. A revocation deed will be lodged with ASIC and advertised and will take effect six months after the date of lodgement with ASIC, provided that no winding up of any party to the Straits Cross Guarantee commences during that six month period.

Consideration will be given to whether a deed of cross guarantee between Straits Metals and its subsidiaries is appropriate.

1.2 Demerger

A Elements of the proposal

The Demerger has three key elements:

(1) the Capital Reduction;

(2) potentially, a Demerger Dividend; and

(3) the Demerger Scheme.

These key elements are described below. For the Demerger to proceed, Straits Shareholders must vote in favour of the Demerger Scheme (by the majority set out in **Section 1.3A(3)**) and the Capital Reduction (by the majorities set out in **Section 1.3B(3)**).

A number of other conditions must also either be satisfied or, in some cases, waived by Straits, before the Demerger can proceed. These conditions include Court and regulatory approval of the Demerger Scheme. The conditions are described in **Section 1.3C**.

On approval of the Demerger Scheme there are four important dates:

Effective Date	The Effective Date is the date on which the Court order approving the Demerger Scheme takes effect. This is expected to be 1 February 2011.
The date on which Straits Metals Shares commence trading on ASX on a deferred settlement basis	This is expected to be 2 February 2011, and is subject to ASX agreeing to admit Straits Metals to the Official List and commencing quotation of Straits Metals Shares. It is the responsibility of Eligible Shareholders to confirm their holding before trading in Straits Metals Shares. Trading on ASX of Straits Metals Shares on a normal settlement basis is expected to commence on 11 February 2011.
Demerger Scheme Record Date	The Demerger Scheme Record Date is five Business Days after the Effective Date and is the date on which the Straits Share Register is examined to determine who is entitled to participate in the Demerger Scheme (see **Section 1.5**). This is expected to be 8 February 2011.
Demerger Scheme Implementation Date	The Demerger Scheme Implementation Date is three Business Days after the Demerger Scheme Record Date and is the date on which Straits Metals Shares are transferred to Eligible Shareholders (or, in the case of Ineligible Foreign Shareholders, to a nominee appointed by Straits). This is expected to be 11 February 2011.

1 Detailed summary of the Demerger

1.2 Demerger (continued)

B Capital Reduction

Straits has proposed the Capital Reduction Resolution to permit Straits to reduce its capital on the Demerger Scheme Implementation Date by the total amount of the Capital Reduction. The total amount of the Capital Reduction is calculated as the Market Capitalisation less the Demerger Dividend (if any) and such amount will be applied equally across all of the Straits Shares. The Capital Reduction will not be paid in cash; rather it will be applied on behalf of the Scheme Shareholder as part payment for the Straits Metals Shares.

The Capital Reduction is conditional on the Demerger Scheme Resolution being passed by Straits Shareholders and the Demerger Scheme being approved by the Court. This means that Straits will not undertake the Capital Reduction unless the Demerger Scheme becomes Effective.

The tax implications of the Capital Reduction are broadly outlined in **Section 9**.

C Demerger Dividend (if any)

The ATO has two acceptable methodologies for determining the allocation of the demerger distribution as between capital (i.e. the Capital Reduction Amount) and profit (i.e. the Demerger Dividend).

Straits expects, in line with the ATO-preferred approach, that the full amount of the demerger distribution will be debited to its share capital account and represent a Capital Reduction.

However, in the event the ATO considers that another approach is more appropriate under the present circumstances for the purposes of determining the capital and profit allocation of the Distribution Entitlement for taxation purposes, Straits expects it will debit its retained earnings account with an amount equivalent to the Demerger Dividend Amount. The balance of the demerger distribution will represent a Capital Reduction.

To the extent the Capital Reduction Amount is less than the Distribution Entitlement, Straits will declare the difference, being the Demerger Dividend Amount, as a dividend to Scheme Shareholders. The Demerger Dividend will not be paid to Scheme Shareholders in cash, rather it will be applied on behalf of Scheme Shareholders as part payment for the Straits Metals Shares.

Any declaration of a Demerger Dividend Amount is conditional on the Demerger Resolutions being passed by Straits Shareholders and the Demerger Scheme being approved by the Court. This means that Straits will not declare a Demerger Dividend Amount unless the Demerger Scheme becomes Effective.

No Straits Shareholder approval is required for any Demerger Dividend.

The tax implications of the Demerger Dividend are broadly outlined in **Section 9**.

D Demerger Scheme

If the Demerger Scheme Resolution and the Capital Reduction Resolution are passed by Straits Shareholders and the Demerger Scheme is approved by the Court, then:

(1) The organisational restructure of Straits to ensure Straits Metals holds the assets of the Metals Business will occur prior to the Effective Date.

(2) The Demerger Scheme will become effective on the Effective Date.

(3) At the close of business on the Effective Date, Straits Shares will cease trading with the right to Straits Metals Shares (i.e. cum-Capital Reduction Entitlement and cum-Demerger Dividend Entitlement).

(4) On the Business Day following the Effective Date, subject to agreement by ASX, Straits Metals will be listed on the Official List and Straits Metals Shares will be quoted on a deferred settlement basis. Straits will trade on the ASX without the right to Straits Metals Shares.

(5) On or before the Demerger Scheme Implementation Date (expected to be 11 February 2010), the Straits Directors will, if applicable, declare the Demerger Dividend.

1.2 Demerger (continued)

D Demerger Scheme (continued)

(6) On the Demerger Scheme Implementation Date:

(a) Straits will undertake the Capital Reduction (such that the Straits share capital account will be reduced by the total amount of the Capital Reduction) and declare the Demerger Dividend (if any) (such that the Straits retained earnings account will be reduced by the amount of any Demerger Dividend).

(b) On behalf of each Straits Shareholder at the Demerger Scheme Record Date, Straits will apply their Capital Reduction Entitlement and their Demerger Dividend Entitlement (if any) as consideration for the transfer of Straits Metals Shares.

(c) In the case of each Eligible Shareholder, one Straits Metals Share will be transferred to that Eligible Shareholder for every Straits Share the Eligible Shareholder is registered as holding on the Demerger Scheme Record Date.

(d) In the case of each Ineligible Foreign Shareholder, the Straits Metals Shares to which those shareholders would otherwise have been entitled will be transferred to a nominee appointed by Straits as soon as reasonably practicable after the Demerger Scheme Implementation Date, with the proceeds of sale being remitted to Straits and paid by Straits to each such Ineligible Foreign Shareholder. Under the terms of the Demerger Scheme, each Ineligible Foreign Shareholder is taken to have agreed to this process.

(e) As a result of approval and implementation of the Demerger Scheme, Straits Metals will cease to be a part of Straits (which shall in turn be renamed Straits ICH).

Section 1.5 explains who are Eligible Shareholders and who are Ineligible Foreign Shareholders.
Section 1.8 describes the operation of the Sale Facility in respect of Ineligible Foreign Shareholders.
The terms of the Demerger Scheme are set out in full in **Annexure E**.

1.3 Implementation of the Demerger

A Demerger Scheme Meeting

(1) Date and time of Demerger Scheme Meeting

In accordance with an order of the Court dated 17 December 2010, Straits Shareholders will be asked to approve the Demerger Scheme at the Demerger Scheme Meeting to be held on 21 January 2011 at The Celtic Club, 48 Ord Street, West Perth, Western Australia, commencing at 10.00am (Perth Time).

The notice convening the Demerger Scheme Meeting is contained in **Annexure G** and the terms of the Demerger Scheme are contained in **Annexure E**.

(2) Demerger Scheme Resolution

At the Demerger Scheme Meeting, Straits Shareholders will be asked to consider and, if thought fit, to pass a resolution approving the Demerger Scheme **(Demerger Scheme Resolution)**.

(3) Majorities required to pass resolution

For the Demerger to proceed, the Demerger Scheme Resolution must be passed by a majority in number of Straits Shareholders voting (in person or by proxy) at the Demerger Scheme Meeting who must together hold at least 75% of the votes cast on the resolution.

(4) Entitlement to vote

Each Straits Shareholder who is registered in the Straits Share Register on the Meeting Record Date is entitled to attend and vote at the Demerger Scheme Meeting.

1 Detailed summary of the Demerger

1.3 Implementation of the Demerger (continued)

B General Meeting

(1) **Date and time of General Meeting**

The General Meeting will be held on 21 January 2011 at The Celtic Club, 48 Ord Street, West Perth, Western Australia commencing at 10.30am (Perth Time) (or as soon thereafter as the Demerger Scheme Meeting has been adjourned or concluded).

The notice convening the General Meeting is contained in **Annexure H**.

(2) **Resolution**

At the General Meeting, Straits Shareholders will be asked to consider and, if thought fit, to pass by the requisite majorities:

(a) the Capital Reduction Resolution; and

(b) the Name Change Resolution.

The Capital Reduction Resolution must be passed for the Demerger Scheme to proceed.

(3) **Majority required to pass General Meeting Resolutions**

The Capital Reduction Resolution must be approved by a simple majority of the votes cast on the resolution. This resolution must be passed in order to implement the Demerger.

The Name Change Resolution must be approved by a special majority of votes cast on the resolution (at least 75% of the votes cast must be in favour of the resolution).

(4) **Entitlement to vote**

Each Straits Shareholder who is registered in the Straits Share Register on the Meeting Record Date is entitled to attend and vote at the General Meeting.

C Conditions precedent to implementation of the Demerger

The Demerger Scheme will become binding on Straits Shareholders only if all of the conditions are satisfied (or, in some cases, waived by Straits) in accordance with the Demerger Scheme and the Demerger Implementation Agreement).

Full details of the conditions in relation to the Demerger Scheme are provided in the summary of the Demerger Implementation Agreement in Part 1 of **Annexure C**.

D Second Court Hearing

If the Demerger Resolutions are approved by Straits Shareholders, and all other conditions to the Demerger Scheme (other than Court approval) have been satisfied or waived, Straits will apply to the Court for orders approving the Demerger Scheme on or around 31 January 2011.

E Expiry date

If the Effective Date does not occur by 30 June 2011 (or such other date determined by Straits), then the Demerger Scheme will lapse and Straits Metals and its businesses will continue to be owned and operated by Straits.

1.4 Effect of the Demerger

A Straits Shareholders

If the Demerger is implemented, Straits Shareholders on the Straits Share Register on the Demerger Scheme Record Date will be credited with their Capital Reduction Entitlement and Demerger Dividend Entitlement (if any) for each Straits Share they are registered as holding on the Demerger Scheme Record Date.

Under the Demerger Scheme, these entitlements will be automatically applied by Straits to the purchase of Straits Metals Shares. Upon crediting of these entitlements by Straits on behalf of Straits Shareholders, Straits will transfer one Straits Metals Share for each Straits Share held by the Straits Shareholder on the Demerger Scheme Record Date. Straits Metals' obligation to transfer the Straits Metals Shares to those Straits Shareholders will be discharged by Straits:

- transferring those Straits Metals Shares as described above to all Eligible Shareholders (or, in the case of Ineligible Foreign Shareholders, to a nominee appointed by Straits, as set out in **Section 1.8**);
- Straits Metals entering onto the Straits Metals' share register the names of the Eligible Shareholders, or in the case of Ineligible Foreign Shareholders, the name of the nominee appointed by Straits in respect of the Straits Metals Shares that would otherwise have been issued to the Ineligible Foreign Shareholders; and
- within 10 Business Days of the Effective Date, sending or procuring the dispatch to each Eligible Shareholder by pre-paid post to the person's address as shown in the Straits Share Register on the Demerger Scheme Record Date, uncertificated holding statements for the Straits Metals Shares issued to them under the Demerger Scheme. In the case of joint shareholders, uncertificated holding statements for Straits Metals Shares will be sent to the address of the Straits Shareholder whose name appears first in the Straits Share Register.

Following implementation of the Demerger, Straits Shareholders will continue to hold the same number of Straits Shares (which will then be named Straits ICH assuming the Name Change Resolution is approved) as they hold prior to the Demerger. No Straits Shares will be cancelled.

For more information on the operation of the Demerger Scheme in relation to Ineligible Foreign Shareholders, see **Section 1.5C**.

B Creditors

The Straits Directors believe that the Demerger and, in particular, the Capital Reduction, will not materially prejudice Straits ability to pay its creditors.

1 Detailed summary of the Demerger

1.5 Entitlement to participate

A Straits Shareholders

Straits Shareholders as at the Demerger Scheme Record Date will be entitled to the Capital Reduction Entitlement and, if declared, the Demerger Dividend Entitlement and will be eligible to participate in the Demerger Scheme. The way in which an individual Straits Shareholder participates will depend on whether that shareholder is an Eligible Shareholder or an Ineligible Foreign Shareholder.

For the purposes of determining which Straits Shareholders are eligible to receive the Capital Reduction Entitlement and the Demerger Dividend Entitlement (if any) and to participate in the Demerger Scheme, dealings in Straits Shares will be recognised only if:

- in the case of dealings of the type to be effected using CHESS, the transferee is registered on the Straits Share Register as the holder of the relevant Straits Shares on or before the Demerger Scheme Record Date; and
- in all other cases, registrable transmission applications or transfers in respect of those dealings are received by the Share Registry before the Demerger Scheme Record Date with sufficient time to allow for registration of the transferee on or before the Demerger Scheme Record Date.

For the purposes of determining entitlements under the Demerger Scheme, Straits will not accept for registration or recognise any transfer or transmission application in respect of Straits Shares received after the Demerger Scheme Record Date.

B Eligible Shareholders

Straits Shareholders whose addresses are shown in the Straits Share Register on the Demerger Scheme Record Date as being in the following jurisdictions will be Eligible Shareholders and will be entitled to have Straits Metals Shares transferred to them pursuant to the Demerger Scheme:

(1) Australia, New Zealand, Canada, the United Kingdom, the United States, countries within the European Economic Community, Switzerland, Singapore and Hong Kong; and

(2) any other jurisdiction in relation to which Straits reasonably believes that the implementation of the Demerger Scheme and the transfer of Straits Metals Shares to a Scheme Shareholder is not prohibited, not unduly onerous and not impracticable.

C Ineligible Foreign Shareholders

Ineligible Foreign Shareholders are Straits Shareholders whose registered addresses are shown in the Straits Share Register on the Demerger Scheme Record Date as being in a jurisdiction outside Australia, New Zealand, Canada, the United Kingdom, the United States, countries within the European Economic Community, Switzerland, Singapore and Hong Kong and the other countries referred to in **Section 1.5B(2)**.

Ineligible Foreign Shareholders will participate in the Capital Reduction Entitlement and the Demerger Dividend Entitlement (if any) on the same basis as all Eligible Shareholders. However, Straits Metals Shares will not be transferred to Ineligible Foreign Shareholders. Instead, Straits Metals Shares, to which the Ineligible Foreign Shareholders would otherwise have been entitled, will be transferred to a nominee appointed by Straits to be sold on behalf of such Ineligible Foreign Shareholders under the Sale Facility.

Refer to **Section 1.8** for more information on how the Sale Facility will operate in relation to Ineligible Foreign Shareholders.

1.6 Treatment of Straits Convertible Notes

Straits has entered into the SRL-SCPE Conversion Agreement with SCPE to ensure that all Straits Convertible Notes will be converted to Straits Shares:

(a) in certain circumstances, in sufficient time to enable it to vote the Straits Shares received upon conversion at the Demerger Scheme Meeting; and

(b) in any event, before the Demerger Scheme Record Date.

As a result, the Straits Convertible Notes are expected to be extinguished, and the Straits Shares issued as a result of their conversion will participate with all other Straits Shares in the Demerger Scheme and Acquisition Scheme.

A summary of the terms of the SRL-SCPE Conversion Agreement is contained in **Annexure C**.

PTTML and SCPE have separately entered into the PTTML-SCPE Conversion Agreement which has a number of almost identical provisions to the SRL-SCPE Conversion Agreement. In addition, if SCPE converts the Straits Convertible Notes before the record date for entitlement to vote at the Demerger Scheme Meeting, which it is required to do in certain circumstances, SCPE must vote in favour of the Demerger Scheme Resolution[4] and the Acquisition Scheme, must not support a competing proposal and must not dispose of the Straits Shares received upon conversion, in each case except in limited circumstances.

1.7 Treatment of Straits employee incentive arrangements

A Straits options

To facilitate the orderly implementation of the Demerger Scheme, Straits has entered into letters of agreement with each holder of Straits Options that would otherwise be exercisable as at the Demerger Scheme Implementation Date for a total consideration of less than $15,000, which has been determined by the Straits Directors to be fair and reasonable based on the terms of the Demerger Scheme. This is a condition of the Demerger Scheme.

B Straits incentive shares

Subject to the Demerger Scheme being approved, Straits Shares held at the Demerger Scheme Record Date under Straits incentive plans (whether held in the employees own name or by the Trustee) will provide an entitlement for the beneficial owners of such Straits Shares to participate in the Demerger Scheme on the same basis as other Straits Shareholders.

1.8 Sale Facility for Ineligible Foreign Shareholders

Ineligible Foreign Shareholders will participate in the Demerger on the same basis as all Straits Shareholders. However, Ineligible Foreign Shareholders will not have Straits Metals Shares transferred to them as a result of the implementation of the Demerger. Instead, Straits, on behalf of all Ineligible Foreign Shareholders, will transfer the Straits Metals Shares to which each such Ineligible Foreign Shareholders would otherwise have been entitled, to a nominee.

The nominee will sell, or procure the sale of, those Straits Metals Shares and the applicable net proceeds of sale (after the deduction of any applicable brokerage, registry fees, duties or other charges) will be remitted to Straits and paid to each such Ineligible Foreign Shareholder. As the market price of Straits Metals Shares will be subject to change from time to time, the sale price of those Straits Metals Shares and the proceeds of that sale that an Ineligible Foreign Shareholder will receive cannot be guaranteed.

[4] *This voting arrangement does not extend to the General Meeting Resolutions.*

1 Detailed summary of the Demerger

1.8 Sale Facility for Ineligible Foreign Shareholders (continued)

The net proceeds of sale paid to each Ineligible Foreign Shareholder by Straits will reflect the average price at which all Straits Metals Shares not transferred to Ineligible Foreign Shareholders had been sold, subject to rounding to the nearest whole cent. Consequently, the amount received by Ineligible Foreign Shareholders for each Straits Metals Share may be more or less than the actual sale price for each such Straits Metals Share that is received by the nominee appointed by Straits.

Ineligible Foreign Shareholders will be able to obtain information on the market price of Straits Metals Shares on ASX's website at www.asx.com.au.

The applicable net proceeds of sale will be paid by Straits to Ineligible Foreign Shareholders either by cheque or bank draft in Australian dollars drawn on an Australian bank.

Only Ineligible Foreign Shareholders may have their Straits Metals Shares sold under the Sale Facility described above.

Under the Demerger Scheme, each Ineligible Foreign Shareholder appoints Straits as its agent to receive on its behalf any financial service guide or other notices that may be issued by the nominee appointed by Straits to manage the sale process described above.

Following implementation of the Demerger, Ineligible Foreign Shareholders will continue to be entitled to hold their shares in Straits (which will be renamed International Coal Holdings Limited in the event the Name Change Resolution is passed by the requisite majority).

1.9 Relationship between the Demerger Scheme and the Acquisition Scheme

The Demerger and the Acquisition Proposal will be effected by two separate schemes of arrangement.

The Acquisition Scheme is conditional on, and therefore it will not proceed unless, the Demerger Scheme is approved and implemented. However, the Demerger Scheme is not conditional on the Acquisition Scheme being approved or implemented.

Straits and Straits Metals have entered into a Demerger Deed which contains provisions which are designed to give effect to the fundamental separation principle. Namely, following implementation of the Demerger, Straits Metals will have the entire economic benefit, commercial risk and liabilities of the Metals Business as if Straits Metals had owned and operated this business at all times.

As further set out in the Acquisition Scheme Booklet, Straits has agreed with PTTML that it will enter into, and will procure that Straits Metals enters into, the Indemnity and Adjustment Deed prior to the date of the Acquisition Scheme Meeting. The Indemnity and Adjustment Deed will become operable only if the Acquisition Scheme becomes Effective.

The purpose of the Indemnity and Adjustment Deed is to alter the commercial position between Straits Metals and Straits ICH under the Demerger Deed and the Intra-group Transfer Agreement should the Acquisition Proposal proceed.

1.9 Relationship between the Demerger Scheme and the Acquisition Scheme (continued)

The Indemnity and Adjustment Deed will vary certain of the existing agreements and arrangements relating to the implementation of the Demerger, including as follows:

(a) Certain indemnities provided by Straits ICH to Straits Metals will fall away.

(b) Straits and Straits Metals will agree to undertake a Net Cash adjustment to ensure that Straits retains the Adjusted Retained Cash (expected to be Net Cash of $50 million) as at the date of implementation of the Acquisition Scheme. To the extent there is a difference, the relevant party will compensate the other party to the extent of that difference. If the parties cannot agree on the net cash adjustment, the matter will be submitted to expert determination. The determination of the expert is final and binding (except in the case of manifest error).

(c) Straits Metals indemnifies Straits in respect of certain liabilities retained by Straits after the Demerger which are not taken into account in the Net Cash adjustment, including (with some exclusions) any tax or other liability of Straits:

(i) incurred or existing as at the Acquisition Scheme Implementation Date;

(ii) arising from any action or omission of Straits or any of Straits' directors, officers, employees or agents prior to the Acquisition Scheme Implementation Date;

(iii) relating to any obligations in respect of any past or present director, executive or employee of Straits including as a result their termination, redundancy, removal or otherwise before, on or after the Acquisition Scheme Implementation Date and any termination benefits in relation to the same or their retention with Straits;

(iv) for the premia payable in respect of a post-implementation D&O policy required to be maintained under the Demerger Deed to the extent not already paid by Straits prior to the Acquisition Scheme Implementation Date or by Straits Metals; or

(v) in respect of any untainting tax that becomes payable by Straits ICH after the Acquisition Scheme is implemented.

Straits Metals also indemnifies Straits ICH in respect of any loss suffered by Straits ICH arising from the Demerger, the associated restructure of Straits ICH, the Demerger Scheme Booklet, or a Demerger transaction document. The rationale for this indemnification is that PTTML, who will own all of the issued share capital of Straits ICH if the Acquisition proceeds, should not be indirectly liable for any loss suffered by Straits ICH as a result of the Demerger and the disclosure in this Demerger Scheme Booklet.

(d) The Intra-group Transfer Agreement will be amended such that Straits Metals will not be entitled to the additional cash balance referred to in that agreement.

See **Section 8** for information about the consequences of either the Demerger Scheme or the Acquisition Scheme, or both, not being implemented.

As noted in **Section 1.10** of the Acquisition Scheme Booklet, Straits and the ATO are in discussions in relation to concerns raised by the ATO as to whether the Demerger Scheme and the Acquisition Scheme, when considered in their totality, are being implemented by Straits for the sole or dominant purpose of obtaining a tax benefit. Although the Demerger Scheme is not dependent on the outcome of these discussions, if the ATO's concerns have not been satisfied or Straits and PTTML have not otherwise reached agreement in relation to the matter prior to the time appointed for the Acquisition Scheme Meeting (currently 25 February 2011), the Acquisition Scheme Meeting will be adjourned until either the ATO's concerns have been satisfied or agreement with PTTML has been reached. If the Acquisition Scheme Meeting is not held prior to the Long Stop Date, the Acquisition Proposal will only proceed with the agreement of PTTML.

2 Advantages and disadvantages

This Section 2 identifies the material advantages, disadvantages, risks and other relevant considerations Straits Shareholders should consider when deciding whether to pursue the Demerger.

Straits Shareholders should carefully consider the following advantages, disadvantages and risks of the Demerger, as well as the other information contained in this Demerger Scheme Booklet, in deciding whether or not to vote in favour of the Demerger Resolutions.

2.1 Directors recommendation

The Straits Directors unanimously believe that the advantages of the Demerger outweigh its disadvantages and risks. Each Straits Director recommends that Straits Shareholders vote in favour of the Demerger Resolutions, in the absence of a superior proposal.

2.2 Independent Expert's Report

The Straits Directors have commissioned an independent expert, Ernst & Young Transaction Advisory Services Limited, to prepare a report on the Demerger. That report concludes that in the opinion of the Independent Expert:

(1) the potential advantages of the Demerger outweigh the potential disadvantages to Straits Shareholders as a whole;

(2) the Demerger Scheme is therefore in the best interests of Straits Shareholders; and

(3) the Capital Reduction will not materially prejudice Straits' ability to pay its creditors.

The report is set out in **Annexure A**.

2.3 Advantages of the Demerger

A Unlocks value by underpinning a more transparent and appropriate valuation for the Metals Business (to be owned by Straits Metals) and the Coal Business (owned by Straits ICH)

At various times, SAR has traded on the SGX at levels which values Straits' implied holding in SAR marginally below Straits' market capitalisation as traded on the ASX (net of cash), suggesting that the market is not attributing an appropriate value to Straits' metals portfolio. As such, there has been a mismatch between the value of Straits' underlying assets and the value attributed to them by investors as reflected in Straits Share price. In recent times, Straits has been considered more of a "holding company" for SAR and the other Coal Business assets, rather than a truly diversified mining company.

The Straits Directors believe that the Straits Share price has not reflected the full value of Straits' businesses to Straits Shareholders. The creation of a separately listed vehicle, Straits Metals, will provide greater transparency to, and increased focus of, the investment community and equity research analysts, potentially unlocking shareholder value. In addition, the reduced complexity of Straits through the separation of Straits Metals and Straits ICH should also improve investor understanding of its businesses and strategy.

The Straits Directors believe that these factors will increase the likelihood that both Straits Metals and Straits ICH will achieve an appropriate market value over time. This may result in a re-rating of the composite Coal Business and Metals Business currently owned by Straits, which is expected to be reflected in the future share prices of both Straits Metals and Straits ICH.

2.3 Advantages of the Demerger (continued)

B Provides greater clarity of identity to both businesses through creation of a pure metals company and a pure coal company both listed on ASX

The Demerger facilitates the creation of a pure metals business focused on copper and gold, which has a different risk profile from the Coal Business. The Straits Board believes that differences in size, nature, risk profile and maturity of Straits Metals and Straits ICH means there are limited synergies between them. After the Demerger, both Straits ICH and Straits Metals will have separate identities and be able to focus their attention and resources on the objectives and priorities that are relevant to their respective businesses.

Straits ICH will be an international coal investment vehicle with coal assets in Indonesia, Brunei and Madagascar. Straits ICH will pursue growth opportunities in the coal sector that add long term value to its shareholders. Straits Metals will be a pure metals company focused on copper and gold with a portfolio of producing assets and exploration assets. Straits ICH and Straits Metals will have different risk profiles and will seek to establish their individual identities and presence appropriate to their businesses.

The Straits Board believes that separating the Coal Business and the Metals Business will allow both businesses to better focus on their core business, and implement their respective business strategies.

C Provides greater visibility to the Metals Business, which has a particular focus on copper and gold with an existing production base and an exploration portfolio

Straits' Metals Business is currently overshadowed by the relative size of Straits' Coal Business. In separating the Metals Business from the Coal Business, the Straits Board believes Straits Metals can better present its business to the investment community.

Straits Metals will be run by the existing management team of Straits, which has a proven track record of building and monetising resource businesses. As a standalone entity, Straits Metals will be able to respond with greater flexibility to opportunities presented in its businesses, as well as to any challenges that may emerge.

The main operating mines at the Tritton Copper Project and at Mt Muro, are undergoing a substantial capital re-investment program and are exposed to the risks and rewards of businesses of their asset class and scale. The Straits Board believes that Metals Business, including the exploration projects, are currently not well understood and would likely be better supported if made more visible in a more focused metals vehicle.

As a result, existing Straits Shareholders and other investors will be in a better position to evaluate the individual financial performance, strategies and other characteristics of Straits Metals. These are expected to increase the likelihood that Straits Metals will achieve appropriate investor support and understanding.

2 Advantages and disadvantages

2.3 Advantages of the Demerger (continued)

D Enables investors to pursue specific investment preferences and deal with each investment separately

The operating characteristics and financial profiles of Straits Metals and Straits ICH will differ. Some investors look for different growth paths in earnings and different levels of distributions in mining businesses with different commodity exposure and maturity. The combination of Straits Metals and Straits ICH within a single group does not provide choice for those investors who prefer an exposure to an investment in one of these businesses but not the other. In addition, the Straits Directors recognise that Straits Shareholders may prefer to manage the diversification of their portfolio themselves rather than investing in a consolidated Straits Group with a range of operations in different geographies with different risks and characteristics.

Following implementation of the Demerger, Straits Shareholders will hold a direct investment in both Straits Metals and Straits ICH, allowing them to deal with (sell or hold) each investment separately. The Demerger will provide current Straits Shareholders and future investors with a clear investment choice and the flexibility to choose the level of exposure that they would like in each business. After the Demerger, Straits Shareholders will be able to retain, increase or decrease their investments in each business having regard to their own financial profiles and risk preferences.

In addition to expanding the investment choices available to existing Straits Shareholders, the Demerger may attract new investors who seek direct exposure to the specific characteristics of Straits Metals, a pure metals company focused on copper and gold with producing assets as well as a pipeline of exploration assets, and expansion and development projects.

E Allows improved ability and flexibility for the management teams of both Straits Metals and Straits ICH to articulate a distinct strategy for each business and pursue suitable growth opportunities

Straits Metals and Straits ICH will be better able to pursue targeted growth opportunities as separate companies. This is due to:

(1) Straits ICH and Straits Metals each having the scale and an industry aligned cost of capital to enable competitive bidding for assets within their investment strategies; and

(2) Straits Metals as a stand-alone company, not being required to compete for capital with Straits ICH's core coal mining development and production business.

Straits ICH, as a more focused pure coal company, will be able to more aggressively participate in the growth opportunities available to the PTTAPM Joint Venture, without being encumbered by higher cost capital associated with an emerging metals portfolio.

Following implementation of the Demerger, Straits Metals is expected to have greater flexibility to pursue acquisitions, joint ventures and alliances and fund internal growth that might not otherwise have been possible if it was part of the Straits Group, which was heavily weighted towards the Coal Business. Straits Metals' growth strategy will be primarily organic in the medium term but will also focus on further exploration, appraisal and development of its exploration portfolio.

Accordingly, the Demerger facilitates a more efficient capital base for both Straits Metals and Straits ICH which will underpin greater balance sheet flexibility for both companies to fund their growth ambitions in coal (in respect of Straits ICH) and metals (in respect of Straits Metals).

2.3 Advantages of the Demerger (continued)

F Provides dedicated capital for each business to enable execution of their respective business plans

The cash resources of Straits will be divided between Straits Metals and Straits ICH so as to adequately capitalise both businesses to enable them to execute their respective business plans. The Retained Cash Amount will be retained by Straits to be used by Straits ICH for its business purposes. All excess cash will be transferred to Straits Metals as part of the Demerger.[5]

Part of the cash transferred to Straits Metals will be restricted against performance bonds for Straits Metals assets. Straits Metals intends to use the unrestricted portion of the transferred cash for its working capital needs and for the previously announced capital investment programs for its various assets, in particular the Tritton Copper Project and Mt Muro. Separation of the cash balance between Straits ICH and Straits Metals will provide clarity to the market regarding the use of this cash for the dedicated business plans of the coal and metals businesses respectively.

G Provides flexibility to implement independent capital structures and funding choices

Once separated, both businesses will have the flexibility to implement independent capital structures and financial policies that are in line with their different portfolio risk profile and strategies.

Straits Metals will be able to operate with a capital structure appropriate for a business that is currently in a capital re-investment stage. In addition, Straits Metals will adopt financial policies, including funding choices, that are suited to a growth oriented metals exploration and development business that is not yet generating positive cash flows. If Straits Metals raises equity in the future, it would not dilute the shareholding of Straits Shareholders in Straits ICH.

Straits ICH will be able to operate with a capital structure appropriate for a relatively more mature business that generates positive cash flows. In addition, Straits ICH will adopt financial policies that are suited to a business that is relatively more mature as compared to the Metals Business.

H Creates a more liquid investment in the Coal Business for Straits Shareholders

Straits' ability to deal with its interest in the PTTAPM Joint Venture is restricted by pre-emptive rights of PTTML under the PTTAPM Joint Venture. The Demerger will separate the Coal Business and Metals Business thereby providing flexibility to Straits to deal with the Coal Business in the future.

Straits has also entered into an Acquisition Scheme Implementation Agreement with PTTML, under which PTTML would acquire all of the issued and outstanding Straits Shares at a price of $1.72[6] per Straits Share, via a scheme of arrangement following implementation of the Demerger. The Acquisition Scheme Booklet sets out the detail of the Acquisition Scheme and the Acquisition Proposal.

I The Independent Expert has concluded that the Demerger is in the best interests of Straits Shareholders and Straits

As noted in **Section 2.2**, the Independent Expert has concluded that:

(1) the advantages of the Demerger outweigh its disadvantages and risks;

(2) the Demerger is in the best interests of both Straits Shareholders and Straits; and

(3) the Demerger does not materially prejudice creditors of Straits or Straits Metals.

5 *Those arrangements will be adjusted if the Acquisition Scheme proceeds pursuant to the Indemnity and Adjustment Deed.*

6 *Which will be reduced to $1.56 cash if an Adverse Adjustment Event occurs.*

2 Advantages and disadvantages

2.4 Disadvantages of the Demerger

A Straits Metals will be a smaller company after the Demerger and may not be admitted in the S&P/ASX 200 index

Straits Metals will initially be smaller than Straits, with an emerging metals portfolio that is in a capital investment mode with limited operating cashflows in the near term. Accordingly, it will be some time before Straits Metals generates material positive cashflows.

Following implementation of the Demerger, Straits Metals is also unlikely to be included in the S&P/ASX 200 index mainly due to its anticipated lower market capitalisation (compared to the current market capitalisation of Straits). Consequently, certain institutional investors may not be permitted to buy shares in Straits Metals under the terms of their investment mandate. This may result in lower institutional investor interest in Straits Metals relative to that for Straits prior to the Demerger which may have an adverse impact on the price at which Straits Metals Shares trade and their liquidity.

B Straits ICH may be removed from the S&P/ASX 200 Index

After implementation of the Demerger, it is anticipated that the market capitalisation of Straits ICH will fall to reflect the fact that Straits ICH is distributing a substantial portion of its asset base. It is therefore possible that Straits ICH may be removed from the S&P/ASX 200 index after implementation of the Demerger which may have an adverse impact on the price at which Straits Shares (after the Demerger) trade and their liquidity.

If the Acquisition Scheme is implemented, Straits ICH will be acquired by PTTML and Straits Shares will cease to cease to trade on the ASX.

C Straits ICH and Straits Metals will become less diversified companies after the Demerger

Following the Demerger, Straits ICH will no longer be a diversified mining company. Straits Metals and Straits ICH will each be exposed to a different commodity class with a different risk profile. Straits Shareholders who hold shares in Straits Metals will be subject to commodity price risk and supply demand dynamics in copper, gold and other base and precious metals. Similarly, Straits Shareholders who hold shares in Straits ICH will be subject to commodity price risk and supply demand dynamics in the coal industry.

Prior to the Demerger, Straits Shareholders may have benefitted from the effects of diversification if risks associated with coal industry and copper, gold and metals industry offset each other. After the Demerger, Straits Shareholders will be exposed to the risks and rewards of the separate businesses and in the event that the prices of different commodity classes move against each other, they will lose the benefit of diversification that they currently have by investing in Straits.

D Straits and Straits Metals will incur additional costs because of the Demerger. Straits Metals will incur costs as an independent entity that it would not have otherwise incurred and will lose the potential benefit of existing Straits income tax losses

Implementation of the Demerger will result in additional costs for Straits. The total transaction costs in relation to the Demerger are estimated to be $5.5 million, which includes stamp duty, advisory, legal, accounting, listing and administrative fees as well as printing, advertising and other expenses. See **Section 10.10** for more information.

The cost of terminating Straits' employment contracts prior to employees transferring to Straits Metals is estimated to be $8.5 million.

2.4 Disadvantages of the Demerger (continued)

D Straits and Straits Metals will incur additional costs because of the Demerger. Straits Metals will incur costs as an independent entity that it would not have otherwise incurred and will lose the potential benefit of existing Straits income tax losses (continued)

After the Demerger, Straits Metals will be an independent entity listed on the ASX, which will necessarily require additional ongoing corporate costs including maintaining a separate board of directors and management, share registry, information technology, reporting systems and other corporate functions. These additional on-going corporate costs are not expected to be significant.

Straits currently has unused tax losses which are being carried forward to potentially offset again its future assessable income, if certain tests for recoupment are met. Straits has previously recognised a deferred tax asset in respect of its carried forward unused tax losses for accounting purposes. Following the Demerger, any unused tax losses of Straits will remain with Straits ICH and will not transfer, in part or in whole, to Straits Metals. As such, Straits Metals will not have the ongoing benefit of the unused tax losses of Straits which were incurred prior to the Demerger. In addition, following the Demerger, Straits ICH will likely derecognise its existing deferred tax asset in respect of its carried forward unused tax losses for accounting purposes, as the accounting recognition criteria is unlikely to remain satisfied.

E Straits Metals will not have the financial support of Straits ICH and is likely to have a different credit profile

Following the Demerger, Straits Metals will not have the financial support of Straits ICH. Straits Metals business will be exposed to volatile commodity and currency markets. As such, Straits Metals will have a different credit profile to that of Straits. Following the restructure, Straits Metals may have a higher cost of borrowing than Straits currently enjoys.

F Demerger Tax Relief may not be available or the status of the Class Ruling applications may not be known at the time of the Demerger Scheme Meeting

On behalf of Straits, PricewaterhouseCoopers has applied to the Commissioner of Taxation (**Commissioner**) for a class ruling (**Class Ruling**) to be issued in relation to the Demerger Scheme, confirming the Demerger income tax implications for Australian tax resident Scheme Shareholders. In particular, the Commissioner has been requested to confirm that the Demerger Tax Relief is available and that the demerger-related tax integrity provisions do not apply. The Demerger Scheme is not conditional on the outcome of the Class Ruling.Demerger Tax Relief will result in relief from any capital gains tax that may arise from the transfer of shares in Straits Metals to Scheme Shareholders and no part of the Distribution Amount being assessable.

There is a risk that the Commissioner may disagree with the position submitted in the Class Ruling application and deny, in whole or in part, Demerger Tax Relief for Scheme Shareholders or apply the integrity provisions referred to above.

It is also possible that at the time of the Demerger Scheme Meeting, the ATO may not have issued a draft or final Class Ruling confirming the Australian income tax implications for Scheme Shareholders. As such, Straits Shareholders may not have certainty as to their tax position at the timing of voting under the Demerger Scheme.

An Overview of Taxation Consequences for Scheme Shareholders has been prepared by PricewaterhouseCoopers and is included in **Section 9** of this Demerger Scheme Booklet.

3 Risk factors

There are a number of factors, both specific to the Demerger and of a general nature, which may, either individually or in combination, affect the future operating and financial performance and/or financial position of Straits ICH and Straits Metals, their prospects, and/or the value of their shares. Many of the circumstances giving rise to these risks are beyond the control of Straits, its Directors and management.

This Section 3 describes what the Straits Directors believe to be the principal risks associated with the Demerger. Straits Shareholder should note that this section is not an exhaustive list of the risks associated with the Demerger and it should be considered in conjunction with other information disclosed in this Demerger Scheme Booklet.

You should carefully consider these risks in light of your personal circumstances and seek professional advice from your accountant, stockbroker, lawyer or other professional adviser before deciding whether to vote.

3.1 Risk factors faced by both Straits ICH and Straits Metals

A General economic conditions

Material adverse changes in the general domestic and international economic climate may have an adverse impact on the performance of Straits Metals and Straits ICH. These general economic conditions are influenced by such factors as economic growth, interest rates, inflation, employment levels and consumer and business sentiment and changes in these general economic conditions can cause large fluctuations in commodity and currency markets, which can adversely affect the financial position of Straits Metals and Straits ICH.

B Ore Reserves and Mineral Resources risks

In determining the feasibility of developing and operating its mines, Straits Metals and Straits ICH use estimates of Mineral Resources and Ore Reserves that are prepared by their qualified internal personnel.

However, there are numerous uncertainties inherent in estimating quantities of Ore Reserves and Mineral Resources and production levels, including factors beyond Straits Metals' and Straits ICH's control. The accuracy of an estimate of quantities of Ore Reserves and Mineral Resources, or of production levels, is a function of available data, assumptions regarding future coal or metal prices, expenditures for future development and exploitation activities, and technical interpretation and judgement. Estimations of Mineral Resources or Ore Reserves made as of a certain date may change significantly in the future when new information becomes available and the key assumptions underlying those estimates change.

The reported estimates of Mineral Resources and Ore Reserves in this Demerger Scheme Booklet may not be an accurate indication of the amount of coal, copper or gold that can be economically produced from the mines of Straits Metals and those in which Straits ICH has an equity interest, and may not be an accurate indication of its business prospects over time. Any significant reduction in the volumes and grades of the Ore Reserves that Straits Metals or companies in which Straits ICH holds an equity interest recovers from that which it has estimated could have a material adverse effect on its business, financial condition, results of operations and prospects.

C Exploration and appraisal risk

Straits Metals and Straits ICH (and the companies in which it will hold its interests) will engage in early stage exploration activities. There is a risk that these activities will not result in the discovery of commercially extractable Mineral Resources. Furthermore, no assurances can be given that if commercially viable Mineral Resources are discovered, these will be able to be commercialised as intended, or at all.

3.1 Risk factors faced by both Straits ICH and Straits Metals (continued)

D Mineral Resource to Ore Reserve conversion risk

Current production plans at the operating mines of Straits Metals, or those which Straits ICH has an equity interest, are based on available Ore Reserves. As reserves are mined, the Ore Reserves base will be depleted. In order for Straits Metals and Straits ICH to maintain or improve the levels of their Ore Reserves and extend the life of mines, they must continue to discover or acquire additional Mineral Resources and/or convert available Mineral Resources into Ore Reserves.

There are no assurances that current or future Mineral Resources can or will be converted into Ore Reserves.

E Development, production, transport and costs risk

Development, construction and operation of Straits Metals' mines and those in which Straits ICH holds an equity interest and the transport of mine product are dependent upon a number of factors including mining, infrastructure, mine planning, mine management, processing facility management and reliability and regulatory requirements. Development, construction and operation of these mines and the transport of mine product may also be impacted by mechanical difficulties, human error, incorrect technical assumptions, unanticipated mine or ground conditions, labour disputes, shortages or delays in the delivery of equipment, weather conditions, civil unrest, wars and natural disasters, blowouts, cratering, explosions, pollution, seepage or leaks, water or air inrush, fire and earthquake. As a result, there is no assurance that assumed current or forecast rates of production can or will be met in the future. Disruption to expected production and the transport of mine product may result in variations to expected revenue and could have an adverse effect on the financial performance of both Straits Metals and Straits ICH.

Input costs include labour, diesel oil (or other fuel), power, consumables or other inputs and may be affected by changes in market conditions, government policies, exchange rates and inflation rates, which can be unpredictable and outside the companies' control. Any increase in the price of these production inputs could materially and adversely affect the business, results of operations, financial condition and prospects of Straits Metals and Straits ICH.

In addition, Straits Metals and Straits ICH (and the companies in which it holds its interests) require access to reliable power sources and water supplies to conduct operations. The availability and cost of these utilities will affect capital and operating costs and the ability to maintain expected levels of production and sales. There can be no assurance that the Straits Metals' mines and those in which Straits ICH has an equity interest will continue to have access to adequate power and water supplies in the future or that the prices of such utilities will remain affordable. Any such issues arising in respect of these utilities could have a material adverse effect on the business, results of operations, financial condition and prospects of Straits Metals and Straits ICH.

F Commodity price risk

Coal and metals prices received will depend on the availability of markets for these commodities. The profitability of Straits Metals and Straits ICH are highly dependent on the prices it receives for its respective commodities coal or metal. Coal or metal prices received are based upon or affected by global commodity prices, which tend to be cyclical and subject to significant volatility.

Extended or substantial decline in the prices of coal or metals could materially and adversely affect the business, financial condition, results of operations and prospects of Straits Metals and Straits ICH.

3 Risk factors

3.1 Risk factors faced by both Straits ICH and Straits Metals (continued)

G Competition

Both Straits Metals and Straits ICH do, and will, operate in a competitive market. For Straits ICH's main operating investment, SAR, most of its sales of coal have been and are expected to be export sales. SAR competes with other Indonesian coal producers and foreign coal producers (primarily from Australia and South Africa) for sales in the world coal markets. SAR's inability to maintain its competitive position as a result of these or other factors could have a material adverse effect on its business, financial condition, results of operations and prospects.

Straits Metals will be operating in a competitive market which includes major copper and gold producers. Many of these companies have greater financial strength and resources available to them than Straits Metals and, as a result, may be in a better position than Straits Metals to compete for future business opportunities. Straits Metals' inability to compete at an economical level as a result of these or other factors could have a material adverse effect on its business, financial condition, results of operations and prospects.

H Currency risk

The majority of revenues of both Straits Metals and Straits ICH are received in US dollars, whereas most costs of operating and other business expenditure of Straits Metals are in Australian dollars and for Straits ICH will be determined in Indonesian rupiah. Fluctuations in the exchange rate between the US dollar and the other operating currencies of Straits Metals and Straits ICH will result in foreign exchange gains and losses which may impact financial performance. As both Straits Metals and Straits ICH report their profits in Australian dollars, fluctuations in the US/Australian dollar exchange rate can cause volatility in reported earnings and profitability.

I Repatriation risk

Certain assets of Straits ICH and Straits Metals are located outside of Australia. As such repatriation risk exists in the form of currency restrictions stemming from potentially adverse geopolitical events.

J Funding risk

Straits Metals and Straits ICH may require additional capital to execute their respective growth plans. There is a risk that Straits Metals and Straits ICH will not be able to obtain funding on favourable terms which will have an adverse effect on financial and operational performance.

K Contractor risk

Straits Metals and certain operating investments of Straits ICH (in particular SAR) conduct their mining operations through their mining contractors. Any significant failure by any of these contractors to comply with its obligations under the operating agreement (whether as a result of financial or operational difficulties or otherwise), any termination or significant breach of agreements by a contractor or any failure by Straits Metals, or the operating investments of Straits ICH (in particular SAR) or any of their contractors to renew the operating agreement when the agreement expires (and Straits Metals' or Straits ICH or its investee company is unable to find a satisfactory replacement contractor) could materially and adversely affect their business, financial condition, results of operations and prospects.

The activities of contractors has a material impact on the ability of Straits Metals or Straits ICH (or its investee companies) to comply with the requirements of the applicable mining licences. If Straits Metals or Straits ICH (or its investee companies) are unable to comply with their requirements and obligations under the applicable mining licences due to the actions or failures of contractors, and if Straits Metals or Straits ICH (or its investee companies) do not have any recourse against their contractors whose action or failure caused loss, their business, financial condition, results of operations and prospects would be materially and adversely affected.

3.1 Risk factors faced by both Straits ICH and Straits Metals (continued)

L Counterparty risk

Straits Metals or Straits ICH (or its investee companies) can suffer financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the receivables from customers and entry into financial instruments such as hedging contracts with financial institutions. Exposure to formulating counterparty risk is influenced mainly by the individual characteristics of each counterparty and their financial standing. This risk increases in times when there is significant movement in prices of commodities that Straits Metals or Straits ICH (or its investee companies) produce and supply, which may in turn result in an adverse financial impact to our counterparties.

M Environmental risk

Coal and metals mining can be hazardous to the environment if not appropriately managed and unforeseen environmental liabilities may arise that are costly to remedy. Also, acceptable levels of pollution and the potential costs and obligations relating to abandonment may be impossible to assess. If they are responsible for environmental damage, Straits Metals and Straits ICH (or its investee companies) may incur substantial costs for environmental rehabilitation, damage control and losses by third parties resulting from their respective operations.

N Changes to government policy, taxation laws and regulatory conditions

Governmental action, including delay, inaction, policy change or the introduction of new, or amendment of or changes in interpretation of existing, legislation or regulations, particularly in relation to foreign ownership, access to infrastructure, environmental regulation (including in respect of carbon emissions and management), land access arrangements, water rights, royalties and production and exploration licensing may adversely affect Straits Metals' and Straits ICH (or its investee companies) future operations and financial performance. Similarly, changes to tax and royalty legislation imposed by Federal, State, Territorial and foreign governments, and the interpretation of those laws may affect the future earnings or asset values of, or increase the amount of tax paid by Straits Metals and Straits ICH (or its investee companies) or affect the treatment of tax losses that may have been, or may be, accumulated. These changes may influence both profit and loss for accounting purposes and the total tax payable. Straits Metals and Straits ICH (and its investee companies) are subject to relevant environmental laws and regulations in connection with their operations. There is a risk that such laws and regulations may change in a manner that may require stricter or additional standards than those now in effect, a heightened degree of responsibility for Straits Metals and Straits ICH and their directors and employees and more stringent enforcement of existing laws and regulations.

O Litigation risk

Exposure to litigation brought by third parties such as customers, regulators, employees or business associates could negatively impact on Straits Metals' and Straits ICH's (and its investee companies) financial performance through increased costs, payments for damages and reputational damage.

P Key personnel risk

Straits Metals and Straits ICH (and its investee companies) will be reliant on a number of key senior employees at the company, joint ventures or subsidiaries. Loss of such personnel may have an adverse impact on performance. Furthermore, the ongoing success of Straits Metals and Straits ICH (and its investee companies) will be closely linked to their ability to recruit and train high quality personnel with experience in the industry. The inability to attract and retain the services of a sufficient number of suitably qualified personnel could adversely affect their operating results and financial performance.

3 Risk factors

3.1 Risk factors faced by both Straits ICH and Straits Metals (continued)

Q Insurance risk

In accordance with industry practice, Straits Metals and Straits ICH (and its investee companies) maintain insurance against some, but not all, of the risks described in this Demerger Scheme Booklet and their insurance may not be adequate to cover all losses or liabilities that may arise. Also, they cannot predict the continued availability of insurance at premium levels that are at commercially acceptable levels. To the extent Straits Metals or Straits ICH (or its investee companies) are not insured for any loss, they could incur significant costs that would have a material adverse effect on their financial position.

R Title risk

Straits Metals and Straits ICH (and its investee companies) may lose title to, or interests in, their tenements if the conditions to which those tenements are subject are not satisfied or if insufficient funds are available to meet expenditure commitments. Straits Metals and Straits ICH (and its investee companies) also have a number of outstanding tenement applications in relation to which no assurance can be given that these applications will be granted. In the jurisdictions in which Straits Metals and Straits ICH (and its investee companies) operate, both the conduct of operations and the steps involved in acquiring interests involve compliance with numerous procedures and formalities. It is not always possible to comply with, or obtain waivers from, all such requirements and it is not always clear whether requirements have been properly completed, or that it is possible or practical to obtain evidence of compliance. In some cases, failure to follow such requirements or obtain relevant evidence may call into question the validity of the actions taken. Further, it is possible that tenements in which Straits Metals or Straits ICH (or its investee companies) have an interest may be subject to a native title claim. If native title rights do exist in respect of a tenement, the ability of Straits Metals or Straits ICH (or its investee companies) to gain access to that tenement may be adversely affected.

S Political risk

Straits Metals and Straits ICH (and its investee companies) operate in a number of countries other than Australia such as Indonesia, Brunei and Madagascar, some of which have a higher political risk than Australia. Political activities in these countries may be destabilising and disruptive to their operations. The impact of any such disruption could range from a minor increase in operating costs to a material adverse impact such as the closure of an operation.

3.2 Risks factors specific to Straits Metals

A Share market risks

There is currently no public market for Straits Metals Shares and there can be no assurance that an active market will develop or continue after the implementation of the Demerger. There may be relatively few buyers and/or many sellers of Straits Metals Shares at any time which may adversely impact the market value of Straits Metals Shares.

The value of Straits Metals Shares will be determined by the share market and will be influenced by a range of factors outside the control of the Straits Metals Board or its management including fluctuations in the Australian and international share markets, domestic and international economic activity, changes in interest rates and movements in exchange rates.

3.2 Risks factors specific to Straits Metals (continued)

B Inability to execute plans and transition into a cashflow positive business

Straits Metals' producing assets are currently generating minimal or negative cashflows. The Tritton Copper Project and Mt Muro assets are currently undergoing capital re-investment programs with the aim of increasing production and improving the profitability of the mines. The ability of the management team to implement the proposed work programs and to respond in a timely and appropriate manner to any unforeseen circumstances which may require changes to those programs is critical to the transition of Straits Metals from its current state to a cashflow positive business and accordingly presents a risk to Straits Metals.

C Effect of any increase in operating costs

The cost of power and water are significant components in the overall operating cost of the Metals Business. The changing regulatory environment on carbon emissions and the unpredictability of future pricing of these power and water input costs, both of which are beyond Straits Metals' control, can materially affect feasibility and present risks to the operating cost profile and therefore profitability of Straits Metals' operations.

D Impact on profitability of Straits Metals' Tritton Copper Mine because of the existing offtake contract

Tritton Resources has a copper concentrate offtake contract with J.P. Morgan Metals & Concentrates LLC (**JPMM&C**) to supply a certain, pre-determined quantity of copper concentrate that it produces. In turn, JPMM&C pays Tritton Resources the then prevailing price for copper on the LME after making a deduction for treatment charge and refining charge (**TC/RC**) per an agreed formula.

The TC/RC component of the deduction in the contract is currently very high compared to prevailing market TC/RC rates, which results in lower net revenues to the Tritton Copper Project, thereby adversely impacting its profitability. It also creates an unfavourable position for the Tritton Copper Project as it is susceptible to a relatively smaller decline in copper price to become unprofitable, as compared to other copper producers, everything else being equal.

E Mineral Resource Rent Tax

Straits Metal's mining operations are subject to the payment of various Australian State and Federal royalties and taxes. There is a risk that the royalty and tax regime could change resulting in higher costs for Straits Metals' operations.

The Federal Government of Australia has recently proposed the introduction of a new tax on profits from mining operations in Australia, the Mineral Resource Rent Tax (**MRRT**). Critically, as currently proposed, MRRT will only apply to iron ore and coal projects in Australia. As such, in its current form, Straits Metals' mining and exploration activities will currently not be affected by the proposed MRRT. There is a risk that the MRRT will be expanded to other commodities, which if it occurs, may have an adverse effect on the business, results of operations, financial condition and prospects of Straits Metals.

3 Risk factors

3.2 Risks factors specific to Straits Metals (continued)

F Native title and Aboriginal Heritage risks

The Native Title Act 1993 (Cth) recognises native title and establishes processes relating to the grant of certain interests in land (including mining tenements). Indigenous Australians have registered native title claims and native title determinations which overlap with mining tenements in which Straits Metals has an interest. Registered native title claimants may be entitled to participate in the Native Title Act 1993 (Cth) procedures in respect of the grant of any pending tenement applications or any future mining tenements should they be required. This process may cause delays in the grant of the current tenement applications or any future tenements, or tenements may be granted subject to conditions that are unfavourable to Straits Metals. Additionally, Straits Metals' ability to gain access to those tenements may be adversely affected.

In addition, there may be registered Aboriginal heritage sites on the areas of land covered by some of the tenements in which Straits Metals has an interest, and further Aboriginal sites may be discovered in areas material to Straits Metals' development and operation. The presence of sites of indigenous heritage significance on tenements in which Straits Metals has an interest may limit or preclude mining or construction activity within the sphere of influence of those sites, and delays and expenses may be experienced in obtaining clearances and approvals. Failure to resolve issues associated with sites of indigenous heritage significance could result in delays in the development of Straits Metals' projects and could have a material adverse effect on the business, results of operations, financial position and prospects of Straits Metals.

In early July 2010 an application under the Aboriginal Heritage Act 1988 in South Australia in respect of the Torrens Project (EL4296) was approved by the Minister for Aboriginal Affairs and Reconciliation. The Torrens Joint Venture is now committed to finalising the necessary agreement under the South Australian Mining Act, which would allow drilling activities to commence on site, however there can be no guarantee that this agreement will be obtained, or obtained in a timely manner and accordingly the Torrens Joint Venture's ability to exploit its exploration licences may be adversely affected.

As at the date of this Scheme Booklet, Straits Metals is not aware of any other native title rights or Aboriginal heritage rights which it expects to materially adversely affect its operations or performance. Whilst Straits Metals holds this view, no guarantee can be given that these native title rights or Aboriginal heritage rights (nor any native title rights or Aboriginal heritage rights over areas in which Straits Metals may in future acquire an interest) will not affect Straits Metals.

G Joint Venture risks

The Metals Subsidiaries, particularly the exploration entities, are party to joint venture agreements with third parties. Those joint venture agreements may include provisions dealing with change in control and pre-emption rights which are triggered by certain events. Although Straits does not consider that the Demerger will trigger any change in control or pre-emption right provisions in those joint venture agreements, some joint venture counterparties may take a different view on the operation of these agreements. This may result in the need to negotiate with these joint venture counterparties or to defend against a claim made by those parties.

H Hedging risk

Straits Metals may enter into commodity price hedges. If such hedges are entered into and if the market prices of underlying commodities are higher than the price at which the hedges have been entered into, Straits Metals will not realise the higher prices they would have received had they not entered into such hedging arrangements.

Also, hedging programs are undertaken on an assumed production profile. If Straits Metals' actual production underperforms its hedging profile, Straits Metals may be exposed to significant costs for not delivering the volumes required by hedging contracts, or from having to purchase products in the general market to satisfy delivery obligations under those hedging contracts.

3.3 Risk factors specific to Straits ICH

A Joint venture risks

There is a risk that the future conduct of Straits ICH may be adversely affected by the terms of the existing joint venture arrangements under which Straits ICH currently holds a minority 40% interest in PTTAPM. In addition, PTTAPM operates joint ventures with a number of partners in a number of countries, including Australia, Indonesia, Brunei and Madagascar. The performance of PTTAPM (and therefore Straits ICH) may be impacted by the creditworthiness and performance of joint venture partners on whom PTTAPM may be or may become reliant. In addition, Straits ICH's ability to influence or determine the outcome of joint venture decisions will be affected by the terms of the joint venture arrangements and thus there is a risk that the joint venture partners may fail to reach agreement on significant matters affecting the joint ventures.

B Mining rights risk

SAR's mining rights at the Sebuku Coal Mine are based on a Coal Cooperation Contract (**CCC**) which is, in effect, a second generation Coal Contract of Work agreement (**CCoW**) under which SAR was granted a 30 year concession to 2027.

Under the CCC, SAR has obligations to exploit the coal Reserves on Sebuku Island and to plan the work with the government. The government can terminate the CCC if SAR defaults on the terms of the agreement.

SAR's mining rights at the Jembayan Coal Mine are held through subsidiaries of PT Bahari Cakrawala Sebuku (**BCS**). BCS has the status of a PMDN company. This circumstance was made possible under the prevailing regulation at the time foreign shareholders entered into BCS in 1996. A PMDN company has a less restrictive regulatory environment relative to a PMA company. SAR has stated it believes it is not mandatory for BCS to convert its status into a PMA company since the BKPM technical guideline policy should not apply retroactively to BCS.

C Forward pricing risk

Straits ICH operating asset, SAR, may enter into long term coal supply contracts with its customers. These are forward pricing arrangements with respect to the delivery of coal. If these contracts are entered into and if the market prices of the coal are higher than the price at which the forward pricing contracts have been entered into, SAR will not be able to realise the higher spot prices they would have received in the market had they not entered into such contract arrangements.

In addition, these long term contracts are based on an assumed production profile. If SAR actual production underperforms its contractual profile, SAR may be exposed to significant costs for not delivering the volumes required by the long term contracts or of purchasing in the general market products to satisfy the delivery obligation under the long term contracts.

D Fluctuation in transportation costs

Transportation costs, which represent a significant portion of the total cost of coal purchased by SAR's customers, are an important factor in its customers' purchasing decisions. Under the terms of most of its coal supply agreements, the customer is responsible for paying transportation costs. Increases in transportation costs could make coal a less competitive source of energy or could make our operations less competitive than other sources of coal. Transportation factors could have a material adverse effect on SAR's and hence the Coal Business' financial condition, results of operations and prospects.

3 Risk factors

3.3 Risk factors specific to Straits ICH (continued)

E Pending issuance of permits related to SAR's operations in Sebuku, Indonesia

SAR's coal production at the Sebuku coal mine has experienced mining constraints due to certain zoning restrictions immediately to the north of the current pit (the Northern Leases). This was expected to be alleviated with the issue of a re-zoning decree by the Indonesian government in August 2009, that changed the status of land for a large area of the concession's Northern Leases, the area on Sebuku Island targeted for mining, into production forest. SAR has worked with the relevant government departments to progress the applications for the licences that have to be issued to allow mining to commence. The relevant environmental permit was issued in December 2009. However, the permit that is currently pending issuance is the "Pinjam Pakai" ("borrow and use") permit from the Ministry of Forestry. SAR has completed all the requirements necessary for submission of the Pinjam Pakai application on schedule. SAR has announced it currently expects the applicable mining permits to be issued before the end of 2010. The production profile for the Sebuku mine will be difficult to predict until mining has started at the Northern Leases.

Accordingly this presents a risk to Straits ICH as there is no certainty that the Pinjam Pakai permit will be granted and/or that SAR will have access to the Northern Leases for mining.

F Construction of coal load-out facility at SAR's operations in Jembayan, Indonesia

SAR operates a coal mine at Jembayan, Indonesia. Jembayan coal mine's infrastructure capacity was affected by the failure of one of its coal load-out lines in October 2009. Currently, construction of a second load-out facility is on track for commissioning in early 2011 based on indications given by SAR. Once commissioned, the new line is expected to increase Jembayan coal mine's total installed infrastructure capacity. However, any delay in the commissioning of new and temporary infrastructure assets could affect the capacity and performance of the Jembayan coal mine.

G Environmental and climate risks

The operations at SAR's Jembayan and Sebuku coal mines in Indonesia can and have been adversely affected by excessive rainfall in the region. Unpredictable weather issues such as excessive rainfall, which are beyond SAR's control, can continue to hamper production at SAR's Indonesian coal mines.

H Political risks in Madagascar

PTTAPM, through its investment in RIM, holds an interest in the coal exploration tenements in the Sakoa area in Madagascar. Ongoing work is being undertaken to finalise the feasibility study in respect of a potential coal project. The political climate in Madagascar has been unstable and volatile in recent times and presents a risk to the security of tenure of the relevant interests and the future development and success of the Madagascar coal project.

I RIM dispute

Recently, certain option grantors asserted that the RIM Option has expired by reason of delay. PTTAPM is of the view that such assertion is wrong and that the RIM Option continues to be in existence. If a dispute continues it will be dealt with under the dispute resolution procedure provided in the RIM Option contract.

Following implementation of the Acquisition Scheme, the decision whether to exercise the RIM Option will be a matter for PTTML and the PTTAPM board of directors. If the Acquisition Scheme does not proceed, the decision whether to exercise the RIM Option will be a matter for the PTTAPM Board.

While the Acquisition Scheme Implementation Agreement remains operative, the RIM Option cannot be exercised without the prior written consent of Straits. In the event that Straits and the PTTAPM Board need to decide whether to exercise the RIM Option while the Acquisition Scheme Implementation Agreement remains operative, the Straits Board will consider this based on circumstances at the time.

3.3 Risk factors specific to Straits ICH (continued)

J Coal exploration in Brunei

The Government of Brunei Darussalam and FEE (in which PTTAPM has a 35% joint venture interest) signed a Memorandum of Understanding in August 2007 which enables FEE to undertake a program of exploration for coal in Brunei and the subsequent right to apply for prospecting licences, if all conditions of the Memorandum of Understanding are met.

As only a Memorandum of Understanding had been signed between FEE and the Government of Brunei Darussalam, there is no assurance that any subsequent prospecting licences will be granted by the Government of Brunei Darussalam. Straits ICH is therefore exposed to potential title risks with regards to the Brunei coal project.

3.4 Risk factors relating to the Demerger

A Combined market value

Although the Straits Directors believe that the Demerger will enhance value for Straits Shareholders, it is not possible to predict the market value of Straits Metals Shares and Straits Shares following the proposed implementation of the Demerger. There is a risk that the combined market value of Straits Metals Shares and Straits Shares (after the Demerger) will be less than the market value of Straits Shares prior to the implementation of the Demerger. Further, Straits Shareholders should note that there can be no assurance that Straits Shares will trade in line with recent levels of trading activity if Straits Shareholders do not approve the Demerger Scheme.

B Development of a liquid trading market

There has not been a separate public market for Straits Metals Shares and there can be no assurances that both Straits Metals Shares and shares in Straits ICH will trade at a particular level in the public market following the proposed implementation of the Demerger Scheme. It is possible that a number of Straits Shareholders will seek to vary their holding in Straits ICH and Straits Metals and accordingly there may be a volatile market for Straits Shares (after the Demerger) if the Acquisition Scheme is not approved and thus does not become Effective and for Straits Metals Shares if the Demerger Scheme is approved and becomes Effective.

C Court delays

There is a risk that the Court may not approve the Demerger Scheme or that the approval of the Court may be delayed.

D Demerger Tax Relief may not be available

On behalf of Straits, PricewaterhouseCoopers has applied to the Commissioner for a Class Ruling to be issued in relation to the Demerger Scheme, confirming the Demerger income tax implications for Australian tax resident Scheme Shareholders. In particular, the Commissioner has been requested to confirm that Demerger Tax Relief is available. The Demerger Scheme is not conditional on the outcome of the Class Ruling. If granted, Demerger Tax Relief will result in relief from any capital gains tax that may arise from the transfer of shares in Straits Metals to Scheme Shareholders and no part of the Distribution Amount being assessable.

There is a risk that the Commissioner may disagree with the position submitted in the Class Ruling application and deny, in whole or in part, Demerger Tax Relief for Scheme Shareholders.

It is also possible that, at the time of the Demerger Scheme Meeting, the ATO may not have issued a draft or final Class Ruling confirming the Australian income tax implications for Scheme Shareholders. As such, Straits Shareholders may not have certainty as to their tax position at the timing of voting under the Demerger Scheme. The ATO may also make additional determinations that may have an adverse effect on Straits.

An Overview of Taxation Consequences for Straits Shareholders has been prepared by PricewaterhouseCoopers and is included in **Section 9** of this Demerger Scheme Booklet.

4 Information on Straits Metals

This Section 4 provides information on Straits Metals if the Demerger Scheme is implemented.

4.1 Overview

A Brief overview of Straits Metals

Straits Metals was incorporated in Australia (and registered in Western Australia) on 5 November 2010.

As a result of Straits carrying out the organisational restructure outlined in **Section 1.1B** and implementing the Demerger Scheme, Straits Metals will hold all the Metals Business that is currently held by Straits. Straits Metals will be a pure metals company focused on copper and gold with a portfolio of producing assets and exploration assets. The major operating assets that will be held by Straits Metals, the Tritton Copper Project and Mt Muro, are currently in a major capital investment phase aimed at improving the profitability of those operations. Straits Metals will seek to deliver a base level of reliable earnings from its producing assets and at the same time developing an identifiable future development pipeline, advancing activities at its existing exploration portfolio and undertaking additional exploration at producing mine sites. Subject to obtaining the necessary approvals, Straits Metals will be listed on the ASX.

The key assets of Straits Metals after the Demerger is implemented will include:

- 100% interest in Tritton Resources Pty Ltd that owns the Tritton Copper Project, comprising the Tritton Copper Mine (**Tritton**), the satellite North East Copper Mine (**North East**), the Murrawombie Copper Mine (**Murrawombie**), in New South Wales, Australia, the Larsens Copper Mine (**Larsens**) and the historical oxide copper mine at Hartmans (Hartmans) and the Budgery copper deposit (**Budgery**);
- 100% interest in PT Indo Muro Kencana that owns the Mt Muro Gold Mine (**Mt Muro**) in Central Kalimantan, Indonesia;
- 100% interest in Straits (Hillgrove) Gold Pty Ltd that owns the Hillgrove Gold / Antimony Mine (**Hillgrove**) in New South Wales, Australia;
- 71% interest in Goldminco Corporation (TSX-V:GCP) (**Goldminco**), a junior mineral exploration company registered in Canada and headquartered in West Perth, Australia, which holds approximately 1,800 km^2 of porphyry copper-gold and gold exploration tenements in New South Wales, Australia;
- exploration projects in Australia which include the right to earn a 70% interest in the Torrens Joint Venture, a JV between Argonaut Resources NL (ASX:ARE) and Straits Metals which is targeting IOCG deposits in the Stuart Shelf region of South Australia;
- 100% interest in Magontec, a supplier of magnesium products with plants in Germany and China; and
- cash and listed investments.

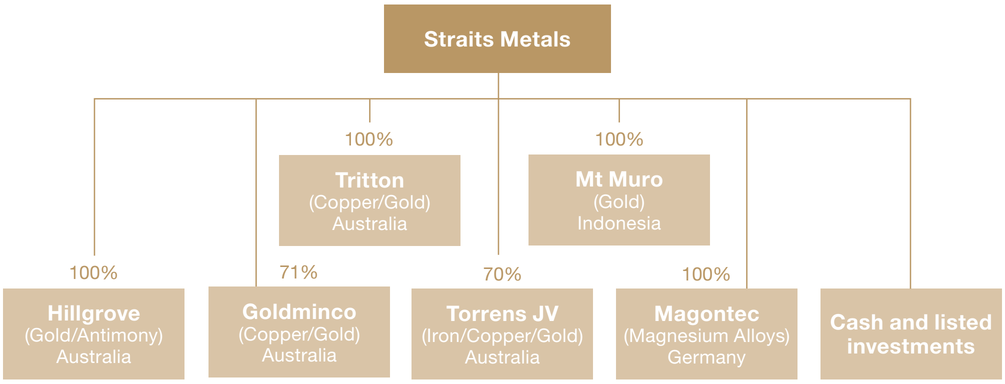
Straits currently owns a 100% interest in GfE-MIR Group, a European-based specialty metals distribution business. Straits has identified the GfE-MIR business to be non-core and on 11 November 2010 announced the signing of a sale and purchase agreement to divest this business. It is currently anticipated that GfE-MIR Group will no longer be a part of Straits Metals as the sale is expected to be completed before the implementation of the Demerger.

4.1 Overview (continued)

A Brief overview of Straits Metals (continued)

The proposed corporate structure of Straits Metals is shown in the Figure 4.1A below:

Figure 4.1A: Straits Metals Corporate Structure



B Business Summary

A summary of Straits Metals' business (following the implementation of the Demerger) is set out in the section entitled "Straits Metals Business Summary".

C Strategy of Straits Metals

Straits Metals will seek to position itself as a pure metals company focused on copper and gold. Straits Metals intends to create shareholder value by actively managing its producing operations, advancing exploration activities at existing mine sites and its greenfield exploration assets, and by acquiring, developing and operating mineral resource assets, in particular copper and gold. The key geographic area of focus will be Australia, though Straits Metals will remain open to opportunities in other jurisdictions that have the potential to create shareholder value.

The primary tenets of Straits Metals business strategy will include:

(1) **Establish the Tritton Copper Project and Mt Muro as profitable operations**

Straits Metals intends to continue capital investment programs already commenced by Straits at both the Tritton Copper Project and at Mt Muro aimed at establishing a stable production platform for profitable operations.

(2) **Focus on growth**

Straits Metals will seek to be a growth focused metals producer with cashflows from producing assets and a pipeline of development and exploration assets. Straits Metals will invest in capacity and operational expansion at the Tritton Copper Project and at Mt Muro to obtain operating cost efficiencies and to leverage emerging additional geological potential. In the shorter term, Straits Metals will seek to enhance the project portfolio by targeted Mineral Resource definition and Mineral Resource to Ore Reserve conversion. Straits Metals' immediate priorities include:

(a) extending the mine life of the Tritton Copper Project in the near-term through exploration success; and

(b) increasing gold production at Mt Muro in the medium/long term.

4 Information on Straits Metals

4.1 Overview (continued)

C Strategy of Straits Metals (continued)

(3) **Advance Exploration Portfolio**

Straits Metals will continue to execute its exploration strategy with a focus on both mine-site and greenfield plans. At mine-site level, exploration activities will include expansion of existing Mineral Resources and the potential conversion of Mineral Resources to Ore Reserves to add mine life. Greenfield exploration will focus on key high potential targets at Goldminco and Torrens with the intent of bringing forward significant new projects. Straits Metals will also continue to assess opportunities, on a selective basis, for entry to copper exploration in new geographic locations on an opportunistic basis.

(4) **Simplify Existing Asset Portfolio**

Straits Metals will seek to simplify its asset portfolio to include stable, and mature business units with a base level of reliable earnings, an identifiable future development pipeline and a geologically prospective exploration portfolio. Straits Metals will seek to divest assets that are not capable of meeting minimum return on asset criteria or are considered “non-core”.

(5) **Pursue Value Creating Acquisition Opportunities**

Straits Metals will assess opportunities to expand the existing asset base by acquisition of a cash flow generating asset with strong geological fundamentals that can provide longevity of earnings. Straits Metals will consider corporate opportunities for consolidation and mergers, which will allow the company to achieve greater critical mass, consistent with its business model and strategy. Straits Metals will evaluate all opportunities that may potentially be value enhancing.

(6) **Create an Optimum Capital Structure**

Straits Metals will seek to enhance shareholder returns by considering appropriate levels of gearing to currently un-geared cashflow assets. Straits Metals will also consider entering into hedging arrangements aimed at managing commodity price risk.

4.2 Minerals industry and market overview

A Copper Demand

According to the International Copper Study Group (**ICSG**), from 2000 to 2009, global refined copper consumption is estimated to have grown at an average rate of 2% per annum. Robust growth in Asia has resulted in significant changes to global consumption patterns during the last decade. Europe and America, which used to consume over 50% of the world‘s refined copper in 1980, accounted for approximately 35% in 2009. Asia, on the other hand, has emerged as the world‘s most important copper market, consuming approximately 60% of the world‘s refined copper.

Though the global economic crisis has had an impact on world refined copper usage levels, ICSG expects world apparent refined usage in 2010 to have increased by about 3.8%, predominantly attributable to stronger than anticipated apparent consumption in China, and growth in end-use demand in the European Union. In 2011, global demand is expected to rise by about 4.5%. Industrial demand growth for copper in China, which is based on anticipated semi-manufacture production, is expected to grow by about 6% in 2011.

Demand for copper concentrate remains strong, while facing issues of lack of supply. As a result, concentrate shortages are forcing reductions in production of refined copper at some smelters. This is expected to continue in the coming years because the extent of existing unmet concentrate demand is high, and because the strong growth path in smelting capacity is anticipated to continue.

4.2 Minerals industry and market overview (continued)

B Copper Supply

World copper mine production has grown at an average rate of 4% per annum since 1900, according to ICSG data. However, operational constraints and cutbacks instituted in 2009 are expected to constrain mine production in 2010 to 16.2 Mt, about a 2% increase from that in 2009. Upcoming projects indicate that mine production in 2011 will potentially increase by about 5%, but the actual increase will potentially be lower as the significant level of production disruptions from project delays, technical problems, and labour / political unrest which has become the norm in recent years, is expected to continue to reduce output.

World refined copper production for 2010 (adjusted for production disruptions) is therefore projected to increase by only about 4% to 19.1 Mt. In 2011, it is anticipated that refined production will again increase only slightly as a shortage of concentrates is expected to continue to restrain growth.

Supply is expected to continue to be outstripped by demand in the coming years for various reasons that include lower grades of newer assets and higher development capital cost.

C Copper in Australia

According to Geoscience Australia, Australia has the second largest economic demonstrated reserves of copper after Chile and ahead of Peru, Mexico, Indonesia and USA. In production, Australia is ranked fifth after Chile, USA, Peru and China. In 2009, 853,000t of copper was produced. Copper mineralisation is distributed throughout Australia, but mined from relatively few mines, with the primary producers being the Olympic Dam in South Australia and Mount Isa Mines in Queensland. Other significant copper producing operations are at Northparkes, Cadia-Ridgeway and the Tritton Copper Project (New South Wales), Ernest Henry (Queensland), Nifty and Golden Grove (Western Australia).

D Gold Demand

The World Gold Council has reported that global gold consumption for 2010 will be higher than 2009 as a result of increasing levels in India and China, sustained global demand for gold investment, together with growth in jewellery and industrial demand.

It is expected that demand for gold in the final quarter of 2010 will be driven by the following factors:

- Increasing demand by the world's two largest markets, India and China, as rising income levels, high savings rates and strong economic growth continue to push up consumption.
- Gold jewellery demand is likely to exceed that of 2009 due to an anticipated recovery in India, the most significant gold jewellery market, and continuing strength in China.
- Concern over fiscal imbalances and currency tensions will continue to support investment demand for gold.
- Industrial demand, which has returned to long-term levels, is expected to remain firm on the back of renewed growth in the electronics industry.

4 Information on Straits Metals

4.2 Minerals industry and market overview (continued)

E Gold Supply

Gold is produced from mines all across the world with operations of all sizes. The overall level of global mine production is relatively stable, with new mines that are being developed replacing current production, rather than causing any significant expansion in the global total.

Comparatively long lead times in gold production coupled with the fact that new mines often taking up to 10 years to come on stream, means that mining output is relatively inelastic and unable to react quickly to a change in price outlook. The incentives promised by a sustained price rally, as experienced by gold over the last seven years, are not therefore easily or rapidly translated into increased production.[7]

F Gold in Indonesia

According to data published by the United States Geological Survey, Indonesia is the 8th largest gold producer in the world, supplying approximately 4% of the world's production in 2009. The majority of production is generated as a by-product of copper mining at Grasberg and Batu-Hijau, which are operated by Freeport-McMoRan and Newmont respectively. Another key producer is Newcrest Mining's Gosowong operation in North Maluku. Although gold deposits exist all across Indonesia, the bulk of production is concentrated in these assets, which is estimated to account for the majority of Indonesian gold production.

4.3 Description of the Metals Business

A The Tritton Copper Project (100% owned)

Overview

The Tritton Copper Project, located near Nyngan in New South Wales is 100% owned and operated by Straits and will be 100% owned and operated by Straits Metals after the implementation of the Demerger. The Tritton Copper Project comprises the Tritton Copper Mine (**Tritton**), the North East Copper Mine (**North East**) and the Murrawombie Copper Mine (**Murrawombie**) as well as other mineral deposits within the lease areas, namely Larsens, Hartmans and Budgery (see Figure 4.3A(i) below).

Mining first commenced in 1992 at the Murrawombie open pit as part of the Girilambone copper mine and involved the mining of the Murrawombie, North East, Larsens and Hartmans copper oxide ore deposits by open pit mining methods and solvent extraction and electrowinning (SX-EW) processing.

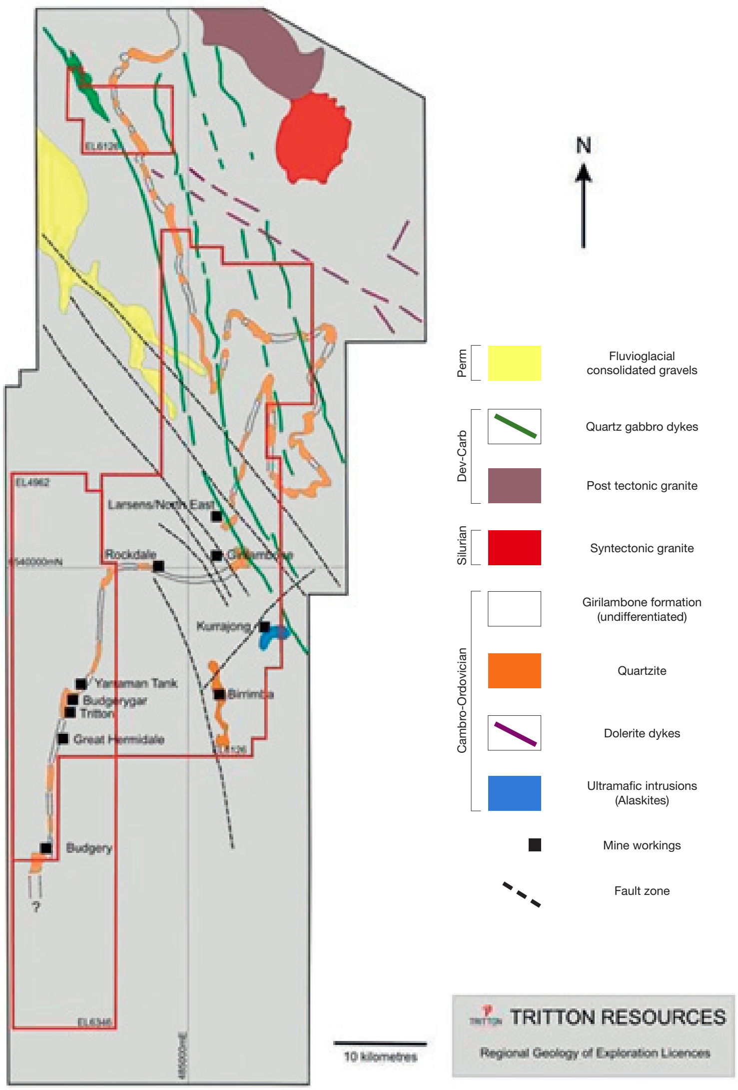
Mining of Tritton, a copper sulphide deposit, commenced in 2004 with the development of an access decline and stope production commenced in March 2005.

Mining of North East, via the North East – Larsens decline, commenced in early 2008 before being suspended later that year due to the Global Financial Crisis. The mine was recommenced in 2010 with the improvement in copper prices, with stoping commencing mid year.

The Tritton Copper Project operates a conventional crushing and flotation plant to produce copper concentrate. The concentrate produced is relatively clean and acceptable to smelters in the Asia Pacific region.

[7] *Courtesy of World Gold Council: www.gold.org*

Figure 4.3A(i): Tritton Copper Project – Location Map



4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

A The Tritton Copper Project (100% owned) (continued)

Overview (continued)

Ore is currently being mined from Tritton and North East. Combined, they produced 20,847 tonnes of copper in concentrate for the year ended June 2010.

The key focus for the Tritton Copper Project is to increase production and to extend the mine life through exploration success. The current Mineral Resource and Ore Reserve statement for the Tritton Copper Project is set out in Figures 4.3A(iii) and 4.3A(iv) below and on the next page.

Historical production data, is summarised in Figure 4.3A(ii) below.

Figure 4.3A(ii): Tritton Copper Project Historical Production Data

		FY2010	FY2009
Development	Metres	6,986	7,372
Ore Mined	Tonnes	911,539	932,532
	Grade (%)	2.35	2.72
	Cu tonnes	21,451	25,404
Ore Milled	Tonnes	906,347	921,116
	Grade (%)	2.37	2.74
	Cu tonnes	21,464	25,187
Recovery	%	94.23	94.11
Concentrate	Tonnes	81,183	95,026
	Cu %	24.91	24.95
	Cu tonnes	20,847	24,111

Figure 4.3A(iii): Tritton Copper Project Mineral Resource Statement as at 30 June 2010

Region	Project	Cut-off	Commodity	Measured	Indicated	Inferred	Total
Tritton	Tritton Underground	Variable	Tonnes (kt)	1,700	6,000	8,900	**16,600**
			Cu (%)	3.0	2.2	1.3	**1.8**
	Tritton Pillars (Recoverable)	Variable	Tonnes (kt)	300	–	–	**300**
			Cu (%)	3.8			**3.8**
	Murrawombie	0.8% Cu	Tonnes (kt)	–	5,100	800	**5,900**
			Cu (%)		1.6	1.2	**1.6**
			Au g/t		0.3	0.2	**0.3**
	North east and Larsens	0.8% Cu	Tonnes (kt)	800	1,300	200	**2,300**
			Cu (%)	1.7	1.9	1.6	**1.8**
	Budgery	0.5% Cu	Tonnes (kt)	–	1,700	300	**2,000**
			Cu (%)		1.1	0.9	**1.1**
	Grand Total	**Variable**	**Tonnes (kt)**	**2,800**	**14,100**	**10,200**	**27,100**
			Cu (%)	**2.7**	**1.8**	**1.3**	**1.7**

Notes:

1. *Tritton Underground Resource in the "Inferred Category" includes 1.6 Mt @ 1.5% Cu mineralisation from the Budgerygar Resource located approximately 500m from the footwall of the Tritton ore body.*

4.3 Description of the Metals Business (continued)

A The Tritton Copper Project (100% owned) (continued)

Overview (continued)

Figure 4.3A(iv): Tritton Copper Project Ore Reserve Statement as at 30 June 2010

Region	Project	Cut-off	Commodity	Proved	Probable	Total
Tritton	Tritton Underground	Variable	Tonnes (kt)	1,600	3,700	**5,300**
			Cu (%)	2.7	2.0	**2.2**
	Murrawombie Underground	Variable	Tonnes (kt)	–	300	**300**
			Cu (%)	–	1.7	**1.7**
	North east and Larsens Underground	Variable	Tonnes (kt)	500	730	**1,230**
			Cu (%)	1.6	1.7	**1.7**
Grand Total			**Tonnes (kt)**	**2,100**	**4,730**	**6,830**
			Cu (%)	**2.5**	**1.7**	**2.1**
			Cu recov. (t)	**48,400**	**85,600**	**134,000**

Notes:

1. *Tritton Reserves calculated by creating mining shapes around a nominal 1% copper resource. Unplanned dilution has been estimated to be 5% and a metallurgical recovery of 93.5% has been used to calculate copper metal recovered.*
2. *Metal pricing used for calculating reserves for the Tritton Operation are Cu: US$2.50/lb, Au: US$1,000/oz, Ag: US$15/oz.*

Operating Strategy

An expansion project was initiated at the Tritton Copper Project in 2007 and the Stage 1 development of this plan was approved by the Board of Straits in June 2007 and included the following aspects:

- the continued operation of Tritton;
- the development of Larsens and North East; and
- expansion of the processing facility to a 1.4 Mtpa throughput rate.

In December 2007, the Board also approved the development of Murrawombie and the construction of a copper cementation facility to be located at the Murrawombie minesite.

While development plans progressed well through 2008, the fall in the copper price associated with the Global Financial Crisis (**GFC**) in October 2008 resulted in the decision to suspend operations at the Murrawombie and North East mines in late 2008.

The plant expansion works were largely unaffected by the GFC, and were commissioned early in August 2008.

4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

A The Tritton Copper Project (100% owned) (continued)

Operating Strategy (continued)

Straits re-initiated expansion works in early 2010, with the combined goal of increasing production while decreasing costs. This strategy comprises the following elements:

(1) **Transverse Mining**

Tritton has changed mining methodology to a transverse stoping mining method to more efficiently produce ore as the mine deepens. This mining method is expected to deliver improvements in productivity and cost-effectiveness.

(2) **Paste Fill**

Pastefill has been introduced at Tritton as part of the change to a transverse mining method to improve geotechnical stability and to increase the overall recovery of ore and hence mine life. Construction of the paste fill plant has already commenced with the plant expected to be operational in January 2011.

(3) **Development of North East**

North East, located approximately 23 km from Tritton was restarted early in 2010. Initial mine development and capitalisation has been completed and the mine is now producing ore at 280,000 to 300,000 tpa.

Ore is trucked to the Tritton Copper Project mill for processing, and capital works are underway on this haul road to improve cycle times and reduce costs.

(4) **Owner Operator Model**

Tritton is moving towards an owner operator model with the intent of achieving cost savings over the long term, although initial capital investments are required. It requires the acquisition of new equipment through a combination of outright purchase and lease financing as well as management and organisation changes.

Offtake Contract

Tritton Resources has a copper concentrate offtake contract with JPMM&C for a total volume delivery of 175,000 tonnes of copper metal in concentrate. As at 22 November 2010 approximately 75,000 tonnes of copper metal in concentrate remain to be delivered under the contract, and as per the current planned shipping schedule the obligations will be fulfilled in 2013.

The TC/RC component of the deduction under the Sempra Contract is currently very high compared to prevailing market TC/RC rates. As such, the contract prevents Tritton Resources from realising the full market potential of the current high copper market prices and significantly adversely impacts the profitability of the operations. After fulfilment of its delivery obligations under the Sempra Contract (currently anticipated in 2013), it is expected that the Tritton Copper Project's financial performance will improve under a market based TC/RC arrangement. In the meantime, opportunities to restructure the Sempra Contract will be assessed.

4.3 Description of the Metals Business (continued)

A The Tritton Copper Project (100% owned) (continued)

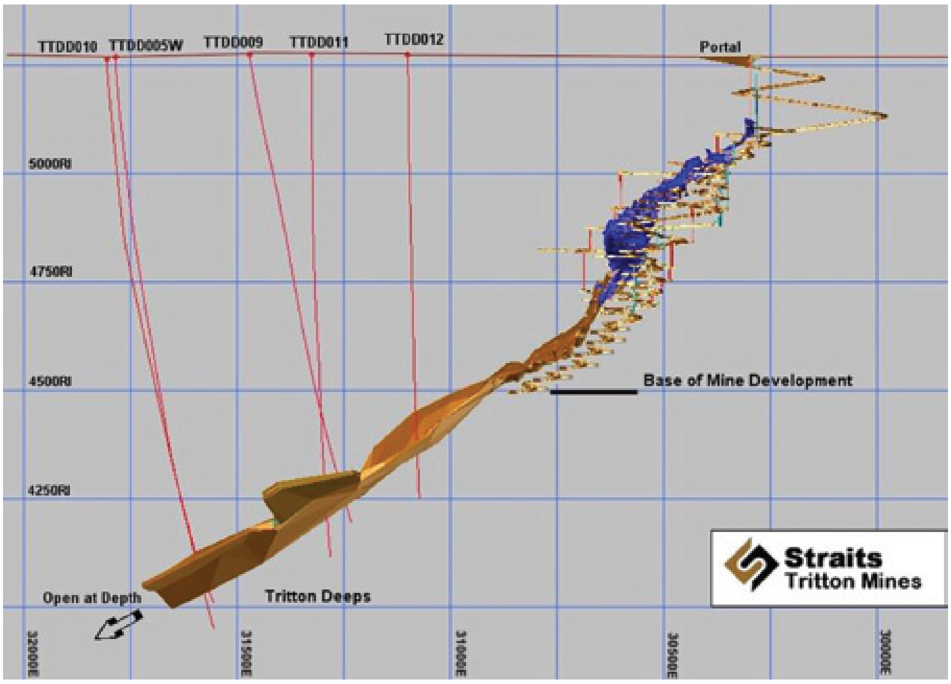
Exploration Plans

The Tritton Copper Project region is considered to have geological potential and the long term growth potential continues to be positive. There has been a strong focus on near-mine exploration with the aim of converting Mineral Resources to Ore Reserves and to identify additional Mineral Resources.

A drill program will evaluate these targets and this exploration program is focusing on the following:

- at Tritton, diamond drilling to confirm the continuity of down dipping extensions of the Tritton orebody aimed at demonstrating potential to significantly increase the mine life (see Figure 4.3A(v)) has been completed. Further definition drilling is now underway between the deepest intersections and the current working levels to firm up geological and grade continuity and to potentially increase the Mineral Resource inventory;
- at Murrawombie, a re-evaluation of the orebody in 2010 increased the resource base and the ore body remains open at depth and further work will be aimed at identifying the additional Mineral Resource and Ore Reserve potential (see Figure 4.3A(vi) below); and
- at North East, the orebody remains open at depth and works will be undertaken to identify the additional Mineral Resource potential.

Figure 4.3A(v): Tritton



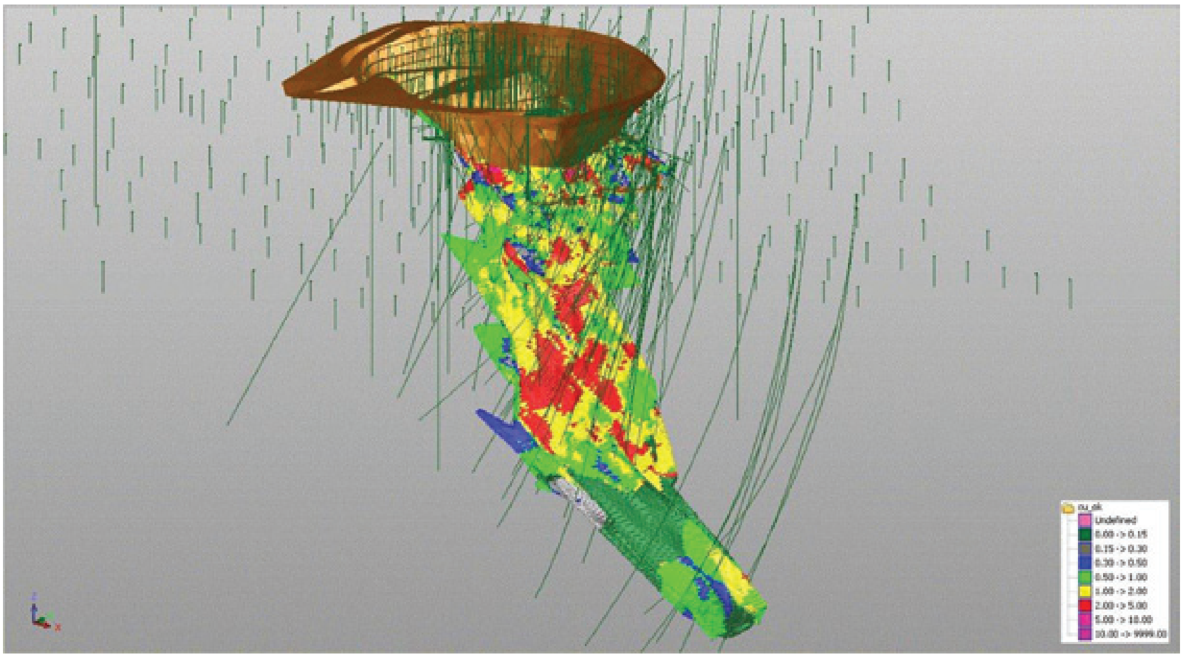
4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

A The Tritton Copper Project (100% owned) (continued)

Exploration Plans (continued)

Figure 4.3A(vi): Murrawombie



B Mt Muro (100% owned)

Overview

Mt Muro is located in Central Kalimantan, Indonesia, 300 km west of Balikpapan. Activities on the mine involve the mining of vein and elluvial gold and silver ore from a number of regionally located open pit mines, with ore being trucked to the 1.7 Mtpa centrally located carbon in pulp and Merrill Crowe processing plant, where gold and silver is produced as dore. The mine is operated under a third generation Contract of Work (**CoW**) which covers some 47,940ha of the Central Kalimantan magmatic arc which hosts the Kelian, Mt Muro and Mirah gold deposits among others.

Straits purchased Mt Muro in 2003 and after an intensive exploration program recommissioned the processing plant in 2005. During the year ended June 2010, ore was sourced from a variety of satellite open pits with ore from the Tasat – Rabu complex, transported across the Barito River by the roll on – roll off ferry. Mt Muro produced 45,521 oz of gold and 143,496 oz of silver for FY2010, consistent with FY2009, treating 615,544 tonnes at 2.56 g/tonne Au and 12.41 g/tonne Ag.

4.3 Description of the Metals Business (continued)

B Mt Muro (100% owned) (continued)

Overview (continued)

Historical production data and, Mineral Resource and Ore Reserve statements for Mt Muro are summarised in Figure 4.3B(i), Figure 4.3(B)(ii), and Figure 4.3(B)(iii) below:

Figure 4.3B(i): Mt Muro Historical Production Data

		FY2010	FY2009
Overburden movement	BCM	2,131,050	2,666,907
Ore mined	Tonnes	602,563	622,100
Ore feed to plant	Tonnes	615,544	652,050
Gold grade	Tonnes	2.56	2.62
Silver grade	g/t	12.41	24.55
Gold recovery	g/t	89.67	88.7
Silver recovery	%	58.92	60.2
Gold production	Oz	45,521	48,846
Silver production	Oz	143,496	304,360

Figure 4.3B(ii): Mt Muro Mineral Resource as at 30 June 2010

Region	Project	Cut-off	Commodity	Measured	Indicated	Inferred	Total
Mt Muro	In Situ	Variable	Tonnes (kt)		5,500	1,900	**7,400**
			Au (g/t)	–	3.0	2.4	**2.9**
			Ag (g/t)		60	14	**48**
	Tailings	Variable	Tonnes (kt)		7,700	2,000	**9,700**
			Au (g/t)	–	0.2	0.1	**0.2**
			Ag (g/t)		30	17	**27**
	Grand Total		**Tonnes (kt)**		**13,200**	**3,900**	**17,100**
			Au (g/t)	**–**	**1.4**	**1.2**	**1.3**
			Ag (g/t)		**43**	**16**	**36**

Figure 4.3B(iii): Mt Muro Ore Reserve Statement as at 30 June 2010

Region	Project	Cut-off	Commodity	Proved	Probable	Total
Mt Muro	Mt Muro Open Pit and Underground	Variable	Tonnes (kt)		1,900	**1,900**
			Au (g/t)		3.4	**3.4**
			Ag (g/t)	–	64	**64**
			Au recov. (oz)		190,500	**190,500**
			Ag recov. (oz)		2,700,000	**2,700,000**

Notes:

1. *Mt Muro open pit reserves are based on Whittle Four-X optimised pit shells. Mining dilution and recoveries are proportional to vein widths and have been estimated from 10 to 50% and 85 to 95% respectively.*
2. *Mt Muro underground reserves have been reported against mining shapes with an additional allowance of 5% mining dilution and 95% mining recovery. Metallurgical recoveries are based on 90 to 91% recovery for gold and 65 to 70% recovery for silver.*
3. *Metal pricing used for calculating reserves for the Mt Muro Operation are Cu: US$2.50/lb, Au: US$1,000/oz, Ag: US$15/oz.*

4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

B Mt Muro (100% owned) (continued)

Operating Strategy

Following strategic planning in 2009, Straits committed to a recapitalisation plan for Mt Muro that focused on production expansion through the cutback and mining of the Serujan open pit, development of the Soan underground mine, as well as a targeted scale up of exploration activities.

As part of this plan, and to improve efficiencies, the open pit mining contractor was demobilised and the commencement of owner-operator surface mining was established in early 2010. In parallel, acquisition and mobilisation of the underground mobile fleet was completed at the same time, with development of the Soan decline commencing in April 2010.

It was anticipated that upon commencement of the Soan underground mine, further underground development and mining would eventuate as mine plans are progressed for the associated Sinter and Sinbar deposits and as other underground opportunities are identified.

As at November 2010, the strategy to bring the new pit and underground online is currently behind schedule due to an unexpected suspension of operations at the Serujan East open pit during the quarter due to heritage issues and decline development at Soan underground being hampered by worse than expected geotechnical conditions.

Due to these events, operations are currently running at a loss, with high waste movement required and limited current ore sources. As such, not all mining areas are economic in their current operating modes.

In response to this, Straits has taken action to minimise site costs and mitigate cashflow impact whilst still meeting strategic objectives. Major changes that have commenced include:

- initiating plans to lower current costs and increasing current productivity by reducing fleet and personnel count, increasing utilisation rates and availability;
- ceasing underground development at Soan;
- narrowing mine operations into a single mining front (Serujan East pit) and establishing capability on that front before ramping into new mining areas (Serujan or Bantian); and
- detailing the economics of each pit under the new strategy and clarifying the multi-year plan supported by mine design and exploration results.

Over the course of 2011 and 2012, it is anticipated that the Serujan East pit will reach a time in its sequence where movement of more waste will be required before final passes of ore are released. While this will likely require more funding, Straits Metals believes that this may be able to be mitigated by further improving productivity or by potentially supplementing ore production with small near mine alluvial sources.

During this period, it is expected that Straits Metals will have a more reasonable indication of performance. By this time, productivity is anticipated to ramp back up and much of the near mine geology and resource models would be completed as a result of the completion of the bulk of the current resource extension and definition drilling programs. As such, Straits believes that if the economics are proven, mining of a second pit/pit extension or recommencement of underground operations may occur during this period.

4.3 Description of the Metals Business (continued)

Exploration Plans

Exploration on the Mt Muro CoW was accelerated in 2010 following a strategic review and target generation/ranking exercise. Wider greenfields programs driven by geochemical data and re-evaluation of IP geophysical data are aimed at providing the next generation of Mineral Resources to support future development.

Historical exploration at Mt Muro has focused on the upper 150 metres of the identified systems in the belief that within these epithermal systems gold mineralisation trended into base metals. While there is some evidence for this, the discovery of the Soan–Sinter–Sinbar system which extends in vertical shoots to below 500 metres depth has shown that this model cannot be universally applied across the field.

As a result, current exploration is consequently focussing on testing vein systems below the historical mining centres of Kerikil, Permata-Bantian-Hulabai, Batman and Serujan which are virtually undrilled below 150 metres. A major part of the current exploration plan at Mt Muro is to systematically drill test below these strike extensive systems for the plunge continuation of these shoots. Early success has been made in 2010 with a number of hits below the old pits.

Regional exploration will utilise gradient array electrical geophysics and low level multi-element geochemistry combined with the geological database to generate targets, which will be re-ranked and drill tested.

C Hillgrove (100% owned)

Hillgrove is located near Armidale, NSW and was purchased by Straits in March 2004. Since that time Straits has been pursuing a development plan, encompassing additional resource definition, metallurgical testwork and design and mine planning.

The Hillgrove mining area comprises a large number of gold/antimony veins, typically subparallel, and of near vertical dip. Veins are generally narrow width (1.5 to 6 metres), but have extensive strike and vertical continuity. The Hillgrove area has been mined since the turn of the century using a variety of small scale hand held mining methods feeding a conventional mill comprising gravity and Carbon-in-leach / Carbon-in-pulp gold recovery and concentrate recovery of antimony. More recent innovations by previous owners included the installation of a modern autoclave facility to treat a stockpiled refractory arsenopyrite / gold concentrate.

In 2007, Straits commenced construction of a demonstration process plant to produce antimony metal, gold bullion and tungsten concentrate as a by-product. The process flow sheet comprised gravity gold recovery, flash flotation to a bulk concentrate, sequential leaching of gold and antimony to solution and conventional electrowinning of both gold and antinomy to metal.

Between September 2008 and August 2009 the plant produced saleable antimony to LME specifications, however the quantities produced were significantly below design levels due to a number of issues in the processing plant and operations were unprofitable. Whilst some rectifications to the plant were made, issues relating to effective waste water treatment, the flotation configuration and the interface between leaching and electrowinning continued. As a result in August 2009 it was decided to suspend operations to investigate the technical issues, the cost, and the time required to implement the required plant modifications to achieve commercially viable production levels.

Technical evaluations and preliminary engineering have been undertaken to identify an optimum processing route for Hillgrove operations going forward. Work to date indicates that the most likely route for Hillgrove will be producing antimony and gold concentrates for sale. The antimony price is currently strong and initial feedback from the market is positive in terms of securing satisfactory payment terms for these concentrates. Market soundings are continuing and the Straits Metals board of directors will review the future of Hillgrove in 2011 based on prevailing market circumstances and the Straits Metals' position.

4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

C Hillgrove (100% owned) (continued)

Mineral Resource and Ore Reserve statements for Hillgrove are summarised in Figure 4.3C(i) and Figure 4.3C(ii) below:

Figure 4.3C(i): Hillgrove Mineral Resource Statement as at 30 June 2010

Region	Project	Cut-off	Commodity	Measured	Indicated	Inferred	Total
Hillgrove	Syndicate	Au Equivalent 3.0 g/t.	Tonnes (kt)	240	390	40	670
			Au (g/t)	3	2.3	1.8	2.5
			Sb (%)	3.7	2.2	1.7	2.7
	Stockpiles	Variable	Tonnes (kt)	50			50
			Au (g/t)	2.0			2.0
			Sb (%)	2.2			2.2
	Other^	Variable	Tonnes (kt)	720	3,120	1,690	5,530
			Au (g/t)	6.2	4.3	4.4	4.6
			Sb (%)	1.3	1.4	1.6	1.4
Grand Total		**Variable**	**Tonnes (kt)**	**1,010**	**3,510**	**1,730**	**6,250**
			Au (g/t)	**5.2**	**4.1**	**4.4**	**4.3**
			Sb (%)	**1.9**	**1.5**	**1.6**	**1.6**

Notes:

1. *Hillgrove Au Equivalent based on Au: A$1,000/toz, Sb: A$5,500/t, =(gold+(antimony*1.71)).*
2. *“Other” represents resources from the following mining centres: Metz, Brackins Spur, Bakers Creek, Smiths-Freehold and Eleanora.*

Figure 4.3C(ii): Hillgrove Ore Reserve Statement as at 30 June 2010

Region	Project	Cut-off	Commodity	Proved	Probable	Total
Hillgrove	Syndicate Underground	5.0g/t AuEq	Tonnes (kt)	202	214	**416**
			Au (g/t)	2.5	2.3	**2.4**
			Sb (%)	3.2	2.7	**2.9**
	Syndicate Underground	Variable	Tonnes (kt)	54.0	–	**54.0**
			Au (g/t)	2.0	–	**2.0**
			Sb (%)	2.2	–	**2.2**
	Other Mine Areas	Variable	Tonnes (kt)	130	1,595	**1,725**
			Au (g/t)	6.1	4.0	**4.2**
			Sb (%)	1.1	2.0	**1.9**
	Grand Total		**Tonnes (kt)**	**386**	**1,809**	**2,195**
			Au (g/t)	**3.6**	**3.8**	**3.8**
			Sb (%)	**2.4**	**2.1**	**2.1**
			Au recov. (oz)	**37,500**	**183,300**	**220,800**
			Sb recov. (t)	**7,600**	**31,600**	**39,200**

Notes:

1. *Hillgrove Syndicate reserves based on mining shapes with an external dilution estimate of 10% and a mining recovery of 98%.*
2. *Hillgrove Au Equivalent calculations are based on a gold price of A$1,000/oz and an antimony price of A$5,500/t.*
3. *Hillgrove Other Mine Areas reserves represent Metz, Brackins Spur, Bakers Creek, Smiths-Freehold and Eleanora mining centres.*
4. *Metallurgical recoveries for Hillgrove operations are based on 84% for antimony, 83% for gold.*

4.3 Description of the Metals Business (continued)

D Goldminco Corporation (71% owned)

Overview

Straits currently holds approximately 71% of Goldminco. Goldminco is a copper and gold exploration company that holds an interest in exploration packages in Eastern Australia, predominantly within the Lachlan Fold Belt of New South Wales. The company is registered in Canada with headquarters in West Perth. It is currently listed on the TSX Venture Exchange and has a market capitalisation of C$20.7 million or $20.6 million as at 22 November 2010.

Goldminco holds an interest in approximately 1,800km^2 of exploration tenements in the prospective Lachlan Fold Belt (**LFB**) of New South Wales. LFB is centred about 250km west of Sydney, and is largely composed of prospective Silurian and Ordovician volcanic and sedimentary rocks variously intruded by younger mafic and felsic volcanics. The area is host to large porphyry copper-gold and epithermal gold deposits, including Cadia, Cadia East and Ridgeway (owned by Newcrest), Northparkes (owned by Rio Tinto) and Lake Cowal (owned by Barrick Gold Corporation). In addition, a number of other significant mines have historically operated in the area, such as Browns Creek, Gidginbung, Peak Hill, Copper Hill and Lucky Draw.

Goldminco's key properties are the Temora, Blayney and Tick Hill projects:

(1) **Temora Project**

The Temora Project hosts numerous identified porphyry systems, including The Dam, Mandamah Estoril and Culingerai, along a strike length of more than 30 km. These are advanced prospects with significant drill-hole intersections and Mineral Resources as well as excellent upside potential.

An initial resource estimate was announced by Goldminco on 2 July 2008 for the Temora Project Mineral Resources. The location of the Temora Project is illustrated in Figure 4.3D(i) below and the project's Mineral Resources are shown in Figure 4.3D(ii).

All Mineral Resources are within a 35 km radius of each other and are close to surface infrastructure.

(2) **Blayney Project**

The Blayney Project is located 35 km south of Orange within the central volcanic belt (Molong Volcanic Zone) of the LFB (see Figure 4.3D(i) below). The Blayney Project covers the eastern margin of the Forest Reefs Volcanics (**FRV**), a late Ordovician to early Silurian volcano-magmatic centre considered one of the most prospective geological environments in the LFB for porphyry-related copper-gold mineralisation. The Cadia and Ridgeway gold deposits of Newcrest Mining Limited are also hosted by the FRV, 15 km to the west of the Blayney Project. The Blayney Project includes the Discovery Ridge and Bald Hill prospects.

4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

D Goldminco Corporation (71% owned) (continued)

Overview (continued)

(2) **Blayney Project** (continued)

Figure 4.3D(i): Temora and Blayney Projects

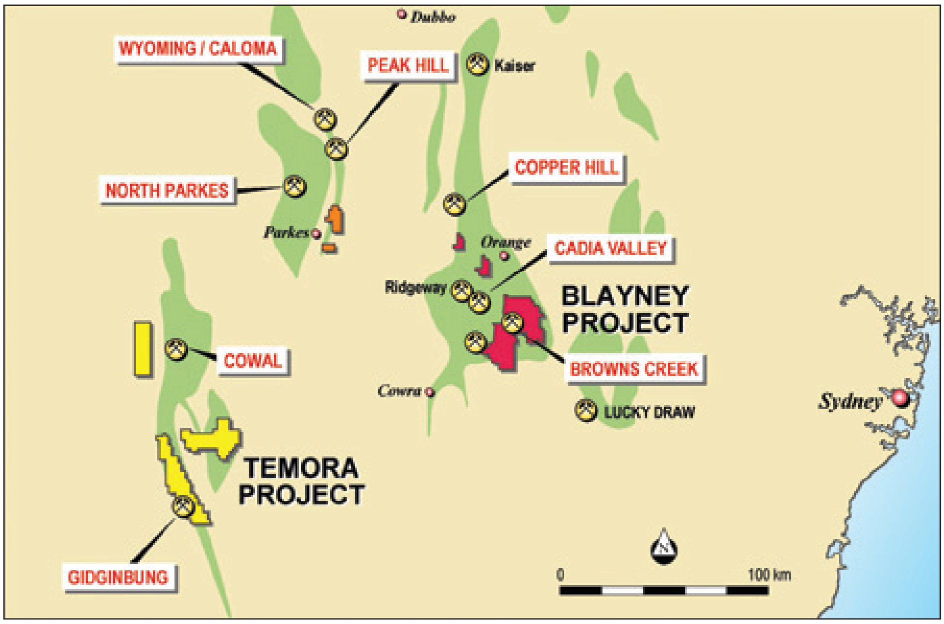


Figure 4.3D(ii): Goldminco Mineral Resource Statement as at 30 June 2010

Region	Project	Cut-off	Commodity	Measured	Indicated	Inferred	Total
Goldminco Corp. (Straits' share 71%)	Discovery Ridge	0.5 g/t Au	Tonnes (kt) Au (g/t)	–	4,900 1.3	9,100 1.1	**14,000** **1.2**
	Bald Hill	0.3 g/t Au	Tonnes (kt) Au (g/t)	–		37,000 0.5	**37,000** **0.5**
	Temora Projects	Cu Equiv. 0.25%	Tonnes (kt) Au (g/t) Cu (%)	–	21,000 0.5 0.4	121,000 0.2 0.3	**142,000** **0.3** **0.3**

Notes:

1. *Temora porphyry copper-gold resources for copper equivalent are based on copper price US$3.67/lb and gold price US$874/oz.*

4.3 Description of the Metals Business (continued)

D Goldminco Corporation (71% owned) (continued)

Overview (continued)

(3) **Tick Hill Project**

The Tick Hill Project is located in the Mt Isa Inlier in Queensland and includes two exploration permits covering an area of 86 km^2 surrounding the previously mined Tick Hill gold mine, a rich gold ore deposit that produced 665,000 tons at 25 g/t gold between 1991 and 1994.

The Tick Hill Project also contains the Duchess and Ivanhoe copper prospects. The Duchess copper mine historically produced in total more than 20,000 tons of copper and is located within the southern portion of the Mt Isa inlier in northwest Queensland.

Exploration Plans

Goldminco's strategy is to actively continue exploration, focusing first on the Temora and Blayney projects. Straits Metals will support the development of this strategy and if merited, initiation of feasibility analysis. Drilling has continued to extend the known mineralisation at the Temora project and geophysical and geochemical studies have highlighted a number of drill targets at the Blayney and Tick Hill projects.

Drilling at Yiddah prospect (Temora Project) has confirmed the up dip continuity of mineralisation from previous drilling and extended the strike length of known mineralisation (exceeding 0.2% copper) to at least 1.7 km. A number of targets have been identified for follow up drilling starting in late 2010/2011. In 2011 Goldminco plans to recalculate the Mineral Resources, which will be used for a development scoping study and to assist in targeting exploration at this project.

At Goldminco's Blayney project area in NSW, 15 km east of Cadia, a strong IP chargeability anomaly has been identified which is associated with a resistivity high at the Bluebird prospect. An IP survey was completed targeting structurally controlled copper-gold mineralised systems below Tertiary basalt cover, on the eastern margin of the tenement area and close to the Newmont/Alkane McPhillamy's discovery. The results indicate two strong chargeability anomalies hosted within the Ordovician Blayney Volcanics. Planning is underway to drill test these anomalies during 2011.

E Torrens (Right to earn 70% interest from Argonaut Resources)

The Torrens Joint Venture is exploring for IOCG systems in the prospective Stuart Shelf region of South Australia (Torrens Project). The Torrens Project is located near the eastern margin of South Australia's Gawler Craton region (Stuart Shelf), within 50 km of Teck Cominco's Carrapateena copper-gold discovery and 75 km from BHP Billiton's Olympic Dam mine.

In early July 2010 the Torrens Joint Venture announced that its application under Section 23 of the Aboriginal Heritage Act 1988 in South Australia in respect of the Torrens Project (EL4296) had been approved by the Minister for Aboriginal Affairs and Reconciliation. The Torrens Joint Venture is now in the process of attempting to finalise the necessary agreement under the South Australian Mining Act, which would allow drilling activities to commence on site. It is expected that once approvals for drilling are in place, drill testing will occur on a number of gravity / magnetic anomalies for Olympic Dam / Carrapateena type targets.

4 Information on Straits Metals

4.3 Description of the Metals Business (continued)

F Magontec

Magontec is a supplier of magnesium alloys offering a wide spectrum of magnesium alloys for the automotive industry, including recycling with plants in Europe and China. Magontec also offers globally innovative cathodic corrosion protection solutions for the water heater industry with magnesium and impressed current anodes. Magontec was formed in 1953 with its head office in Bottrop, Germany. Magontec operates two plants, one in Bottrop, Germany and one in Xian, China with a total magnesium alloy annual capacity of 36,000 tonnes. As at 30 June 2010 Magontec employed 325 people in Germany and China.

4.4 Board, management and corporate governance

A Board of Straits Metals

If the Demerger proceeds, the Straits Metals board of directors will initially comprise:

- Alan Good – Chairman and Non-Executive Director
- Milan Jerkovic – Chief Executive Officer
- Michael Gibson – Executive Director – Corporate & Finance
- Garry Lowder – Non-Executive Director
- Alastair Morrison – Non-Executive Director.

B Executive Management

On implementation of the Demerger, the executive management team of Straits Metals will comprise:

- Milan Jerkovic – Chief Executive Officer
- Michael Gibson – Executive Director – Corporate & Finance
- Gail Campbell – Chief Financial Officer
- Dave Greenwood – Executive General Manager – Exploration and External Affairs
- Nic Earner – Executive General Manager – Operations

Peter Storey will be employed by Straits Metals but, as set out in **Section 6.4**, will be seconded full time as the Chief Executive Officer of Straits ICH pursuant to the Transition Services Agreement. Mark Hands will be the Company Secretary of Straits Metals following the Demerger. As set out in **Section 6.4**, Mark Hands will also be seconded on a part time basis as the Company Secretary of Straits ICH pursuant to the Transition Services Agreement.

4.4 Board, management and corporate governance (continued)

C Corporate Governance

This **Section 4.4C** sets out the approach that Straits Metals will take following the implementation of the Demerger in relation to corporate governance. Relevant policies and charters will be adopted by Straits Metals prior to implementation of the Demerger. The approach of Straits Metals to corporate governance is broadly consistent with Straits' current approach to corporate governance other than set out below.

(1) Composition of the Straits Metals board of directors

The Straits Directors as at the date of this Demerger Scheme Booklet are set out in **Section 10.1**. The Straits Metals board of directors will comprise directors with a broad range of skills, expertise and experience from a diverse range of backgrounds. The current Straits Metals board of directors includes two Non-Executive Independent Directors. The Straits Metals board of directors will look to appoint another independent director. Accordingly, on listing, Straits Metals will not follow the recommendation set by the ASX Corporate Governance Council that a majority of the board of directors are independent non-executive directors. Given the size of Straits Metals upon listing, the inclusion of more independent non-executive directors in order to meet that requirement is not considered to be warranted. It is considered that the composition of the Straits Metals board of directors set out above will best serve the interests of Straits Metals' shareholders.

(2) Role and responsibility of the Straits Metals board of directors

The Straits Metals board of directors' role and responsibilities following implementation of the Demerger will be encompassed in a formal charter that will be adopted by the Straits Metals board of directors and will be published on the company's website. The charter will be reviewed annually to determine whether any changes are necessary or desirable. It is envisaged that Straits Metals' charter will be substantially the same as Straits' charter.

Generally, the role of the Straits Metals board of directors post-demerger will include:

- setting the strategic direction of Straits Metals with management, and monitoring management's implementation of that strategy;
- evaluating, approving and monitoring major capital expenditure, capital management and all major corporate transactions;
- approving the annual operating budget, annual shareholders' report and annual financial accounts;
- appointing, monitoring, managing the performance of, and if necessary terminating, the employment of the Chief Executive Officer of Straits Metals;
- approving and monitoring Straits Metals' risk management framework; and
- ensuring compliance with the Corporations Act, Listing Rules and other relevant regulations.

4 Information on Straits Metals

4.4 Board, management and corporate governance (continued)

C Corporate Governance (continued)

(2) **Role and responsibility of the Straits Metals board of directors** (continued)

The major responsibilities of the Straits Metals board of directors after implementation of the Demerger will include responsibility for:

- supervising the company's framework of control and accountability systems to enable risk to be assessed and managed;
- the appointment and removal of the Chief Executive Officer, the Chief Financial Officer and the Company Secretary of Straits Metals;
- monitoring senior management's performance and implementation of strategy and ensuring appropriate resources are available;
- input into and final approval of management's development of corporate strategy, goals and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and disposals;
- approving the annual budget;
- approving and monitoring financial and other reporting;
- overall corporate governance of the company, including conducting regular reviews of the balance of responsibilities within the company
- to ensure the division of functions remain appropriate to the needs of the company;
- liaising with the company's external auditors and the Audit and Financial Risk Committee;
- adopting a formal code of conduct to be followed by all the Straits Metals directors, employees and contractors of the company; and
- monitoring, and ensuring compliance with, the company's legal obligations.

4.4 Board, management and corporate governance (continued)

C Corporate Governance (continued)

(3) Board committees

The Straits Metals board of directors may from time to time establish board committees as it considers necessary or appropriate to assist it in carrying out its responsibilities.

To assist in carrying out their responsibilities, the Straits Metals board of directors will establish the following standing committees following the Demerger:

- Audit Committee; and
- Remuneration Committee.

Each of the above committees will adopt a charter setting out matters relevant to the authority, responsibilities, membership and operation of that committee. A copy of each committee's charter will be published on the company's website. The Straits Metals board of directors may also delegate specific functions to ad hoc committees on an 'as needs' basis.

The intended roles and responsibilities of each of these standing committees are described below.

(a) Audit and Financial Risk Committee

The Audit and Financial Risk Committee (**Audit Committee**) objective is to assist the Straits Metals board of directors to fulfil its responsibilities in relation to Straits Metals' accounting and financial reporting practices.

The Audit Committee makes recommendations to the Straits Metals board of directors and does not have any power to commit the Straits Metals board of directors or management to these recommendations. The Audit Committee will have unrestricted access to executives of Straits Metals, and to the external and internal auditors in order to fulfil its purpose and undertake its duties.

The Audit Committee will have a key role in assisting the Straits Metals board of directors to fulfil its responsibilities to oversee financial reporting, internal control structure, risk management systems and the internal and external audit functions.

The Audit Committee is also intended as an effective mechanism for the auditor to communicate in an informal and confidential way with the members of the Audit Committee about these issues as well as potentially troublesome issues at a relatively early stage and to broach sensitive issues in an uninhibited fashion.

The Audit Committee oversees:

- the adequacy of Straits Metals' accounting system and internal control environment;
- the adequacy of Straits Metals' system for compliance with relevant laws, regulations, standards and codes;
- the effectiveness of their internal accounting controls;
- the identification of improvements that can or should be made to the Straits Metals' internal controls, policies and financial disclosures;
- the frequency and significance of all transactions with related parties and assesses their propriety;
- the integrity and quality of Straits Metals' financial information including financial information provided to ASIC, ASX and shareholders; and
- the independence, objectivity, scope and quality of the external audit.

The Audit Committee will comprise three non-executive directors, of which two will be considered independent.

4 Information on Straits Metals

4.4 Board, management and corporate governance (continued)

C Corporate Governance (continued)

(3) **Board committees** (continued)

(b) Remuneration committee

The role of the Remuneration Committee is to review and make recommendations to the Straits Metals board of directors in respect of:

- an executive remuneration and incentive policy;
- the remuneration of the Chief Executive Officer of Straits Metals and any other executive director, the Company Secretary and all senior executives reporting directly to the Chief Executive Officer;
- an executive incentive plan;
- an equity-based incentive plan;
- the remuneration of non-executive directors;
- superannuation arrangements;
- recruitment, retention, performance measurement and termination policies and procedures for nonexecutive directors, the Chief Executive Officer of Straits Metals and any other executive director, the Company Secretary and all senior executives reporting directly to the Chief Executive Officer; and
- the disclosure of remuneration in Straits Metals' public materials including ASX filings and the annual report.

The Remuneration Committee will comprise a majority of independent, non-executive directors. The Straits Metals board of directors will appoint one of these members as Remuneration Committee chairman.

(4) **Board processes**

The processes of the Straits Metals board of directors will be governed by the constitution of Straits Metals as summarised in **Section 10.5**.

(5) **Resources available to the board**

In executing its role and responsibilities, the Straits Metals board of directors will have access to senior management. It also has the authority to seek information it requires from employees and external parties, to obtain outside legal or other professional advice at the expense of Straits Metals and to ensure company officers attend board meetings as appropriate.

The chairperson of the Straits Metals board of directors will be responsible for leadership of the Straits Metals board of directors, for the efficient organisation and conduct of the board's functions and for the briefing of all Straits Metals directors in relation to issues arising at board meetings. The chairperson of the Straits Metals board of directors is also responsible for shareholder communication and arranging board performance evaluation.

4.4 Board, management and corporate governance (continued)

D Summary of corporate office and group functions

Straits Metals' corporate office will perform certain functions in support of the Straits Metals group of companies and will consist of executive management and corporate office employees who will be responsible for these functions. These functions include the following:

Service	Description
Accounting (including payroll function)	Accounts payable and receivables, preparing management accounts and payroll
Treasury	Banking, cashflow management and other treasury functions
Technical Services	Supervising long term mine planning, and other technical services to operations, including group health, safety & environment co-ordination
Exploration	Planning and supervising exploration strategies and programs, including joint ventures
Administration (including company secretarial)	General office administration and company secretarial duties including corporate governance
Management	Managing corporate transactions
Tax support	Preparation of income tax return, BAS preparation and lodging, and PAYG lodgement
Investor relations	News and media support incorporating presentations and broker liaison as required
Information technology	Information technology hardware and software provision and on-going support
Serviced office facilities	Provision and maintenance of serviced office facilities and related support

E Straits Metals capital structure

As part of the implementation of the Demerger, Straits Metals will establish its own capital structure, separate from Straits, to provide for its funding needs and execute upon its business plan.

Other than in connection with the capital structuring of Straits Metals in connection with the Demerger, Straits Metals has not raised any capital for the three months before the date of lodgement of this Booklet for registration by ASIC and does not expect it will need to raise any capital in the three months after the date of lodgement of this Booklet for registration by ASIC.

No Straits Metals Shares were sold in the three months immediately before the date on which this Booklet was lodged with ASIC.

4 Information on Straits Metals

4.4 Board, management and corporate governance (continued)

E Straits Metals capital structure (continued)

(1) Straits Metals share capital structure

As at the date of this Demerger Scheme Booklet, Straits Metals has issued one Straits Metals Share. Straits is the legal and beneficial owner of that one share. If the Demerger is implemented, Straits Metals will have 316.3 million ordinary shares on issue.

Straits is currently implementing capital investment work programs at a number of its assets, including the Tritton Copper Project and Mt Muro. Based on current market conditions and performance assumptions, Straits Metals initial capital position, in conjunction with cash inflows from sales, is expected to provide sufficient capital to enable Straits Metals to execute these capital investment work programs, undertake exploration activities at the Tritton Copper Project, Goldminco and Torrens and for other normal business operating expenditure.

(2) Employee share plans

Straits Metals intends to replicate the existing Straits Share Plan for Straits Metals following the Demerger. A general summary of the key terms of the Straits Metals Share Plan is set out in this **Section 4.4E(2)** below.

Straits Metals has applied for a waiver from Listing Rule 10.14 so that it will be in a position, if so determined by the Straits Metals remuneration committee after the Demerger, to issue Straits Metals Shares to two executive directors, Milan Jerkovic and Michael Gibson, under the Straits Metals Share Plan following implementation of the Demerger Scheme, without the need for a separate shareholder approval.

The Straits Metals remuneration committee will determine whether Mr. Jerkovic and Mr. Gibson will participate in the Straits Metals Share Plan in accordance with this waiver at the appropriate time. Any participation in accordance with this waiver will be on the terms set out in Part 1 of **Annexure D**. The terms of the Straits Metals Share Plan are set out in Part 2 of **Annexure D**.

(3) Employee Share Option Plan

Under the Employee Share Option Plan approved on 8 May 2008, there are currently 150,000 options outstanding. 100,000 options will expire on 21 December 2010 and a further 5,000 will expire on 7 January 2011, before the Demerger, and 45,000 will expire on 21 December 2011. Straits has entered into letters of agreement with each holder of Straits Options that would otherwise be exercisable as at the Demerger Scheme Implementation Date. The total cash consideration payable by Straits for cancelling these options is less than $15,000. No consideration was payable by employees for the grant of the options.

4.5 Future funding

Straits Metals will assess suitable equity and debt capital raising opportunities should further funding be required.

Straits Metals also intends to enter into derivatives to manage its exposure to commodity and foreign exchange fluctuations as appropriate.

At present, the Board believes that, based on current market conditions and performance assumptions, Straits Metals is sufficiently funded to meet its anticipated near-term funding needs and will have enough working capital to carry out its objectives stated in this Demerger Scheme Booklet.

5 Straits Metals pro forma historical financial information

This Section 5 includes pro forma historical financial information concerning the financial performance and cash flows and the financial position of Straits Metals as if the Demerger had been implemented.

PricewaterhouseCoopers Securities Ltd has prepared an Investigating Accountant's Report in respect of the pro forma historical financial information presented in this Section 5. The pro forma historical financial information should be read in conjunction with the Investigating Accountant's Report included in Annexure B.

5.1 Introduction

This section contains pro forma historical financial information relating to Straits Metals. References to the Straits Metals pro forma historical financial information refer to the Straits Metals Group on a consolidated basis as if the Demerger had occurred.

The following pro forma historical financial information has been prepared (collectively, the "Straits Metals pro forma historical financial information"):

- summary pro forma historical income statements for the years ended 30 June 2009 and 30 June 2010;
- summary pro forma historical operating and investing cash flows before financing activities and tax for the years ended 30 June 2009 and 30 June 2010; and
- pro forma historical balance sheet as at 30 June 2010.

PricewaterhouseCoopers Securities Ltd has prepared an Investigating Accountant's Report in respect of the Straits Metals pro forma historical financial information presented in this Section. The Straits Metals pro forma historical financial information should be read in conjunction with the Investigating Accountant's Report included in Annexure B.

The Straits Metals pro forma historical financial information is presented in an abbreviated form that does not include all of the disclosures usually provided in financial statements prepared in accordance with the Corporations Act.

The Straits Metals pro forma historical financial information is presented in Australian dollars which will be the functional and presentation currency adopted by Straits Metals.

Straits has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information in relation to Straits Metals post Demerger. Straits has concluded that forecast financial information cannot be included as a reasonable basis does not exist for producing forecasts that would be sufficiently meaningful and reliable. Straits Metals assets are currently at a stage of re-evaluation and appraisal and, as such, key variable inputs including the timing and level of production and costs related to development and operating activities are subject to variation, which may have a material impact on future earnings performance.

5 Straits Metals pro forma historical financial information

5.2 Basis of preparation

Straits has prepared the Straits Metals pro forma historical financial information based on historical information relating to Straits Metals extracted from Straits' audited financial statements for the years ended 30 June 2009 and 30 June 2010.

The summary pro forma historical income statements and summary pro forma historical cash flows for Straits Metals have been presented on a consolidated basis as if the Demerger had occurred and Straits Metals existed as a standalone group for the historical period. The summary pro forma historical income statements and summary pro forma historical cash flows for Straits Metals are stated before net financing costs and income tax and have been prepared incorporating the following pro forma adjustments:

- adjustments to derecognise discontinued operations included in the audited historical information;
- adjustments to remove the impact on historical earnings of asset impairments recognised during the historical period; and
- adjustments to recognise the incremental costs of Straits Metals operating as a standalone listed entity rather than as part of the Straits Group.

The Straits Metals pro forma historical balance sheet has been prepared based on the balance sheet relating to Straits Metals extracted from Straits' audited financial statements for the year ended 30 June 2010. If the Demerger is approved, the Straits Metals assets and liabilities will be transferred from Straits to Straits Metals at their fair value at the date of implementation of the Demerger. The Straits Metals pro forma balance sheet reflects adjustments to the fair value of the Straits Metals assets and liabilities based on the Directors' current assessment of the estimated fair values of these assets and liabilities at the estimated date of implementation of the Demerger. The Straits Metals pro forma balance sheet is after pro forma adjustments for transaction and termination costs associated with the Demerger, Straits' announced sale of GfE and movement in the cash balance of Straits Group to 31 October 2010.

The Straits Metals pro forma balance sheet has been prepared in order to give Straits Shareholders an indication of Straits Metals' balance sheet in the circumstances noted in this section and does not purport to state the actual financial position of Straits Metals at the time the Demerger is effected and implemented.

Straits Metals will adopt the accounting policies set out in Straits' audited financial statements for the year ended 30 June 2010. These financial statements can be found at Straits' website (www.straits.com.au).

5.3 Summary pro forma historical income statements

Set out below are the summary pro forma historical income statements for Straits Metals for the years ended 30 June 2009 and 30 June 2010.

Table 5.3: Straits Metals pro forma income statements

$ millions	Year ended 30 June 2009	Year ended 30 June 2010
Sales Revenue	**258.5**	**293.5**
EBITDA[1]	**(103.1)**	**(36.2)**
Depreciation and amortisation	(44.0)	(27.6)
EBIT[2]	**(147.1)**	**(63.8)**

(1) *Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) is a useful and widely used financial metric to assess Straits Metals' operating and financial performance before the impact of investing and financing decisions and taxation. The net assets of Straits Metals are to be demerged from Straits at their assessed fair value at the date the Demerger is implemented, therefore the level of historical depreciation and amortisation is not necessarily reflective of future depreciation and amortisation expense amounts. In addition, the amount of cash and debt in Straits Metals that exists at the date the Demerger is implemented will be different to that reflected in the historical financial statements. Therefore, Straits considers that EBITDA will provide shareholders with a useful measure for comparability between periods.*

(2) *Financing and taxation impacts have not been included on a pro forma basis as the historical net financing position and taxation arrangements and structure of Straits Metals will not necessarily reflect the position of Straits Metals in periods following the Demerger.*

A Commentary on historical performance

This section provides a summary of the historical financial performance of Straits Metals and should be read in conjunction with Straits' annual reports for the years ended 30 June 2009 and 30 June 2010 which provide commentary on the performance of the assets to be transferred into Straits Metals. These annual reports are available from Straits' website (www.straits.com.au).

The Tritton Copper Project

The year ended 30 June 2010 was a period of significant consolidation and preparation for the future at the Tritton Copper Project.

With the suspension of production activities at Murrawombie and North East in 2008, there was a significant shortfall of ore coming into the operation. In spite of these ore sources being eliminated, the operation was able to process 906,347 tonnes in the year to 30 June 2010, a small reduction on the 921,116 tonnes processed in the prior year.

The average grade of the ore mined fell by 14% in the year to 30 June 2010, caused by a significant increase in the amount of lower grade development ore delivered to the mill. The reduction in grade resulted in lower copper metal production of 20,847 tonnes of copper in concentrate in the year to 30 June 2010 compared to 24,111 tonnes of copper in concentrate produced in the prior year.

5 Straits Metals pro forma historical financial information

5.3 Summary pro forma historical income statements (continued)

A Commentary on historical performance (continued)

Set out below is a summary of key historical metrics relating to the financial and operating performance of the Tritton Copper Project.

Table 5.3A(i): Tritton Copper Project key historical metrics

	Year ended 30 June 2009	Year ended 30 June 2010
Ore mined (tonnes)	932,532	911,539
Production (tonnes in copper concentrate)	24,111	20,847
Average cash costs (excludes TC/RC) ($/lb)	1.09	1.64
Sales Revenue ($m)	93.9	138.6
EBITDA ($m)	(62.8)	8.3

Average cash costs increased during the year ended 30 June 2010 reflecting a major change in mining methodology to allow removal of more of the ore body and an increase in mine recoveries.

Mt Muro

Mining activities for the year ended 30 June 2010 comprised the extraction of vein and eluvial gold and silver ore from a range of regionally distributed open pits.

Mt Muro produced 45,521 ounces of gold and 143,496 ounces of silver for the year ended 30 June 2010. The level of gold production for the year was slightly below the production for the prior year however silver production fell significantly due to the drop in ore grade from an average of 24.6 grams per tonne of ore in the year ended 30 June 2009 to 12.4 grams per tonne of ore.

Cash costs remained high at US$1,196 per ounce of gold for the year ended 30 June 2010 due to production constraints.

Set out below is a summary of key historical metrics relating to the financial and operating performance of Mt Muro.

Table 5.3A(ii): Mt Muro key historical metrics

	Year ended 30 June 2009	Year ended 30 June 2010
Ore mined (tonnes)	622,100	602,563
Production (gold ounces)	48,846	45,521
Production (silver ounces)	304,357	143,496
Average cash cost (US$/oz)	918	1,196
Sales Revenue ($m)	60.7	56.5
EBITDA ($m)	(14.4)	(5.8)

5.3 Summary pro forma historical income statements (continued)

A Commentary on historical performance (continued)

Hillgrove

The metal production plant produced saleable antimony metal in the year ended 30 June 2010, however the quantities produced were significantly below design levels due to a number of issues in the processing plant. Whilst some rectifications to the plant were made, issues relating to effective waste water treatment, the flotation configuration and the interface between leaching and electro-winning continued. In August 2009, it was decided to suspend operations to investigate the technical issues and the cost and time required to implement the required plant modifications to achieve commercially viable production levels.

In advance of any final decision regarding the future options for re-commencement of operations at Hillgrove, the Directors determined at 30 June 2010 that it was prudent to impair the carrying value of the Hillgrove assets by $72.3 million.

Sales revenue at Hillgrove for the year ended 30 June 2010 amounted to $1.8 million (2009: $3.6 million) with an EBITDA loss of $13.3 million before impairment charges (2009: loss of $11.8 million).

Magontec

The magnesium alloy market started recovering in the second half of 2009 but was still 30-40% behind the volumes achieved in 2007 and 2008. Efficiency improvements and cost cutting programs were implemented and showed positive results. Magontec's metal sales volumes increased in the year ended 30 June 2010 by 90% over the prior year.

Sales revenue at Magontec for the year ended 30 June 2010 amounted to $96.6 million (2009: $100.3 million) with EBITDA of $4.5 million (2009 loss of $1.8 million).

B Reconciliation of pro forma historical EBIT to Straits Group's reported net profit after tax

The Straits Metals pro forma historical earnings before interest and tax for the years ended 30 June 2009 and 30 June 2010 are reconciled to Straits Group's net profit after tax as shown in the table below.

Table 5.3B: Reconciliation of Straits Metals pro forma EBIT to Straits Group reported net profit after tax

$ millions	Year ended 30 June 2009	Year ended 30 June 2010
Straits Metals pro forma EBIT	**(147.1)**	**(63.8)**
Straits ICH pro forma EBIT	28.4	18.7
Restatement of Straits ICH's equity accounted investment in pro forma EBIT for the entire period	(21.8)	-
Additional administration costs shown in pro forma EBIT	0.8	0.9
Impairment charges	(161.7)	(72.3)
Exploration write down	(3.4)	(0.1)
Foreign exchange translation on US$ bank accounts	(30.4)	5.4
Net finance costs	(10.3)	(6.7)
Profit before tax	**(345.5)**	**(117.9)**
Tax	86.6	27.1
Net profit after tax	**(258.9)**	**(90.8)**
Discontinued operations	296.9	21.5
Straits Group reported net profit after tax	**38.0**	**(69.3)**

5 Straits Metals pro forma historical financial information

5.4 Summary pro forma historical cash flows from operating and investing activities before financing activities and tax

Set out below are the summary pro forma historical cash flows from operating and investing activities before financing activities and tax for Straits Metals for the years ended 30 June 2009 and 30 June 2010.

Table 5.4: Straits Metals pro forma cash flow statements

$ millions	Year ended 30 June 2009	Year ended 30 June 2010
EBITDA	**(103.1)**	**(36.2)**
Other non-cash losses (gains)	65.5	(8.6)
Changes in net working capital	26.8	6.8
Net operating cash flow before finance and tax	**(10.8)**	**(38.0)**
Net payments for property, plant and equipment	(89.8)	(49.6)
Net payments for investments in shares	(6.0)	(9.4)
Payments for exploration expenditure	(10.6)	(11.6)
Net investing cash flows	**(106.5)**	**(70.7)**
Net cash flows from operating and investing before tax and finance[1]	**(117.3)**	**(108.7)**

(1) *Taxation and financing cash flows have not been included on a pro forma basis as the historical net financing position and taxation arrangements and structure of Straits Metals will not necessarily reflect the position of Straits Metals in periods following the Demerger.*

A Net operating cash flow before finance and tax

Other non-cash items included above predominantly relate to:

- unrealised foreign exchange gains on working capital balances of $1.7 million in the year ended 30 June 2010 ($16.2 million loss in the year ended 30 June 2009);
- an unrealised gain on investments in listed companies of $6.7 million in the year ended 30 June 2010 ($1.7 million in the year ended 30 June 2009); and
- hedge accounting losses of $48.9 million which were expensed in 2009 reflecting the delivery period of the hedges which were paid out in December 2007.

Changes in net working capital relate to movements in inventories, receivables, payables and provisions across the Straits Metals Group in the normal course of its operations.

5.4 Summary pro forma historical cash flows from operating and investing activities before financing activities and tax (continued)

B Net investing cash flows

Investing cash flows incurred in the year ended 30 June 2010 included expenditure on:

- mine development at North East (part of the Tritton Copper Project);
- changing the mining method and commencement of construction on the pastefill plant (Tritton Copper Project);
- near mine exploration programs and in-mine deep diamond drilling (Tritton Copper Project);
- re-evaluation of the ore body at Murrawombie (part of the Tritton Copper Project); and
- a move to owner/operator surface mining (Mt Muro).

Investing cash flows incurred in the year ended 30 June 2009 included expenditure on:

- expansion of the processing plant and a review of the Girilambone mineral field (part of Tritton Copper Project); and
- installation of a coal fired power station and exploration programs (Mt Muro).

5.5 Pro forma balance sheet

The following table sets out the historical balance sheet of Straits Group as at 30 June 2010 together with the Straits Metals pro forma balance sheet at that date after incorporating the financial effect of the Demerger and the pro forma adjustments detailed below (see Table 5.5 on the next page).

The pro forma balance sheet represents the Directors' current estimation of the fair value of Straits Metals. The actual fair value of the assets and liabilities to be distributed on the Implementation Date will be determined by reference to the VWAP of Straits Metals shares as traded on ASX (whether on a deferred or normal settlement basis) over the first five trading days after the Effective Date.

As such, the fair value of Straits Metals' assets and liabilities transferred on Demerger is likely to be different from that shown in the pro forma balance sheet below. Refer to **Section 7.5B** for a further description of the Demerger accounting treatment.

The Straits Group's historical balance sheet as at 30 June 2010 has been adjusted to reflect the gross up of deferred tax assets and liabilities amounting to $77.4 million relating to the Australian tax consolidated group which were offset in the audited 30 June 2010 financial statements.

5 Straits Metals pro forma historical financial information

5.5 Pro forma balance sheet (continued)

Table 5.5: Straits Metals pro forma balance sheet

$ millions	Straits Group 30-Jun-10	Cash movement to 31-Oct-10 [1]	Fair value adjustment [2]	Straits ICH [3]	GfE sale [4]	Transaction and termination costs [5]	Straits Metals pro forma
CURRENT ASSETS							
Cash and cash equivalents	192.1	(60.5)	(15.4)	(37.0)	3.6	(14.0)	68.9
Receivables	57.0	-	-	-	-	-	57.0
Inventories	65.4	9.4	-	-	-	-	74.8
Other financial assets	36.6	(4.6)	19.4	-	-	-	51.4
Derivative financial instruments	-	-	4.4	-	-	-	4.4
Assets classified as held for sale	78.2	-	-	-	(77.8)	-	0.4
Total current assets	429.4	(55.7)	8.4	(37.0)	(74.2)	(14.0)	256.9
NON-CURRENT ASSETS							
Receivables	0.5	-	-	-	6.0	-	6.5
Investments accounted for using the equity method	260.2	-	-	(260.2)	-	-	-
Other financial assets	3.8	-	1.0	-	-	-	4.8
Property, plant and equipment	101.4	17.5	(34.1)	-	-	-	84.8
Exploration and evaluation	73.7	-	(26.8)	-	-	-	46.9
Mine properties in use	110.5	10.5	(71.0)	-	-	-	49.9
Deferred tax assets	78.8	-	(27.2)	(51.6)	-	-	-
Intangible assets	5.6	-	(5.6)	-	-	-	-
Total non-current assets	634.5	28.0	(163.7)	(311.8)	6.0	-	193.0
TOTAL ASSETS	1,063.9	(27.7)	(155.4)	(348.8)	(68.2)	(14.0)	449.9
CURRENT LIABILITIES							
Payables	49.1	-	-	-	-	-	49.1
Interest bearing liabilities	27.5	-	-	(3.2)	-	-	24.3
Non-interest bearing liabilities	0.3	-	-	-	-	-	0.3
Provisions	5.7	-	-	-	-	-	5.7
Derivative financial instruments	3.3	-	(2.5)	-	-	-	0.8
Current tax liabilities	0.4	-	-	-	-	-	0.4
Liabilities classified as held for sale	56.1	-	-	-	(56.1)	-	-
Total current liabilities	142.4	-	(2.5)	(3.2)	(56.1)	-	80.6
NON-CURRENT LIABILITIES							
Interest bearing liabilities	82.0	-	-	(76.9)	-	-	5.1
Non-interest bearing liabilities	0.3	-	-	-	-	-	0.3
Deferred tax liabilities	79.3	-	(14.4)	(65.0)	-	-	-
Provisions	23.7	-	-	-	-	-	23.7
Total non-current liabilities	185.2	-	(14.4)	(141.8)	-	-	29.0
TOTAL LIABILITIES	327.7	-	(16.9)	(145.0)	(56.1)	-	109.7
NET ASSETS	**736.2**	**(27.7)**	**(138.5)**	**(203.7)**	**(12.1)**	**(14.0)**	**340.2**
EQUITY							
Contributed equity	432.1	-	-	(100.5)	-	-	331.6
Reserves	39.5	-	-	(32.2)	(7.4)	-	-
Retained profits	256.0	(27.7)	(138.5)	(71.0)	(4.7)	(14.0)	-
Capital and reserves attributable to owners	727.7	(27.7)	(138.5)	(203.7)	(12.1)	(14.0)	331.6
Non-controlling interest	8.6	-	-	-	-	-	8.6
TOTAL EQUITY	**736.2**	**(27.7)**	**(138.5)**	**(203.7)**	**(12.1)**	**(14.0)**	**340.2**

5.5 Pro forma balance sheet (continued)

A Pro forma balance sheet adjustments

The Straits Metals pro forma historical balance sheet incorporates the following fair value and pro forma adjustments:

(1) **Cash movement to 31 October 2010**

Any movement in the Straits Group cash balance prior to Demerger will directly impact the amount of cash attributable to Straits Metals at that date.

At 31 October 2010, the cash balance of Straits Group had reduced by $75.9 million from the 30 June 2010 balance, comprising a net cash outflow of $60.5 million and an unrealised foreign exchange loss of $15.4 million. The net cash outflow of $60.5 million over the period from 30 June 2010 to 31 October 2010 predominantly relates to:

- the sale and purchase of other financial assets (comprising listed investments);
- an increase in inventory (predominantly relating to the Tritton Copper Project);
- the previously announced investment and recapitalisation program that has commenced at the Tritton Copper Project. This includes:
  - o the change to the "bottom-up"/transverse mining method;
  - o commencement of the pastefill project; and
  - o preparation of North East to commence production;
- previously announced surface and underground mine development activities at Mt Muro;
- ongoing greenfields, around mine and resource definition drilling; and
- net operating losses and payments of dividends to Straits Shareholders (collectively reflected in the adjustment to retained earnings).

The reduction in cash during the period from 30 June 2010 to 31 October 2010 may not be representative of future movements in cash. Further, the pro forma cash balance does not purport to state the actual cash position of Straits Metals at Demerger.

(2) **Fair value adjustments**

The Straits Metals pro forma balance sheet reflects adjustments to the fair value of Straits Metals' assets and liabilities based on:

- the Directors' current assessment of the estimated fair value of the metals businesses at the estimated date of implementation of the Demerger;
- the current market price of other financial assets (comprising listed investments) and derivatives; and
- the unrealised movement in the Australian dollar value of cash deposits held in US dollars from 30 June 2010 to 31 October 2010.

5 Straits Metals pro forma historical financial information

5.5 Pro forma balance sheet (continued)

A Pro forma balance sheet adjustments (continued)

(2) **Fair value and other adjustments** (continued)

The following table sets out the estimated fair value adjustments:

Table 5.5A: Pro forma fair value adjustments

	Fair value adjustments ($m)
Tritton Copper Project	(82.3)
Hillgrove	(29.5)
Mt Muro	(23.3)
Magontec	(9.4)
Other	(5.9)
Other financial assets (listed investments)	20.4
Derivative financial instruments	6.9
Unrealised foreign exchange losses	(15.4)
	(138.5)

(3) **Removal of Straits ICH**

The removal of balances relating to Straits ICH that were included in Straits Group's historical balance sheet. These balances consisted of:

- investments accounted for using the equity method which represents Straits' 40% shareholding in PTTAPM;
- the Straits Convertible Notes; and
- net assets of Straits not assigned to Straits Metals (including retained cash of $50 million, liabilities estimated at $13 million and deferred taxation balances).

(4) **GfE sale**

The sale of GfE was announced to the ASX on 11 November 2010. Total consideration for the sale is US$15.0 million, with US$3.0 million due at closure and the balance of US$12.0 million payable in instalments over a five year period. The Directors have estimated the fair value of the US$12.0 million deferred consideration to be $6.0 million.

If the GfE sale does not complete before the Demerger, the associated pro forma adjustments will not be recognised and Straits Metals pro forma net assets would increase by $12.1 million.

(5) **Transaction and termination costs**

Transaction and termination costs are estimated to be approximately $14.0 million and represent various transaction costs associated with the Demerger and the cost of terminating Straits' employment contracts prior to employees transferring to Straits Metals.

5.5 Pro forma balance sheet (continued)

B Significant pro forma balances

Cash

The Straits Metals pro forma balance sheet assumes that Straits ICH will have cash of $37.0 million at the time of the Demerger which is the Retained Cash Amount less Straits' estimate of its liabilities associated with the Demerger, including transaction and termination costs. To the extent the amount of cash retained by Straits ICH differs from this assumption, there would be a contrary movement in the Straits Metals' cash balance.

Receivables

Receivables at 30 June 2010 predominantly comprise trade and other receivables at Mt Muro and Magontec in addition to $22.4 million of restricted cash relating to cash backed bank guarantees for tenement and environmental bonds. The trade receivables balance at Demerger will depend on the value and timing of sales at that time.

Inventory

Inventory at 30 June 2010 comprised $29.0 million of finished goods (carried at market value), $18.3 million of work in progress and $0.3 million of raw materials (carried at net realisable value) and $17.8 million of supplies (carried at cost). The inventory balance at Demerger is dependent on the level and cost of production and the value and timing of sales at that time.

Other financial assets

In 2009, Straits initiated a strategy to invest funds in gold and other metal companies as part of the Straits Group's wider asset base.

Other financial assets are carried in Straits' financial statements at their prevailing market traded prices at balance date. Set out below is a table reflecting the movement in the carrying value of other financial assets held by Straits Metals as at 30 June 2010 and at 31 October 2010:

Table 5.5B: Straits Metals other financial assets

	Carrying value 30 June 2010	Carrying value 31 October 2010
Current assets	36.6	51.4
Non-current assets	3.8	4.8
Total	**40.4**	**56.2**

Property, plant and equipment, exploration and mine properties

Property, plant and equipment and mine properties mostly comprise assets related to the processing plant and the underground mine development at the Tritton Copper Project. Exploration balances mainly relate to expenditure which has been capitalised in respect of past drilling programs conducted around near-mine prospects at the Tritton Copper Project and Mt Muro.

5 Straits Metals pro forma historical financial information

5.5 Pro forma balance sheet (continued)

B Significant pro forma balances (continued)

Provisions

Current provisions predominantly comprise provisions for employee benefits that are expected to transfer to Straits Metals at Demerger.

Non-current provisions at 30 June 2010 comprise provisions for rehabilitation and dismantling ($15.0 million) and provision for employee benefits ($8.7 million). The provision for rehabilitation reflects the present value of the estimated cost of restoration obligations that existed at 30 June 2010. The provision for dismantling reflects the estimated costs of dismantling and removing items of plant and equipment and restoring the site on which they were located. Non-current provisions for employee benefits includes a net liability of $5.9 million in relation to a defined benefit pension plan for the Magontec business.

Derivatives

Straits Metals is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates and to movements in the prices of copper and gold. The carrying value of derivatives at 31 October 2010 was a net asset of $3.6 million.

Interest bearing debt and available finance facilities

Interest bearing debt predominantly relates to borrowing base and factoring facilities provided to the Magontec group. These facilities are secured by a floating charge over trade receivables, inventories and certain cash deposits, a fixed charge over freehold land and buildings and finance leases over plant and equipment, and has no recourse to other members of the Straits Group outside of the Magontec group of companies.

Total borrowing facilities at 30 June 2010 amounted to $40.8 million of which $24.0 million was drawn (total facilities of $35.5 million with $20.8 million drawn at 31 October 2010).

Deferred tax assets and liabilities

No deferred tax assets and liabilities are reflected in the pro forma balance sheet as there are not expected to be any material differences between the accounting and tax carrying values of the Straits Metals assets at the time of Demerger.

C Effect of the Acquisition Proposal

If the Acquisition Proposal proceeds, under the terms of the Indemnity and Adjustment Deed (summarised in **Section 1.9**), Straits and Straits Metals have agreed that Straits ICH will have the Adjusted Retained Cash (expected to be Net Cash of $50 million) on the Acquisition Scheme Implementation Date. For further information see the Acquisition Scheme Booklet and, in particular, the pro forma financial information in Annexure B of the Acquisition Scheme Booklet.

5.6 Material commitments and contingencies

Capital expenditure which had been contracted but not recognised as liabilities at 30 June 2010 amounted to $11.2 million. Commitments for minimum lease payments in relation to non-operating leases amounted to a further $11.2 million at 30 June 2010.

There has been no material increase to commitments and contingencies post 30 June 2010.

5.7 Dividend policy

Straits Metals does not expect to pay dividends in the near term. Going forward, Straits Metals will continue to assess its capital requirements and profitability in relation to formalising any dividend policy.

6 Information on Straits after the Demerger (Straits ICH)

This Section 6 provides information on Straits ICH (formerly Straits, assuming the Name Change Resolution is approved) if the Demerger Scheme is implemented but the Acquisition Scheme is not implemented. In this event, Straits ICH will continue to be listed on ASX and will continue to hold and operate all of its current businesses other than the business of Straits Metals described in Section 4.

If the Demerger Scheme is implemented and the Acquisition Scheme is also implemented, then Straits ICH will be acquired by PTTML and you will cease to be a shareholder of Straits ICH. In this event, the information in this Section 6 will no longer be relevant.

6.1 Overview

A Brief overview of Straits and Straits ICH

Straits was founded in 1992 and was first listed on ASX in July 1994.

On the assumption that the proposed Demerger is approved by Straits Shareholders and the Court, following the Demerger, Straits will retain the Coal Business and the Retained Cash Amount allowing the company to focus all of its attention on maximising the value of these assets.

Straits ICH's primary asset will be a 40% stake in PTT Asia Pacific Mining Pty Ltd (**PTTAPM**), which holds the following assets:

- 45.6% interest in Straits Asia Resources Limited (**SAR**), an Indonesian coal mining company, headquartered in Singapore and listed on the Singapore Exchange (**SGX**) with a market capitalisation of approximately S$2.86 billion (A$2.22 billion[8]) as at 22 November 2010. SAR is primarily engaged in the mining of thermal coal at the Sebuku Coal Mine located on Sebuku Island, South Kalimantan (Sebuku), and the Jembayan Coal Mine located in East Kalimantan (Jembayan), Indonesia. SAR also has an 80% interest in an exploration concession at Laung, Central Kalimantan, Indonesia.
- 35% interest in a joint venture with FEE to explore for potential Coal Resources in Brunei (**Brunei Coal Project**). FEE has secured a Memorandum of Understanding with the Government of Brunei in this regard. The program is based on mapping the region and on a sampling of the coal outcrops in the region. PTTAPM has a 35% stake in the JV, and has the right to increase its joint venture interest to 70%.
- 33.5% interest in Red Island Minerals (**RIM**) which holds an interest in the Sakoa coal tenements in Madagascar (**Madagascar Coal Project**). The drilling program at Sakoa was completed in May 2010. The program intersected coal, although issues concerning coal quality data have delayed resource modeling and made it more difficult to complete.
- 100% stake in the Yannarie salt exploration licences, in Western Australia.

[8] *Applying an exchange rate of A$1.00:$1.2825 as sourced from Bloomberg on 22 November 2010.*

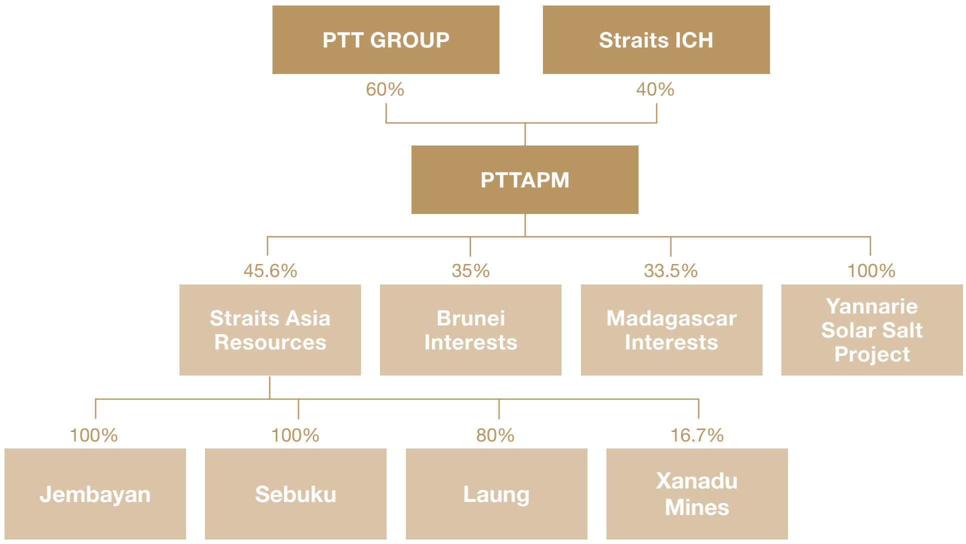
6 Information on Straits after the Demerger (Straits ICH)

6.1 Overview (continued)

A Brief overview of Straits and Straits ICH (continued)

The proposed corporate structure of Straits ICH is shown in Figure 6.1A below:

Figure 6.1A: Straits ICH Corporate Structure



Source: Company

B Business Overview of Straits ICH

The business overview of Straits ICH is as follows:

(1) **Global coal investment vehicle**

Straits ICH is a global coal management and investment vehicle that conducts its coal business through a 40% minority interest in the PTTAPM Joint Venture, which currently has coal assets in Indonesia, Brunei and Madagascar. PTTAPM's coal assets include a mix of producing assets (SAR) and exploration projects (Brunei Coal Project and Madagascar Coal Project). Straits ICH, through PTTAPM, actively pursues opportunities in the thermal coal sector globally. Straits ICH is actively engaged in shaping and deciding the growth and development goals and business plans of PTTAPM coal assets, including SAR, in accordance with the PTTAPM Joint Venture.

(2) **Investment in a high quality producing asset**

Straits ICH primary producing asset, through its interest in the PTTAPM Joint Venture, is SAR, which sold 10.5 Mt of coal in the 12 months to June 2010 from its mines at Sebuku and Jembayan. Each operation has a reliable track record of production with the majority of coal produced from each mine sold into the seaborne thermal coal market. These mines have a substantial JORC Coal Resource and Reserve Base (refer to Figure 6.3A(i) and Figure 6.3A(ii) for details) with potential for further upside if further exploration programs are successful.

6.1 Overview (continued)

B Business Overview of Straits ICH (continued)

(3) Growth options through investments in Brunei and Madagascar

Straits ICH has interests in the Brunei Coal Project and the Madagascar Coal Project through its interest in the PTTAPM Joint Venture. Both the projects are early stage exploration projects, though they represent geological potential for future development. At the Brunei Coal Project, a drilling program has been planned but implementation has been delayed due to delays in the granting of prospecting licenses. At the Madagascar Coal Project, a drilling program at Sakoa was completed in May 2010. The program intersected coal, although issues concerning coal quality data have delayed and made more difficult resource modelling. Also, political instability in Madagascar has made finalisation of any decision on feasibility of development of the Madagascar Coal Project difficult, and hence no such decision has been made to date, or is anticipated in the near future. Both the projects present growth options for Straits ICH, should it wish to pursue further development.

(4) Management team with a demonstrated track record

Straits ICH's management team includes Peter Storey and James Carter, who have been with Straits for 10 years and 12 years, respectively, and have been engaged in management roles throughout that time. Straits ICH's management team were involved in creating SAR. SAR has grown its production from approximately 2.0 Mtpa in 2003 to 9.8 Mtpa in 2010 and was successfully listed in 2006 when Straits sold a 39.6% stake to new investors. Further, the management team have maintained a strong involvement in Straits' participation in the PTTAPM Joint Venture.

C Strategy of Straits ICH

Straits ICH business strategy is to be a global coal management and investment vehicle with exposure to high quality coal assets. Straits ICH executes its business strategy through the PTTAPM joint venture, in which it has a 40% stake.

The primary tenets of Straits ICH's business strategy include:

(1) Maximise potential of existing Indonesian coal asset base.

Jembayan and Sebuku are solid assets that underpin Straits ICH operating asset exposure. Straits ICH intends to use its PTTAPM management involvement to assist SAR to improve and expand these existing operations so as to significantly grow production.

(2) Consider development of Brunei and Madagascar projects.

Straits ICH will work closely with PTTML, through the PTTAPM Joint Venture, to seek to further advance the exploration and development activities at Brunei and Madagascar so as to increase, as appropriate, its future production pipeline and realise its vision of becoming a diversified multi-geography coal producer. Straits ICH will consider the development of these projects based on these projects achieving relevant licences and permissions and after consideration of feasibility and appropriate risk-reward analysis.

(3) Leverage on support from strong partners.

Straits ICH jointly owns PTTAPM with the PTT Group, which is one of Thailand's largest listed corporations and is included in the SET50 index of companies listed on The Stock Exchange of Thailand. The PTT Group have already stated their ambition to become one of the top thermal coal businesses in Asia.

6 Information on Straits after the Demerger (Straits ICH)

6.1 Overview (continued)

C Strategy of Straits ICH (continued)

(4) **Continue to search for new opportunities.**

Straits ICH plans to continue to actively seek out acquisition opportunities in coal, through introduction of opportunities to PTTAPM and potentially also in its own right. Straits ICH will assess such opportunities with the aim to enhance revenue growth, operations, profitability and diversify risk for the benefit of its stakeholders. Opportunities that Straits ICH will consider will also have the objective of assisting in the development of PTTAPM into a global coal company with a spread of country risk from a diversified asset base.

6.2 Coal Industry and Market Overview

A Coal Demand

From 2005 through 2009, thermal coal exports and imports grew at an average annual compound growth rate of 6%. Geographically, the largest growth in imports has been in Asia, with imports increasing from 299 Mt in 2005 to 452 Mt in 2009.[9]

In the first three months of 2010, China's imports of thermal coal reached a record of 34 Mt, more than three times higher than in the same period in 2009. Underpinning China's high domestic coal prices has been strong growth in electricity generation. To meet increased demand for coal, China's production of raw coal has increased but at a slower rate than growth in consumption.[10]

India is the fastest growing importer of thermal coal, with imports forecast to increase by 26 per cent to 68 Mt in 2010 and by a further 13 per cent to 77 Mt in 2011. Supporting growth in India's thermal coal imports is significant investment in new coal-fired generating capacity.[11]

While China and India are two of the world's largest coal producers, both are turning to imports as demand outstrips domestic production. The gap between demand and domestic production should continue to widen, as electricity consumption grows towards developed country levels. While Japan, Taiwan and South Korea also consume significant amounts of electricity in their industrial sectors, China and India are expected to contribute most to projected growth in thermal coal imports in the coming decade.[12]

B Coal Supply

In the medium term, the outlook remains positive as growth in supply is unlikely to be adequate to meet demand. Supply from substantial exporting countries such as Indonesia will be restricted as demand for domestic electricity consumption will potentially be more pressing than demand in foreign markets. Further, rail and/or port infrastructure capacity will continue to be a concern in most major thermal coal export countries.

Among major exporters, Australia and South Africa are expected to have substantially increased exports during 2010. Expansions have moved ahead in both countries and infrastructure is being planned to handle greater capacity and open up logistics for exporters. However, increasing domestic demand levels are likely to limit export growth for other coal producing countries. China's thermal exports in 2009 have dropped below 2008 levels and are expected to continue the trend downwards. Indonesia export growth is also limited as the country's domestic electrification program will potentially utilise more of its coal production. A larger proportion of Indonesian coal exports is also expected to be shipped to India, driven by Indonesia's geographical advantage over competing thermal coal exporters.[13]

9 *Source: June issue 2010 of Australian Commodities (published by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES)). ABARES is an independent research agency of the Australian Government.*

10 *Source: September issue 2010 of Australian Commodities (ABARES). ABARES is an independent research agency of the Australian Government.*

11 *Source: September issue 2010 of Australian Commodities (ABARES). ABARES is an independent research agency of the Australian Government.*

12 *Source: September issue 2010 of Australian Commodities (ABARES). ABARES is an independent research agency of the Australian Government.*

13 *Source: June issue 2010 of Australian Commodities (ABARES). ABARES is an independent research agency of the Australian Government.*

6.2 Coal Industry and Market Overview (continued)

C Coal Industry in Indonesia

Indonesian coal is relatively lower in ash and sulphur, but possesses higher moisture contents. The majority of Indonesia's coal resources are located in Sumatra and Kalimantan, with Kalimantan accounting for the higher quality coal mined in Indonesia. According to the Ministry of Energy and Mineral Resources, approximately 226 Mt of coal was produced in Indonesia in 2009, an increase of 26% (CAGR – 8%) compared to 2006. Figure 6.2C sets forth the number of tons produced in Indonesia for the periods indicated.

Figure 6.2C: Indonesian Annual Coal Production

Year	Production (Mtpa)
2006	179.6
2007	178.8
2008	194.4
2009	226.2
2010 (Year to July)	125.2

Source: Ministry of Energy and Mineral Resources (Indonesia)

Indonesian thermal coal exports grew rapidly from 2006-2009, making Indonesia the world's largest exporter in 2009. However, the rapid export growth from Indonesia has declined from these levels, with the most favourable deposits already in production, and growing domestic demand due to rapid electrification. In addition, increasing domestic demand of thermal coal in Indonesia has also resulted in the Indonesian Government issuing a ministerial decree requiring producers of coal and other minerals to allocate a proportion of their annual production output to the domestic market, otherwise known as "domestic market obligation".

6.3 Description of the Coal Business

Straits ICH's business is conducted through its 40% stake in PTTAPM, which in turn holds the following assets:

A Straits Asia Resources (45.6% Stake – held by PTTAPM)

SAR is a coal mining company which is headquartered in Singapore and is listed on the SGX with a market capitalisation of approximately S$2.86 billion (A$2.22 billion[14]) as at 22 November 2010. SAR was originally a wholly owned subsidiary of Straits which sold down a 39% interest to new investors as part of the SAR initial public offering (IPO) on the SGX in November 2006.

SAR is primarily engaged in thermal coal mining at the Sebuku coal mine located on Sebuku Island, South Kalimantan (Sebuku), and the Jembayan coal mine located in East Kalimantan (Jembayan), Indonesia. SAR has an 80% interest in an exploration concession at Laung, Central Kalimantan, Indonesia.

SAR produced 9.8 Mt of coal in the 12 months to June 2010 and achieved sales of 10.5 Mt of coal.

[14] *Applying an exchange rate of A$1.00:$1.2825 as sourced from Bloomberg on 22 November 2010.*

6 Information on Straits after the Demerger (Straits ICH)

6.3 Description of the Coal Business (continued)

A Straits Asia Resources (45.6% Stake – held by PTTAPM) (continued)

SAR's Coal Resources and Coal Reserves as at October 2010 are summarised in Figures 6.3A(i) and 6.3A(ii) below.

Figure 6.3A(i): SAR Coal Resources[15]

Coal Resources (mt)				
Project	**Measured**	**Indicated**	**Inferred**	**TOTAL**
Sebuku (Island)	18	40	70	128
Sebuku (Western Leases)	–	420	380	800
Jembayan	60	450	100	610
Total	**78**	**910**	**550**	**1,538**

Source: SAR 2009 Annual Report, Jembayan Update (October 2010)

Figure 6.3A(ii): SAR Coal Reserves[16]

Coal Reserves (mt)				
Project	**Proven**	**Probable**	**Total**	**Marketable**
Sebuku (Island)	8	–	8	7
Sebuku (Western Leases)	–	–	–	–
Jembayan	21	106	127	127
Total	**29**	**106**	**135**	**134**

Source: SAR 2009 Annual Report, Jembayan Update (October 2010)

SAR's strategy is to pursue organic growth through the ongoing development of the Sebuku and Jembayan coal mines, and to assess opportunities for continued growth through the acquisition of existing operations and greenfields areas in coal.

SAR has continued to invest in infrastructure to increase production capacity at both the Sebuku and Jembayan mines, with the installation of 4 million tonnes of additional wash plant capacity at Sebuku and the increase of crushing capacity, coal stockpiling and barge loading facilities at Jembayan well underway.

The Sebuku mine produced 1.5 Mt in the 12 months to June 2010. While the plant capacity of Sebuku is 8 Mtpa, production in 2011 and 2012 will be determined by the timing of receipt of approvals required for mining the northern leases. The Jembayan mine produced 8.3 Mt of coal in the 12 months to June 2010. Jembayan currently has a capacity of 11 Mtpa.

15 *The SAR Coal Resources figures for Sebuku are as at 31 December 2009. The figures for Jembayan are as at 30 June 2010.*

16 *The SAR Coal Reserves figures for Sebuku are as at 31 December 2009. The figures for Jembayan are as at 30 June 2010.*

6.3 Description of the Coal Business (continued)

A Straits Asia Resources (45.6% Stake – held by PTTAPM) (continued)

Other coal exploration interests held by SAR include:

- **80% stake in Laung Coking Coal Project (Laung)**. SAR holds an 80% interest in exploration rights on a 20,000 hectare area in Central Kalimantan, known as the Laung project. This area is close to BHP's Maruwai coal project and contains high quality Eocene coking coal and Miocene thermal coal.
- **16.7% stake in Xanadu Mines Limited (Xanadu)**. Xanadu is an unlisted public company that is currently seeking to become listed on the ASX and holds rights to a concession in Mongolia. Xanadu is in the preliminary stages of an exploration program in the concession area and has discovered significant coal deposits.

B Brunei Coal (35% Stake – held by PTTAPM)

The Government of Brunei Darussalam and FEE signed a Memorandum of Understanding on 25 August 2007, which enables FEE to undertake a program of exploration for coal in Brunei and the subsequent right to apply for prospecting licenses, if all conditions are met. PTTAPM currently has a joint venture agreement with FEE to fund exploration and mine development upon grant of licences, and to provide mining expertise in exchange for staged equity into the project as described in the Memorandum of Understanding. The "Brunei Interest" means all rights, obligations and interests of Straits under the FEE joint venture agreement. PTTAPM has earned a 35% interest in the total project, and has the right to increase its joint venture interest to 70%.

PTTAPM and FEE have the right to undertake a program of exploration for coal in Brunei and the subsequent right to apply for prospecting licenses, if all conditions are met. The area available for exploration under this agreement covers all of Brunei, although it is expected that prospecting licenses will only be granted over those areas with coal prospectivity and meet other environmental approvals and are compatible with other land use constraints.

During the year 2009/2010, detailed mapping programs were conducted in the south and coastal regions of Brunei. Following this, an initial review of the available geophysical database was undertaken and it is expected that a more detailed analysis of this data will improve the ventures' knowledge of the basin structure and stratigraphy in relation to the known coal horizons.

A drilling program was planned but implementation has been delayed due to delays in the granting of prospecting licenses. Work is being undertaken on a number of commercial issues intended to lead to increased exploration activities in the second half of the year.

6 Information on Straits after the Demerger (Straits ICH)

6.3 Description of the Coal Business (continued)

C Madagascar Coal Project (33.5% stake – held by PTTAPM)

RIM owns an 80% interest in Madagascar Consolidated Mining (**MCM**) which has certain coal rights in the Sakoa area in Madagascar. In January 2008, Straits finalised a sale and purchase agreement with RIM to acquire an interest in the coal tenements in the Sakoa coalfield in Madagascar. This agreement called for the determination of an Indicated and Measured Coal Resource to JORC standards and the drafting of a feasibility study to evaluate whether the Coal Resources within the lease areas could be commercially exploited.

An extensive exploration program at the Sakoa coalfield was completed in May 2010 with subsequent analytical and laboratory work by RIM continuing into July 2010. A total of approximately 33,000 metres was drilled over the project area and the program intersected coal in the vast majority of holes, although issues concerning coal quality data have delayed resource modelling and made it more difficult.

Resource modelling on the data and information generated by the exploration program is still in progress. Upon completion of a JORC resource statement and other feasibility investigations, PTTAPM is able to exercise the RIM Option which permits it to increase ownership in RIM from 33.5% to 100% through the payment of $0.60 for every JORC Measured and Indicated Resource tonne defined above 100 million tonnes.

Recently, certain option grantors asserted that the RIM Option has expired by reason of delay. PTTAPM is of the view that such assertion is wrong and that the option continues in existence. If a dispute continues it will be dealt with under the dispute resolution procedure in the option contract.

Following implementation of the Acquisition Scheme, the decision whether to exercise the RIM Option will be a matter for PTTML and the PTTAPM board of directors. If the Acquisition Scheme does not proceed, the decision whether to exercise the RIM Option will be a matter for the PTTAPM board of directors.

While the Acquisition Scheme Implementation Agreement remains operative, the RIM Option cannot be exercised without the prior written consent of Straits. In the event that Straits and the PTTAPM board of directors need to decide whether to exercise the RIM Option while the Acquisition Scheme Implementation Agreement remains operative, the Straits Board will consider this based on circumstances at the time.

D Yannarie Solar Salt Project (100% Stake – held by PTTAPM)

Yannarie is a proposed solar salt project in Western Australia which will utilise solar energy to progressively evaporate seawater and crystallise solar salt.

Recently, the independent peer review committee of environmental experts which was established to address the environmental concerns of the project, has recommended that the project be relocated further north (closer to the Onslow Salt facility) to improve environmental outcomes. The current project was withdrawn from assessment to facilitate dialogue with stakeholders on a new project location.

The revised project location remains entirely within the Temporary Ministerial Reserve set aside for salt production. Numerous presentations have been held with key stakeholders detailing the new proposal and the improved environmental credentials.

Further discussions are scheduled with key Ministers to gauge the governments' support for the new location.

6.4 Board, management and corporate governance

A Board of Straits ICH

If the Demerger proceeds, the Straits ICH Board will initially comprise:

- Alan Good – Chairman and Non-Executive Director
- Garry Lowder – Non-Executive Director
- Alastair Morrison – Non-Executive Director.

B Executive Management

On implementation of the Demerger, the executive management team of Straits ICH will comprise:

- Peter Storey – Chief Executive Officer
- James Carter – Chief Financial Officer

Peter Storey will be employed by Straits Metals on and from the Restructure Date but will be seconded, on a full time basis, to Straits ICH as its Chief Executive Officer pursuant to the Transition Services Agreement. Peter has a long history of involvement in the development of the Sebuku Coal mine operated by SAR, and was actively involved in the early development aspects of the Jembayan Mine following the acquisition by SAR in 2008. He is currently an alternative Director to the board of PTTAPM and has in the past been an alternate director to the SAR board of directors.

James Carter was the previous Chief Financial Officer of SAR, occupying that role from 1 January 2007 until 30 April 2009. He is currently an alternate Director to the board of PTTAPM and has in the past been an alternate director to the SAR board of directors.

Pursuant to the Transition Services Agreement, Mark Hands will be seconded, on a part time basis, to Straits ICH to fulfil the role of Straits ICH Company Secretary.

C Corporate Governance

This **Section 6.4C** sets out the approach that Straits ICH will take following the implementation of the Demerger in relation to corporate governance. The approach of Straits ICH to corporate governance will be the same as Straits' current approach to corporate governance other than set out below.

(1) **Board committees**

The Straits ICH board of directors may from time to time establish board committees as it considers necessary or appropriate to assist it in carrying out its responsibilities.

To assist in carrying out their responsibilities, the Straits ICH board of directors will establish the following standing committees following the Demerger:

- Audit Committee; and
- Remuneration Committee.

Each of the above committees will adopt a charter setting out matters relevant to the authority, responsibilities, membership and operation of that committee. A copy of each committee's charter will be published on the company's website. The Straits ICH board of directors may also delegate specific functions to ad hoc committees on an 'as needs' basis. All three directors will be members of the Audit Committee and the Remuneration Committee.

6 Information on Straits after the Demerger (Straits ICH)

6.4 Board, management and corporate governance (continued)

C Corporate Governance (continued)

(2) **Board processes**

The processes of the Straits ICH board of directors will be governed by the constitution of Straits ICH.

(3) **Resources available to the board**

In executing its role and responsibilities, the Straits ICH board of directors will have access to senior management. It also has the authority to seek information it requires from employees and external parties, to obtain outside legal or other professional advice at the expense of the company and to ensure company officers attend board meetings as appropriate.

The chairperson of the Straits ICH board of directors will be responsible for leadership of the Straits ICH board of directors, for the efficient organisation and conduct of the Straits ICH board of directors' function and for the briefing of all directors in relation to issues arising at board meetings. The chairperson of the Straits ICH board of directors is also responsible for shareholder communication and arranging board performance evaluation.

D Summary of corporate office and group functions

Upon implementation of the Demerger, Straits and Straits Metals will enter into a Transition Services Agreement whereby Straits Metals will provide such services as may be reasonably requested by Straits ICH to support its head office for a period of 12 months after the demerger. Straits ICH will pay Straits Metals' monthly service fees on a cost recovery basis.

E Straits ICH capital structure

(1) **Straits ICH share capital structure**

Straits ICH currently has 255.2 million ordinary shares on issue. Available cash reserves at Straits will be divided between an amount retained by Straits ICH, which Straits intends to be made available for the needs of the Coal Business retained in Straits ICH post-demerger, and cash reserves transferred to Straits Metals as part of the Demerger process. The Retained Cash Amount will be retained by Straits ICH and cash in excess of that amount at the Restructure Date will be transferred to Straits Metals as part of the Demerger. If the Acquisition Proposal proceeds, pursuant to the Indemnity and Adjustment Deed, Straits ICH will retain the Adjusted Retained Cash (expected to be Net Cash of $50 million) and Straits Metals will no longer have the right to such excess cash. If the Straits Convertible Notes are converted into ordinary shares, Straits ICH share capital will increase to 316.3 million shares.

6.4 Board, management and corporate governance (continued)

E Straits ICH capital structure (continued)

(2) Employee share plans

The existing Straits Share Plan will continue after implementation of the Demerger Scheme, subject to the terms of that plan. If the Acquisition Scheme becomes effective, all Straits Shares held under the Straits Share Plan will be transferred under the Acquisition Scheme. The consideration received will first be applied to repay any outstanding loan in relation to the Straits Shares, with any excess returned to the participant.

(3) Straits Convertible Notes

SCPE currently holds 55 million convertible notes in Straits which are convertible into approximately 61.1 million ordinary shares or approximately 19.4% of the Straits Shares which will then be on issue. Straits has entered into a separate agreement with SCPE to convert the convertible notes if the Demerger Scheme becomes effective or, subject to certain conditions and depending on the proxy position before the Demerger Scheme meeting and in sufficient time to enable it to vote the Straits Shares received upon conversion at the Scheme Meeting, before that meeting.

(4) Straits Options

Straits has entered into letters of agreement with the holders of all Straits Options that would otherwise be exercisable as at the Demerger Scheme Implementation Date such that all remaining Straits Options will be cancelled prior to the Demerger Scheme Implementation Date. Cancellation of the Straits Options is a condition of the Demerger Scheme. As such, no Straits Options will exist in Straits ICH after implementation of the Demerger.

7 Straits ICH pro forma historical financial information

This Section 7 includes pro forma historical financial information concerning the financial performance and cash flows and the financial position of Straits ICH as if the Demerger had been implemented.

PricewaterhouseCoopers Securities Ltd has prepared an Investigating Accountant's Report in respect of the pro forma historical financial information presented in this Section 7. The pro forma historical financial information should be read in conjunction with the Investigating Accountant's Report included in Annexure B.

7.1 Introduction

This section contains pro forma historical financial information relating to Straits ICH. References to the Straits ICH pro forma historical financial information refer to Straits ICH as if the Demerger had occurred.

The following pro forma historical financial information has been prepared (collectively, the "Straits ICH pro forma historical financial information"):

- summary pro forma historical income statements for the years ended 30 June 2009 and 30 June 2010;
- summary pro forma historical net operating and investing cash flows before financing activities and tax for the years ended 30 June 2009 and 30 June 2010; and
- pro forma historical balance sheet as at 30 June 2010.

PricewaterhouseCoopers Securities Ltd has prepared an Investigating Accountant's Report in respect of the Straits ICH pro forma historical financial information presented in this Section. The Straits ICH pro forma historical financial information should be read in conjunction with the Investigating Accountant's Report included in Annexure B.

The Straits ICH pro forma historical financial information is presented in an abbreviated form that does not include all of the disclosures usually provided in financial statements prepared in accordance with the Corporations Act.

The Straits ICH pro forma historical financial information is presented in Australian dollars.

Straits has given careful consideration as to whether a reasonable basis exists to produce reliable and meaningful forecast financial information in relation to Straits ICH post Demerger. Straits has concluded that forecast financial information cannot be included as a reasonable basis does not exist for producing forecasts that would be sufficiently meaningful and reliable.

7.2 Basis of preparation

Straits has prepared the Straits ICH pro forma historical financial information based on historical information relating to Straits ICH extracted from Straits' audited financial statements for the years ended 30 June 2009 and 30 June 2010.

The summary pro forma historical income statements and summary pro forma historical cash flows for Straits ICH have been presented as if the Demerger had occurred and Straits ICH existed as a stand alone group for the historical period. The summary pro forma historical income statements and summary pro forma historical cash flows for Straits ICH are stated before net financing costs and income tax and have been prepared incorporating the following pro forma adjustments:

- adjustments to derecognise the income statements and cash flows relating to Straits Metals included in Straits' audited historical financial statements;
- adjustments to recognise the equity accounted investment in PTTAPM as if it had been consistently held over the historical period; and
- adjustments to recognise the reduced costs of Straits ICH operating as a standalone listed entity relative to such costs for the existing Straits Group.

7.2 Basis of preparation (continued)

The Straits ICH pro forma balance sheet has been prepared based on Straits' audited financial statements for the year ended 30 June 2010. If the Demerger is approved, the Straits Metals assets and liabilities will be transferred from Straits to Straits Metals at their fair values at the date of implementation of the Demerger. The Straits ICH pro forma balance sheet reflects adjustments to the fair value of the Straits Metals assets and liabilities based on the Straits Directors' current assessment of the estimated fair values of these assets and liabilities at the estimated date of implementation of the Demerger. The Straits ICH pro forma balance sheet is after pro forma adjustments to reflect the announced sale of GfE, intended conversion of convertible notes, deferred taxation adjustments, transaction and termination costs associated with the Demerger and the movement in the cash balance of Straits Group to 31 October 2010.

The Straits ICH pro forma balance sheet has been prepared in order to give Straits Shareholders an indication of Straits ICH's balance sheet in the circumstances noted in this section and does not purport to state the actual financial position of Straits ICH at the time the Demerger is effected and implemented.

Straits ICH will continue to apply the accounting policies set out in Straits' audited financial statements for the year ended 30 June 2010. These financial statements can be found at Straits' website (www.straits.com.au).

7.3 Summary pro forma historical income statements

Set out below are the summary pro forma historical income statements for Straits ICH for the years ended 30 June 2009 and 30 June 2010.

Table 7.3: Straits ICH pro forma income statements

$ millions	Year ended 30 June 2009	Year ended 30 June 2010
Share of net profits of associates	29.8	20.1
Other	(1.4)	(1.4)
EBITDA[1]	**28.4**	**18.7**
Depreciation and amortisation	–	–
EBIT[2]	**28.4**	**18.7**

(1) *Earnings before interest, income tax expense, depreciation and amortisation (EBITDA) is a useful and widely used financial metric to assess Straits ICH's operating and financial performance before the impact of investing and financing decisions and taxation. The amount of cash and debt in Straits ICH that exists at the date the Demerger is implemented will be different to that reflected in the historical financial statements. Therefore, Straits considers that EBITDA will provide shareholders with a useful measure for comparability between periods.*

(2) *Financing and taxation impacts have not been included on a pro forma basis as the historical net financing position and taxation arrangements and structure of Straits Group will not necessarily reflect the position of Straits ICH in periods following the Demerger.*

7 Straits ICH pro forma historical financial information

7.3 Summary pro forma historical income statements (continued)

A Commentary on historical performance

This section should be read in conjunction with Straits' annual reports for the years ended 30 June 2009 and 30 June 2010 which provide commentary on the performance of the assets to be retained in Straits ICH. These annual reports are available from Straits' website (www.straits.com.au).

Investment in associate

Straits ICH will hold the 40% interest in PTTAPM. The pro forma historical income statements reflect the level of earnings that would have been attributable to Straits ICH if the 40% investment in PTTAPM was held throughout the historical period.

PTTAPM's key operating asset, SAR (in which PTTAPM has an effective 45.6% interest), produced 9.8 million tonnes of coal in the year ended 30 June 2010 (2009: 7.8 million tonnes) and achieved sales of 10.5 million tonnes (2009: 8.1 million tonnes).

Straits ICH's 40% share of PTT APM's revenues was $336.8 million in the year ended 30 June 2010 ($365.6 million in the year ended 30 June 2009).

B Reconciliation of pro forma historical EBIT to Straits Group's reported net profit after tax

The Straits ICH pro forma historical earnings before interest and tax for the years ended 30 June 2009 and 30 June 2010 are reconciled to the Straits Group's net profit after tax as shown in the table below.

Table 7.3B: Reconciliation of Straits ICH pro forma EBIT to Straits Group reported net profit after tax

$ millions	Year ended 30 June 2009	Year ended 30 June 2010
Straits ICH pro forma EBIT	**28.4**	**18.7**
Straits Metals pro forma EBIT	(147.1)	(63.8)
Restatement of Straits ICH equity accounted investment in pro forma EBIT for the entire period	(21.8)	-
Additional administration costs shown in pro forma EBIT	0.8	0.9
Impairment charges	(161.7)	(72.3)
Exploration write down	(3.4)	(0.1)
Foreign exchange translation on US$ bank accounts	(30.4)	5.4
Net finance costs	(10.3)	(6.7)
Profit before tax	**(345.5)**	**(117.9)**
Tax	86.6	27.1
Net profit after tax	**(258.9)**	**(90.8)**
Discontinued operations	296.9	21.5
Straits Group reported net profit after tax	**38.0**	**(69.3)**

7.4 Summary pro forma historical cash flows from operating and investing activities before financing activities and tax

Set out below are the summary pro forma historical cash flows from operating and investing activities before financing activities and tax for Straits ICH for the years ended 30 June 2009 and 30 June 2010.

Table 7.4: Straits ICH pro forma cash flow statements

$ millions	Year ended 30 June 2009	Year ended 30 June 2010
EBITDA	**28.4**	**18.7**
Share of net profits of associates	(29.8)	(20.1)
Net operating cash flow before finance and tax	**(1.4)**	**(1.4)**
Dividends received from PTTAPM	12.6	13.1
Net investing cash flows	**12.6**	**13.1**
Net cash flows from operating and investing before tax and finance[1]	**11.2**	**11.7**

(1) *Taxation and financing cash flows have not been included on a pro forma basis as the historical net financing position and taxation arrangements and structure of Straits Group will not necessarily reflect the position of Straits ICH in periods following the Demerger.*

The net operating cash outflow before finance and tax represents the anticipated level of administration and support costs required for Straits ICH after the Demerger.

7.5 Pro forma historical balance sheet

The following table sets out the historical balance sheet of Straits Group as at 30 June 2010 together with the Straits ICH pro forma balance sheet at that date after incorporating the financial effects of the Demerger and the pro forma adjustments detailed below (see Table 7.5 on the next page).

The Straits Group's historical balance sheet as at 30 June 2010 has been adjusted to reflect the gross up of deferred tax assets and liabilities amounting to $77.4 million relating to the Australian tax consolidated group which were offset in the audited 30 June 2010 financial statements.

7 Straits ICH pro forma historical financial information

7.5 Pro forma historical balance sheet (continued)

Table 7.5: Straits ICH pro forma balance sheet

$ millions	Straits Group 30-Jun-10	Cash movement to 31-Oct-10 [1]	Fair Value adjustment [2]	Straits Metals [3]	GfE sale [4]	Exercise convertible notes [5]	Deferred tax adjustment [6]	Transaction and termination costs [7]	Straits ICH pro forma
CURRENT ASSETS									
Cash and cash equivalents	192.1	(60.5)	(15.4)	(68.9)	3.6	-	-	(14.0)	37.0
Receivables	57.0	-	-	(57.0)	-	-	-	-	-
Inventories	65.4	9.4	-	(74.8)	-	-	-	-	-
Other financial assets	36.6	(4.6)	19.4	(51.4)	-	-	-	-	-
Derivative financial instruments	-	-	4.4	(4.4)	-	-	-	-	-
Assets classified as held for sale	78.2	-	-	(0.4)	(77.8)	-	-	-	-
Total current assets	429.4	(55.7)	8.4	(256.9)	(74.2)	-	-	(14.0)	37.0
NON-CURRENT ASSETS									
Receivables	0.5	-	-	(6.5)	6.0	-	-	-	-
Investments accounted for using the equity method	260.2	-	-	-	-	-	-	-	260.2
Other financial assets	3.8	-	1.0	(4.8)	-	-	-	-	-
Property, plant and equipment	101.4	17.5	(34.1)	(84.8)	-	-	-	-	-
Exploration and evaluation	73.7	-	(26.8)	(46.9)	-	-	-	-	-
Mine properties in use	110.5	10.5	(71.0)	(49.9)	-	-	-	-	-
Deferred tax assets	78.8	-	(27.2)	-	-	-	(51.6)	-	-
Intangible assets	5.6	-	(5.6)	-	-	-	-	-	-
Total non-current assets	634.5	28.0	(163.7)	(193.0)	6.0	-	(51.6)	-	260.2
TOTAL ASSETS	1,063.9	(27.7)	(155.4)	(449.9)	(68.2)	-	(51.6)	(14.0)	297.2
CURRENT LIABILITIES									
Payables	49.1	-	-	(49.1)	-	-	-	-	-
Interest bearing liabilities	27.5	-	-	(24.3)	-	(3.2)	-	-	-
Non-interest bearing liabilities	0.3	-	-	(0.3)	-	-	-	-	-
Provisions	5.7	-	-	(5.7)	-	-	-	-	-
Derivative financial instruments	3.3	-	(2.5)	(0.8)	-	-	-	-	-
Current tax liabilities	0.4	-	-	(0.4)	-	-	-	-	-
Liabilities classified as held for sale	56.1	-	-	-	(56.1)	-	-	-	-
Total current liabilities	142.4	-	(2.5)	(80.6)	(56.1)	(3.2)	-	-	-
NON-CURRENT LIABILITIES									
Interest bearing liabilities	82.0	-	-	(5.1)	-	(76.9)	-	-	-
Non-interest bearing liabilities	0.3	-	-	(0.3)	-	-	-	-	-
Deferred tax liabilities	79.3	-	(14.4)	-	-	-	-	-	65.0
Provisions	23.7	-	-	(23.7)	-	-	-	-	-
Total non-current liabilities	185.2	-	(14.4)	(29.0)	-	(76.9)	-	-	65.0
TOTAL LIABILITIES	327.7	-	(16.9)	(109.7)	(56.1)	(80.1)	-	-	65.0
NET ASSETS	**736.2**	**(27.7)**	**(138.5)**	**(340.2)**	**(12.1)**	**80.1**	**(51.6)**	**(14.0)**	**232.2**
EQUITY									
Contributed equity	432.1	-	-	(331.6)	-	85.4	-	-	186.0
Reserves	39.5	-	-	-	(7.4)	(5.3)	-	-	26.8
Retained profits	256.0	(27.7)	(138.5)	-	(4.7)	-	(51.6)	(14.0)	19.4
Capital and reserves attributable to owners	727.7	(27.7)	(138.5)	(331.6)	(12.1)	80.1	(51.6)	(14.0)	232.2
Non-controlling interest	8.6	-	-	(8.6)	-	-	-	-	-
TOTAL EQUITY	**736.2**	**(27.7)**	**(138.5)**	**(340.2)**	**(12.1)**	**80.1**	**(51.6)**	**(14.0)**	**232.2**

7.5 Pro forma historical balance sheet (continued)

A Pro forma balance sheet adjustments

The Straits ICH pro forma historical balance sheet incorporates the following fair value and pro forma adjustments:

(1) **Cash Flows post 30 June 2010**

At 31 October 2010, there had been a cash outflow in the Straits Group of $60.5 million from the 30 June 2010 balance. Refer to Section 5.5 for further details.

(2) **Fair value adjustments**

The Straits Metals pro forma balance sheet includes adjustments to reflect the estimated fair value of the Straits Metals assets and liabilities at Demerger. Refer to Section 5.5 for further details.

(3) **Removal of Straits Metals balances**

Effect of demerging Straits Metals (post fair value adjustments) from Straits Group's 30 June 2010 balance sheet.

(4) **GfE sale**

The sale of GfE was announced to the ASX on 11 November 2010. Total consideration for the sale is US$15.0 million, with US$3.0 million due at closure and the balance of US$12.0 million payable in instalments over a five year period. The Directors have estimated the fair value of the US$12.0 million deferred consideration to be A$6.0 million.

If the GfE sale does not complete before the Demerger the associated pro forma adjustments will not be recognised and Straits Metals pro forma net assets would increase by $12.1 million.

(5) **Exercise of Straits Convertible Notes**

On 29 January 2009, Straits issued 55 million 4% convertible notes with a face value of $79.8 million to SCPE. SCPE has undertaken to exercise its option to convert the notes into ordinary shares in Straits prior to the Demerger Scheme Implementation Date.

(6) **Deferred tax adjustments**

No carried forward tax losses (deferred tax assets) have been recognised in the Straits ICH pro forma balance sheet as Straits does not expect that the applicable accounting criteria will be satisfied at Demerger.

(7) **Transaction and termination costs**

Transaction and termination costs are estimated to be approximately $14.0 million and represent various transaction costs associated with the Demerger and the cost of terminating Straits' employment contracts prior to employees transferring to Straits Metals.

(8) **Effect of Acquisition**

If the Acquisition Proposal proceeds, under the terms of the Indemnity and Adjustment Deed (summarised in **Section 1.9**), Straits and Straits Metals have agreed that Straits ICH will have the Adjusted Retained Cash (expected to be Net Cash of $50 million) on the Acquisition Scheme Implementation Date. For further information see the Acquisition Scheme Booklet and, in particular, the pro forma financial information in Annexure B of the Acquisition Scheme Booklet.

7 Straits ICH pro forma historical financial information

7.5 Pro forma historical balance sheet (continued)

B Demerger accounting

Accounting for demerger transactions is addressed in AASB Interpretation 17 "Distributions of Non-cash Assets to Owners". This interpretation requires any obligations for non-reciprocal, non-cash distributions made by a company to its shareholders to be recognised and measured at the fair value of the assets to be distributed.

The fair value of the assets to be distributed, represented by Straits Metals Shares, will be determined by reference to the VWAP of Straits Metals Shares as traded on ASX (whether on a deferred or normal settlement basis) over the first five trading days after the Demerger Scheme Effective Date.

As the accounting standards do not specify which equity account (namely share capital, retained earnings or other reserve) is to be debited to recognise the distribution of Straits Metals Shares to Straits Shareholders, Straits expects, in line with the capital and profit allocation for taxation purposes, that it will debit its share capital with an amount equivalent to the fair value of Straits Metals Shares distributed to the Straits Shareholders. In the event the capital and profit allocation for taxation purposes changes to recognise a demerger dividend, Straits expects it will debit the retained earnings account with an amount equivalent to the demerger dividend. The balance of the distribution will be debited to the share capital account.

On the Demerger Scheme Effective Date, Straits will recognise a liability for the distribution based on the estimated fair value of Straits Metals net assets. This liability will be settled through the transfer of the Straits Metals Shares to Straits' Shareholders under the Demerger Scheme.

At the Demerger Scheme Implementation Date, the difference between the accounting carrying amount of the net assets transferred and their fair value will be recognised as a gain or as a loss in Straits' income statement for the year ending 30 June 2011. The gain or loss on Demerger (after Demerger costs) will be disclosed as an individual item in Straits' income statement for the year ending 30 June 2011.

7.5 Pro forma historical balance sheet (continued)

C Significant balances

Cash

The Straits ICH pro forma balance sheet assumes that a cash balance of $37.0 million will be retained at the time of the Demerger. If the Acquisition Scheme proceeds it will bring forward the repayment of loans made to participants in the Straits Share Plan which, when dealt with in accordance with the Indemnity and Adjustment Deed referred to in **Section 1.9**, will ensure Straits ICH will have the Adjusted Retained Cash as at the date of implementation of the Acquisition Scheme.

Equity accounted investments

The carrying value of Straits' 40% investment in PTTAPM was $260.2 million at 30 June 2010. In comparison, Straits' indirect 18.2% holding in SAR (PTTAPM's key operating asset) had an implied market value of $370.6 million at 29 October 2010.

Deferred tax liabilities

A deferred tax liability arises due to the difference between the accounting carrying value and taxation cost base of the equity accounted investment in PTTAPM. The balance reflects the notional amount of tax that would arise on the sale of the 40% investment in PTTAPM if the investment was sold at its accounting carrying value.

7.6 Debt facilities and other financing arrangements

It is not anticipated that Straits ICH will have access to any debt or other financing facilities.

7.7 Dividend policy

Straits ICH's dividend policy will be to distribute cash dividends received from the PTTAPM Joint Venture subject to retaining such amount of cash to be kept in reserve to meet Straits ICH's funding requirements.

8 What if either or both the Demerger Scheme and Acquisition Scheme are not implemented?

This Section 8 outlines the consequence in the event that the Demerger Scheme is not implemented, or the Demerger Scheme is implemented but the Acquisition Scheme is not implemented.

8.1 What will happen if the Demerger Scheme is not implemented?

If the Demerger Resolutions are not approved by Straits Shareholders at the Meetings (or the Demerger Scheme is approved by Straits Shareholders but is not approved by the Court), the Demerger will not be implemented.

The Acquisition Proposal is conditional on the implementation of the Demerger. It follows that if the Demerger Scheme is not implemented, the Acquisition Proposal cannot proceed.

If the Demerger Scheme is not implemented:

(1) Straits Shareholders will not receive any consideration under the Acquisition Proposal. Although it is difficult to predict the Straits Share price movement in the absence of the implementation of the Demerger Scheme and the Acquisition Scheme or in the event that a superior offer is received, Straits Shareholders should bear in mind that:

(a) the Acquisition Scheme consideration of $1.72[17] cash per Straits Share (after the Demerger) being offered under the Acquisition Scheme, which does not include a value for the Metals Business, values Straits' indirect minority interest in SAR at S$2.79[18] per SAR Share, which represents a:

(i) 7.7% premium to the last closing price of SAR on 10 November 2010, being the day prior to the date that Straits announced the Acquisition Proposal on ASX;

(ii) 17.2% premium to the one month VWAP of SAR on SGX up to and including 10 November 2010; and

(iii) 21.8% premium to the three month VWAP of SAR on SGX up to and including 10 November 2010; and

(b) no "Superior Proposal" (as that term is defined in the Acquisition Scheme Booklet) has been received since the announcement of the Demerger and the Acquisition.

(2) Straits will continue to own the Metals Business, and will continue to be named "Straits Resources Limited".

(3) Straits will continue to be listed on ASX.

(4) Straits Shareholders will not receive shares in Straits Metals and the other advantages of the Demerger outlined in **Section 2.3** will not be realised and, the disadvantages and risks of the Demerger outlined in **Section 2.4** and **Section 3**, need not be considered.

(5) Straits will continue with its publicly stated strategy.

(6) Straits will continue to be exposed to the risk and funding issues associated with Straits Metals' business strategy.

(7) The trading price of Straits Shares may fall from current levels in the absence of any alternative proposal emerging that is similar or superior to the Demerger Scheme and the Acquisition Scheme.

17 *Which will be reduced to $1.56 cash if an Adverse Adjustment Event occurs.*

18 *This implied value has been calculated by reducing the aggregate Acquisition Scheme Consideration of $1.72 payable in respect of all Straits Shares expected to be on issue at the Acquisition Scheme Implementation Date by $100 million being the aggregate of the Adjusted Retained Cash and Straits' estimate of its effective 40% interest in PTTAPM's stake in the Brunei Coal Project and the Madagascar Coal Project and applying an exchange rate of A$1.00:S$1.295 as sourced from Bloomberg on 10 November 2010.*

8.1 What will happen if the Demerger Scheme is not implemented? (continued)

(8) Transaction costs of approximately $3.0 million (exclusive of GST) relating to the Demerger and the Acquisition Proposal will be payable to third parties.

(9) Depending on the reasons for the Demerger Scheme not proceeding, a break fee of approximately $5,441,000 (equivalent to approximately 1% of the aggregate Acquisition Scheme consideration) may be payable by Straits to PTTML due to the Demerger Scheme not being implemented. Importantly, this break fee is not payable merely if Straits Shareholders vote against the Demerger Scheme.

8.2 What will happen if the Demerger Scheme is implemented but the Acquisition Scheme is not implemented?

If the Demerger Resolutions are approved by Straits Shareholders and the Demerger Scheme is approved by the Court but the Acquisition Scheme is not approved by Straits Shareholders (or the Acquisition Scheme is approved by Straits Shareholders but not approved by the Court), the Demerger will be implemented but the Acquisition Scheme will not be implemented.

If the Acquisition Scheme is not implemented but the Demerger Scheme is implemented:

(1) Straits Shareholders will continue to hold their shares in Straits (which, assuming the Name Change Resolution is approved, will be known as International Coal Holdings Limited). Straits Metals Shares will be separately listed and traded on ASX.

(2) The board of directors and senior management of Straits Metals and Straits ICH will comprise the persons listed in **Sections 4.4** and **6.4** respectively.

(3) Straits Metals intends to pursue the strategies outlined in **Section 4** and Straits ICH intends to pursue the strategies outlined in **Section 6**.

(4) Straits Metals and Straits ICH will be subject to the risk factors outlined in **Section 3**.

(5) The financial positions of Straits Metals and Straits ICH will be as described in **Sections 5** and **7** respectively.

(6) The trading price of Straits Shares is likely to fall from pre-Demerger levels as the trading price will no longer reflect the value associated with the Metals Business or the benefits of the Acquisition and in the absence of any competing proposal emerging that is similar or superior to the Acquisition Proposal.

(7) Straits Metals will be financially independent from Straits ICH and will not be able to rely on its operating cash flows and access to capital for its funding.

(8) The trading price of Straits Shares may fall from current levels.

(9) Transaction costs of approximately $5.5 million (exclusive of GST) relating to the Demerger and Acquisition will be payable to third parties.

(10) Depending on the reasons for the Acquisition Scheme not proceeding, a reimbursement amount of approximately $5,441,000 (equivalent to approximately 1% of the aggregate Acquisition Scheme consideration) may be payable by Straits to PTTML due to the Acquisition Scheme not being implemented. Importantly, this break fee is not payable merely if Straits Shareholders vote against the Acquisition Scheme.

9 Tax considerations

This Section 9 provides a general overview of the Australian income tax, goods and services tax and stamp duty consequences for Scheme Shareholders that hold their Straits Shares on capital account (i.e. they do not hold them in connection with a business or otherwise on revenue account).

The overview provided in this Section 9 does not take into account the specific circumstances of any Scheme Shareholder and is not intended to be exhaustive, or a substitute for, or to constitute, specific tax advice to Scheme Shareholders. In particular, it does not take into account the circumstances of Scheme Shareholders that hold their Straits Shares on revenue account or that acquired their Straits Shares in respect of any employment or the provision of any services.

This Section 9 is based on Australian income tax legislation, public taxation rulings, determinations and administrative practice as at the date of this Demerger Scheme Booklet.

The application of the tax legislation may vary according to the individual circumstances of Scheme Shareholders. As such, Scheme Shareholders are advised to obtain professional tax advice that takes into account their specific circumstances before deciding how to vote in relation to the Demerger Scheme.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999
pwc.com.au

The Directors
Straits Resources Limited
Level 1, 35 Ventnor Avenue
WEST PERTH WA 6005

13 December 2010

Dear Directors

DEMERGER SCHEME
OVERVIEW OF TAXATION CONSEQUENCES FOR SCHEME SHAREHOLDERS

We refer to the request by the Board of Directors of Straits Resources Limited to prepare a Taxation Opinion outlining the taxation implications for Scheme Shareholders of the proposed Demerger Scheme, under which Scheme Shareholders would receive one share in a new listed entity, Straits Metals, for every Straits Share they hold on the Demerger Scheme Record Date. We understand this Taxation Opinion will be included in the Straits' Demerger Scheme Booklet to be dated on or about 17 December 2010 in relation to the proposed Demerger Scheme.

This letter should be read as a whole with the remainder of the Demerger Scheme Booklet. Any capitalised terms in this letter have the same meaning as the defined terms in the Demerger Scheme Booklet.

1. Scope of Taxation Opinion

We have provided below a summary of the general Australian income tax implications of the Demerger of Straits Metals for Scheme Shareholders who are residents or non-residents of Australia for income tax purposes and hold their Straits Shares, and the resulting shares in Straits Metals, as capital assets.

This summary below does not apply to Scheme Shareholders who:

- hold their Straits Shares as assets used in carrying on a business; or
- acquired their Straits Shares in connection with an employee share plan.

This summary does not take into account the individual circumstances of particular Scheme Shareholders and does not constitute tax advice. Any adjustments to the Capital Gains Tax ("CGT") cost base that may arise to Scheme Shareholders as a result of their shareholding in Straits have also not been considered. Scheme Shareholders should seek specialist tax advice applicable to their own individual circumstances from their financial or tax advisers.

The comments below are based on the Australian taxation law as it applies at the date this letter is issued. The comments do not take into account or anticipate changes in taxation law or future judicial interpretations of law after this time, nor do they take into account taxation legislation of countries other than Australia. The comments in this letter are provided as a general guide and are not intended to constitute a full discussion of the Australian income tax implications of the Demerger.

9 Tax considerations

PRICEWATERHOUSECOOPERS

2. Class Ruling

Straits has applied to the Commissioner of Taxation (the "Commissioner") for a Class Ruling to be issued in relation to the Demerger Scheme, confirming the Australian income tax implications set out below. Particularly, the Commissioner has been requested to confirm that Demerger Tax Relief is available for Scheme Shareholders.

Demerger Tax Relief will result in:

- relief from any CGT that may arise from the transfer of shares in Straits Metals to Scheme Shareholders; and
- no part of the Distribution Amount being an assessable dividend.

This letter considers scenarios where Demerger Tax Relief (as defined) is granted in full or not granted. It is important to note that in issuing a Class Ruling, the Commissioner may make a determination to apply relevant integrity provisions, to deem all or part of the Distribution Amount to be an assessable unfranked dividend for Australian income tax purposes.

Straits cannot provide any assurances that the requested Class Ruling will in fact be issued, or that the Commissioner will confirm the position set out in the summary below. The Australian income tax implications of the Demerger Scheme, as determined by the Commissioner, may therefore differ from that set out below.

Any Class Ruling which the Commissioner issues will only apply to Scheme Shareholders who are residents of Australia for income tax purposes and who hold their shares as capital assets. The Demerger Scheme is not conditional upon the outcome of the Class Ruling. For completeness, we have also included a summary of the Australian income tax implications that may arise if the Commissioner determines that Demerger Tax Relief is not available.

We understand Straits will continue to communicate developments in relation to the Class Ruling application to Scheme Shareholders as appropriate and, once issued by the Commissioner, make the full Class Ruling available on its website.

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3. Australian Tax Implications for Resident Scheme Shareholders

3.1. Demerger Tax Relief Granted

Straits has sought confirmation from the Commissioner that Demerger Tax Relief will be available to Scheme Shareholders in relation to the Demerger Scheme. If the Commissioner confirms that Demerger Tax Relief is available, consistent with the Class Ruling application, the income tax implications for Australian resident shareholders will be as outlined below.

Treatment of Capital Reduction Amount

Under the Demerger, Scheme Shareholders will be taken to have received a Capital Reduction in respect of each Straits Share they hold at the Demerger Scheme Record Date.

Scheme Shareholders will make a capital gain if the Capital Reduction Amount received for each Straits share exceeds the CGT cost base of that share.

If the Class Ruling confirms that Demerger Tax Relief is available:

- to the extent that Scheme Shareholders elect to obtain demerger roll-over relief, any capital gain they may make as a result of the Capital Reduction Amount will be disregarded; and
- the Capital Reduction Amount should not be taxed as an unfranked dividend for Australian income tax purposes.

Treatment of Demerger Dividend (if any)

This section only applies if the Board of Directors resolves that a portion of the Distribution Amount comprises a Demerger Dividend in respect of each Straits Share held by Scheme Shareholders at the Demerger Scheme Record Date. Straits will not elect, under the demerger taxation rules, for any Demerger Dividend amount to be treated as taxable in the hands of Scheme Shareholders.

Accordingly, provided the Class Ruling confirms the availability of Demerger Tax Relief, any Demerger Dividend should not be assessable income (and also not be exempt income) of the Scheme Shareholders. The Demerger Dividend will not be franked.

Electing Demerger Roll-over Relief

No formal election is required to be lodged in order to elect to obtain demerger roll-over relief. Scheme Shareholders who elect to obtain demerger roll-over relief should prepare their income tax return in a manner consistent with their choice.

If demerger roll-over relief is chosen, there are no CGT consequences as a result of the Capital Reduction.

If demerger roll-over relief is not chosen, any capital gain made as a result of Capital Reduction Amount will not be disregarded and will be included in calculating the Scheme Shareholder's assessable income. As mentioned above, a Scheme Shareholder will make a capital gain if the Capital Reduction Amount exceeds the CGT cost base of their Straits Shares. The capital gain is equal to the amount of the excess. Shareholders who are individuals, trusts, or complying superannuation entities may be entitled to reduce their capital gain (after taking into account any capital losses they may have) by the relevant CGT discount, if they have held or are deemed to have held their Straits Shares for at least 12 months prior to the time of the Demerger.

9 Tax considerations

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CGT Cost Base Allocation

Under the demerger taxation rules, irrespective of whether demerger roll-over relief is chosen, the CGT cost base and reduced cost base of each Straits Share (or Straits ICH Share assuming the Name Change Resolution is approved) and Straits Metals Share held by a Scheme Shareholder will be calculated on the following basis:

- the CGT cost base of each Straits Share immediately prior to the Demerger will be reasonably apportioned between each existing Straits ICH Share and each new Straits Metals Share held after the Demerger; and
- the method of apportionment will reflect the market value or a reasonable approximation of the market value of the Straits ICH Shares and Straits Metals Shares just after the Demerger.

For the purpose of assisting Scheme Shareholders in preparing their future tax returns, Straits will communicate to them the market values attributable to Straits ICH and Straits Metals postdemerger, once such values are determined.

Date of Acquisition for CGT Discount Purposes

If demerger roll-over relief is chosen, then for the purpose of determining the eligibility of Scheme Shareholders (who are individuals, trusts, or complying superannuation entities) for the CGT discount (on any disposal of Straits Metals Shares), Scheme Shareholders will be taken to have acquired their Straits Metals Shares on the same date they originally acquired their Straits Shares.

If demerger roll-over relief is not chosen, Scheme Shareholders will be taken to have acquired their Straits Metals Shares on the Demerger Scheme Implementation Date.

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Example of Demerger Roll-over

Anna acquires 1,000 Straits Shares for $1,500 on 1 April 2008 (i.e. **pre-demerger cost base** is $1.50 for each Straits Share). For the purpose of this example it is assumed that:

- **Straits Metals Shares received:** under the Demerger Scheme, Scheme Shareholders will receive one (1) Straits Metals Share for every Straits Share held by them as at the Demerger Scheme Record Date, with entitlements being rounded down to the nearest whole number after all holdings of a shareholder are aggregated.
- **Straits share price pre-demerger:** the last closing price of Straits Shares on the ASX before the Demerger is $2.20.
- **Straits ICH share price post–demerger:** the market value of each Straits ICH Share just after the Demerger is $1.72 (to be determined by reference to the 5 day VWAP post-demerger).
- **Straits Metals share price post-demerger:** the market value of each Straits Metals Share just after the Demerger is $0.48 (to be determined by reference to the 5 day VWAP from the commencement of trading).
  (Note: the share prices used are for illustrative purposes only. Straits ICH and Straits Metals are likely to trade at prices that are different to those used above.)
- **Proportion of cost base attributable to Straits ICH shares post–demerger:** 78%
- **Proportion of cost base attributable to Straits Metals shares post–demerger:** 22%

On the Demerger Scheme Implementation Date, Anna receives a Capital Reduction Amount which is applied on her behalf as consideration for the transfer to her of 1,000 Straits Metals Shares (i.e. one (1) Straits Metals Share for every Straits Share she holds on the Demerger Scheme Record Date).

Anna elects to obtain demerger roll-over relief. As such, there are no CGT consequences arising as a result of the Demerger / Capital Reduction Amount.

For the purpose of determining whether Anna is eligible for the 50% CGT discount on a subsequent disposal of her Straits Metals Shares, Anna will be taken to have acquired the Straits Metals Shares at the time she originally acquired her Straits Shares (i.e. on 1 April 2008).

The first element of the cost base of Anna's Straits ICH Shares and Straits Metals Shares is determined in the following manner:

Cost base of Straits ICH Shares	=	Total cost base of Straits Shares x Proportion of cost base attributable to Straits ICH Shares post-demerger
	=	$1,500 x 78%
	=	$1,170

Therefore, Anna's revised cost base of her shares in Straits ICH is $1.17 per Straits ICH Share (being $1,170 divided by 1,000 shares).

Cost base of Straits Metals Shares	=	Total cost base of Straits Shares x Proportion of cost base attributable to Straits Metals Shares post-demerger.
	=	$1,500 x 22%
	=	$330

Therefore, Anna's cost base of her shares in Straits Metals is $0.33 per Straits Metals Share (being $330 divided by 1,000 shares).

9 Tax considerations

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3.2. Demerger Tax Relief Not Granted

Below is a summary of the Australian income tax implications that may arise to Australian residents if the Commissioner disagrees with the position put forward in the Class Ruling application and does not grant Demerger Tax Relief.

Treatment of Capital Reduction Amount

Any capital gain that Scheme Shareholders make as a result of the Demerger will not be disregarded. Scheme Shareholders will make a capital gain to the extent the Capital Reduction Amount, less any portion of the Capital Reduction Amount deemed by the Commissioner to be an unfranked dividend (if any, see below), exceeds the CGT cost base of their Straits Shares.

Scheme Shareholders who are individuals, trusts or complying superannuation entities may be entitled to reduce their capital gain (after taking into account any capital losses they may have) by applying the relevant CGT discount if they have held their Straits Shares for at least 12 months prior to the Demerger Scheme Implementation Date.

To the extent the Commissioner makes a determination to apply relevant integrity provisions to deem all or part of the Capital Reduction Amount to be an assessable unfranked dividend for Australian income tax purposes, Scheme Shareholders will be required to include that amount in their assessable income.

Treatment of Demerger Dividend (if any)

To the extent the Board of Directors resolves that a portion of the Distribution Amount comprises a Demerger Dividend, and Demerger Tax Relief is not granted, Scheme Shareholders would be required to include that Demerger Dividend amount in their assessable income.

Subject to availability, franking credits may be attached to the dividend, except to the extent the Commissioner makes a determination to apply relevant integrity provisions to deem the dividend to be an unfranked dividend for Australian income tax purposes.

CGT Cost Base

The CGT cost base and reduced cost base of the Straits ICH Shares will be reduced by the Capital Reduction Amount.

The CGT cost base and reduced cost base of the Straits Metals Shares will be equal to the sum of the Capital Reduction Amount and the Demerger Dividend Amount (if any).

Date of Acquisition for CGT Discount Purposes

Scheme Shareholders will be taken to have acquired their Straits Metals Shares on the Demerger Scheme Implementation Date.

3.3. Stamp duty and Goods and Services Tax ("GST") Implications

No Australian stamp duty or GST will be payable by a resident Scheme Shareholder in relation to the Demerger Scheme.

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4. Australian Tax Implications for Non-Resident Scheme Shareholders

The following outline only deals with Australian income tax implications. Scheme Shareholders, who are not residents of Australia for income tax purposes, may also be subject to taxation implications in foreign jurisdictions. Affected Scheme Shareholders should seek their own professional tax advice based on their specific circumstances.

4.1. Demerger Tax Relief Granted

If the Commissioner confirms that Demerger Tax Relief is available, consistent with the Class Ruling application, the Australian income tax implications for non-resident Scheme Shareholders will be as outlined below.

Treatment of Capital Reduction Amount

Scheme Shareholders who are not residents of Australia for income tax purposes will generally not have any Australian CGT implications under the Demerger, unless their shares represent "taxable Australian property". This will generally be the case where:

- they (together with their associates) hold an interest in Straits of at least 10% at the time of the Capital Reduction (or for any continuous 12 month period during the two years immediately preceding the Capital Reduction); and
- certain other conditions relating to the underlying assets of Straits are satisfied.

As such, if non-resident Scheme Shareholders do not hold, or have not held, an interest in Straits of 10% or more (as described above), they should not be subject to CGT under the Demerger. If they do hold such an interest, they should consult their tax adviser in relation to whether other relevant conditions are satisfied as this may result in an Australian CGT liability.

Treatment of Demerger Dividend (if any)

To the extent the Board of Directors resolves that a portion of the Distribution Amount comprises a Demerger Dividend, non-resident Scheme Shareholders will not be subject to dividend withholding tax on the Demerger Dividend.

CGT Cost Base Allocation

Under the demerger taxation rules, irrespective of whether the Straits shares are taxable Australian property, the CGT cost base and reduced cost base of each Straits ICH Share and Straits Metals Share held by a non-resident Scheme Shareholder will be calculated on the following basis:

- The cost base of each Straits Share immediately prior to the Demerger will be reasonably apportioned between each existing Straits ICH Share and each new Straits Metals Share held after the Demerger; and
- The method of apportionment will reflect the market value, or a reasonable approximation of the market value, of the Straits ICH Shares and Straits Metals Shares just after the Demerger.

9 Tax considerations

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Date of Acquisition for CGT Discount Purposes

If the Straits Metals Shares acquired by a non-resident Scheme Shareholder are taxable Australian property just after Demerger, and an election is made to obtain demerger roll-over relief, the Scheme Shareholder will be taken to have acquired their Straits Metals Shares on the same date they originally acquired their Straits Shares.

In all other circumstances, non-resident Scheme Shareholders will be taken to have acquired their Straits Metals Shares on the Demerger Scheme Implementation Date.

4.2. Demerger Tax Relief Not Granted

Following is a summary of the Australia income tax implications that may arise for non-resident Scheme Shareholders if the Commissioner disagrees with the position put forward in the Class Ruling application and does not grant Demerger Tax Relief.

Treatment of Capital Reduction Amount

Scheme Shareholders who are not residents of Australia for income tax purposes will generally not have any Australian CGT implications under the Demerger, unless their shares represent taxable Australian property (refer section 4.1 above).

As such, if non-resident Scheme Shareholders do not hold, or have not held, an interest in Straits of 10% or more (as described in section 4.1), they should not be subject to Australian CGT. If they do hold such an interest, they should consult their tax adviser in relation to whether other relevant conditions are satisfied as this may result in an Australian CGT liability.

To the extent the Commissioner makes a determination to apply relevant integrity provisions to deem all or part of the Capital Reduction Amount to be an assessable unfranked dividend for Australian income tax purposes, that amount will be subject to dividend withholding tax at a rate of 30% (which may be reduced under an applicable tax treaty).

Treatment of Demerger Dividend (if any)

To the extent the Board of Directors resolves that a portion of the Distribution Amount comprises a Demerger Dividend, and Demerger Tax Relief is not granted, non-resident Scheme Shareholders would be subject to dividend withholding tax on the Demerger Dividend, at the rate of 30% (which may be reduced by an applicable tax treaty).

Subject to availability, franking credits may be attached to the dividend, or the dividend may be distributed out of the 'Conduit Foreign Income' account of Straits (which may reduce any applicable dividend withholding tax), except to the extent the Commissioner makes a determination to apply relevant integrity provisions to deem the dividend to be an unfranked dividend for Australian income tax purposes.

CGT Cost Base

Irrespective of whether the Straits shares are taxable Australian property, if the CGT cost base of Straits ICH shares exceeds the Capital Reduction Amount, the CGT cost base of the Straits ICH Shares will be reduced by the Capital Reduction Amount.

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If the CGT cost base of Straits ICH shares is less than the Capital Reduction Amount, the CGT cost base of Straits ICH shares will be reduced to nil, and, to the extent the Straits ICH Shares are taxable Australian property, any excess will be taxed as a capital gain.

The CGT cost base and reduced cost base of the Straits Metals Shares will be equal to the sum of the Capital Reduction Amount and the Demerger Dividend Amount (if any).

Date of Acquisition for CGT Discount Purposes

Non-resident Scheme Shareholders will be taken to have acquired their Straits Metals Shares on the Demerger Scheme Implementation Date.

4.3. Stamp duty and GST Implications

No Australian stamp duty or GST will be payable by a non-resident Scheme Shareholder in relation to the Demerger Scheme.

5. Disclaimer

The information contained in this document does not constitute "financial product advice" within the meaning of the Corporations Act. The PricewaterhouseCoopers Australian partnership which is providing this advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product.

This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs and consider obtaining independent financial advice. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

It should be noted that although PricewaterhouseCoopers has given its consent to the inclusion of this report in the Demerger Scheme Booklet, we give no assurance or guarantee in respect of the successful operation or performance of the Demerger Scheme and that consent should not be taken as an endorsement or recommendation.

Yours faithfully

PricewaterhouseCoopers

PricewaterhouseCoopers

10 Additional information

This Demerger Scheme Booklet, including the additional information contained in this Section 10, has been prepared for the purposes of section 412(1) of the Corporations Act to explain the effect of the proposed Demerger to be considered at the Demerger Scheme Meeting. The terms of the Demerger Scheme are set out in Annexure E.

10.1 Straits Directors

The Straits Directors as at the date of this Demerger Scheme Booklet are:

Mr. Alan James Good Appointed 11/07/2005	Non-Executive Chairman
Mr. Milan Jerkovic Appointed 19/08/1999	Chief Executive Officer
Mr. Michael George Gibson Appointed 04/05/2009	Executive Director
Dr. Garry George Lowder Appointed 27/02/1997	Non-Executive Director
Mr. William Edward Alastair Morrison Appointed 02/02/2009	Non-Executive Director
Mr. Ravinder Singh Grewal Appointed 02/02/2009	Alternate Director for Mr. William Edward Alastair Morrison

10.2 Interests of Straits Directors

A Straits Directors' interests

Other than the following marketable securities in Straits, which are held by or on behalf of the Straits Directors, no marketable securities are held by or on behalf of any Straits Directors as at the date of this Demerger Scheme Booklet.

Name of Straits Director	Direct holdings of Straits Shares	Indirect holdings of Straits Shares
Mr. Alan James Good	0	13,564
Mr. Milan Jerkovic	6,269,632	111,715
Mr. Michael George Gibson	2,850,503	12,200
Dr. Garry George Lowder	0	350,000
Mr. William Edward Alastair Morrison	0	0
Mr. Ravinder Singh Grewal	0	0

No marketable securities are held in Straits Metals by or on behalf of Straits Directors as at the date of this Demerger Scheme Booklet.

Straits Directors who hold Straits Shares will be entitled to vote at the Meetings and receive Straits Metals Shares under the Demerger Scheme on the same terms as all other Straits Shareholders.

10.2 Interests of Straits Directors (continued)

A Straits Directors' interests (continued)

Alastair Morrison and his alternate Ravinder Grewal were nominated as Straits Directors by SCPE. As noted in **Section 1.6**, SCPE has entered into the SCPE-PTTML Conversion Agreement and the SCPE-SRL Conversion Agreement in respect of the Straits Convertible Notes it holds. The Straits Convertible Notes will convert into approximately 19.4% of the issued capital of Straits ICH. SCPE is the private equity investment arm of SCB.

B Agreements or arrangements with Straits Directors

Other than as set out in this Scheme Booklet, there are no agreements or arrangements made between any Straits Director and any other person in connection with or conditional upon the outcome of the Demerger.

C Payments and other benefits to Straits Directors, secretaries or executive officers

If the Demerger proceeds, the employment of most executive officers of Straits will be terminated by Straits and this termination will give rise to a liability of Straits to pay severance and other termination and/or redundancy payments to those terminated executive officers. The estimated aggregate amount of those liabilities is $8.5 million.

10.3 Material changes to the financial position of Straits

Within the knowledge of the Straits Directors and other than as previously announced or disclosed in the pro forma balance sheet of:

(a) Straits (after the Demerger) included in **Section 7**; and

(b) Straits Metals included in **Section 5**,

the financial position of Straits has not materially changed since 30 June 2010, being the date of the balance sheet which was included in the Straits 2010 Annual Report.

10.4 Material contracts

A summary of the material contracts relating to the Demerger is set out in Part 1 of **Annexure C**.

A Demerger material contracts

A summary of the material contracts relating to the Demerger is set out in Part 1 of **Annexure C**.

B Straits Metals material contracts

A summary of the material contracts relating to Straits Metals is set out in Part 2 of **Annexure C**.

C Straits ICH material contracts

A summary of the material contracts relating to Straits ICH is set out in Part 3 of **Annexure C**.

10 Additional information

10.5 Overview of Straits Metals constitution

With effect on or before the Demerger Scheme Implementation Date, Straits Metals will adopt a constitution which is materially in the form summarised below. A copy of the constitution will be made available to shareholders on Straits' website.

This summary is of the key provisions of the Straits Metals Constitution and is neither exhaustive nor does it constitute a definitive statement of the rights and liabilities of Straits Metals Shareholders.

In this **Section 10.5**:

- the term "Board" is used to refer to the Straits Metals Board;
- the term "Company" is used to refer to Straits Metals;
- the term "Constitution" is used to refer to the constitution of Straits Metals;
- the term "Director" is used to refer to a Straits Metals Director;
- the term "Share" is used to refer to a Straits Metals Share; and
- the term "Shareholder" is used to refer to a holder of Straits Metals Shares.

A Issue of Shares

Subject to the Constitution, the Corporations Act and the Listing Rules, the Directors may issue Shares in the capital of the Company on such terms and with such rights as the Directors may determine.

The Directors may issue preference shares which have restricted rights to vote and priority of payment upon a winding up and otherwise on terms that the Directors may determine, including Shares which are liable to be redeemed or which carry preferential rights as to dividends.

B Transfer of Shares

Subject to the Constitution and the Corporations Act, Shares may be transferred electronically under the rules of any CS Facility (as defined in the Corporations Act) or in any form approved by the Directors.

C General Meeting

Any Director may convene a general meeting at any time. The Directors must convene annual general meetings in accordance with the Corporations Act. General meetings may also be requisitioned or convened by Shareholders under the Corporations Act.

Notice of general meetings must be given to every Shareholder. The Corporations Act requires 28 days' written notice for any general meeting.

A notice convening a general meeting must state (among other things) the general nature of the business to be transacted at the meeting.

At any general meeting, a quorum of Shareholders is three Shareholders present in person or by proxy.

D Chairman

A chairman elected by the Directors or, in his or her absence, the deputy chair of Board meetings or a Director elected by the Directors is entitled to be the chairman of all general meetings.

The general conduct and the procedures of each general meeting will be determined by the chairman of that meeting.

10.5 Overview of Straits Metals constitution (continued)

E Voting

Generally, on a show of hands, each Shareholder has one vote. On a poll, each Shareholder has one vote for each fully paid Share.

If two or more joint Shareholders purport to vote, only the vote of the Shareholder whose name appears first in the register of Shareholders will be accepted.

Shareholders may appoint a proxy to attend and vote at general meetings on their behalf.

F Demanding a Poll

A poll can be demanded in relation to any resolution by the chairman of the meeting, by at least five Shareholders entitled to vote on the resolution, or by Shareholders with at least 5% of the votes that may be cast on the resolution.

G Directors

The Directors must manage and control the business and affairs of the Company.

The Company must have at least three Directors.

Nominations for the position of Director (other than Directors standing for re-election) must be received at least 35 business days (30 business days if the meeting has been requisitioned by shareholders) before the general meeting in accordance with the Listing Rules.

A Director may at any time convene a Directors' meeting. The quorum for a Directors' meeting is two Directors.

A resolution of the Board must be passed by a majority of Directors entitled to vote on the resolution. The Board may pass a resolution without a Board meeting if three-quarters of the Directors (including a non-executive Director) who are entitled to vote sign a written resolution.

H Director's Share Qualification

A Director need not be a Shareholder.

I Retirement and Removal of Directors

At each annual general meeting, one third of the Directors other than the Managing Director must retire from office. The Directors to retire by rotation are those who have been longest in office. Each Director other than the Managing Director must retire from office at the close of the third annual general meeting following the Director's last election, and that Director is eligible for re-election at that meeting.

J Remuneration of Directors

The remuneration of Non-Executive Directors must be a fixed amount or value and may only be increased with the approval of the Company in general meeting.

In addition to director's fees, Directors are entitled to be reimbursed for reasonable expenses incurred in connection with meetings of the Board and committees of the Board.

K Dividends

The Directors may declare a dividend or determine that a dividend is payable and fix the amount, the time for and method of payment.

Dividends are paid in proportion to the amounts paid up on Shares.

The Directors may deduct from any dividend payable to a Shareholder any amount that the Shareholder owes to the Company on account of calls or otherwise in relation to the Shares held by the Shareholder.

10 Additional information

10.5 Overview of Straits Metals constitution (continued)

L Sale of Less Than a Minimum Holding

Consistent with the Listing Rules, the Company may give notice to Small Holders (i.e. Shareholders holding unmarketable parcels of Shares) once a year requiring them to elect if they wish to remain as Small Holders. Currently an unmarketable parcel is a parcel worth less than $500. The notice must set a period of at least six weeks within which Shareholders may notify the Company that they wish to retain their Shares. The Company will not sell the Shares of those Shareholders who notify the Company that they wish to retain their Shares within that timeframe. If the Company does not receive any notification from Small Holders within that timeframe, the Company will be entitled to sell the Shares of those Shareholders.

M Proportional Takeover Approval Provisions

If a proportional takeover bid is made, Directors must hold a meeting of members of the Company to consider passing an approving resolution in respect of the bid. An approving resolution must be voted on not less than 15 days before the end of the bid period.

The resolution will be passed if more than 50% of votes are cast in favour of the resolution. The bidder and its associates are not allowed to vote on the resolution.

If a resolution to approve the bid is rejected, then under the Corporations Act binding acceptances are required to be rescinded and all unaccepted offers are taken to have been withdrawn.

If the bid is approved or taken to have been approved, the transfers resulting from the bid may be registered by the Company.

The proportional takeover provisions do not apply to full takeover offers. Under the Corporations Act, the provisions will expire three years after the Constitution is adopted by the Company, but may be renewed by a resolution of the Shareholders.

N Indemnity

To the extent permitted by law, the Company may indemnify certain past and present officers of the Company against:

- any liabilities incurred by officers to other persons (other than the Company); and
- legal costs incurred in defending an action for liability incurred by them as an officer of the Company in which judgement is given in favour of the officer or in which the officer is acquitted.

O Winding Up

If the Company is wound up, any property that remains after satisfaction of all debts and winding up costs will be distributed amongst Shareholders.

P Amendments to the Constitution

Amendments to the Constitution will require a special resolution of Shareholders under the Corporations Act (at least 75% of votes cast on the resolution).

10.6 Terms of Straits Metals Shares

The following is a summary of the key terms of the Straits Metals Shares. This summary is not exhaustive and does not constitute a definitive statement of the rights and liabilities of Straits Shareholders. To obtain such a statement, independent legal advice should be sought.

A Voting rights

Subject to any special rights or restrictions for the time being attached to any class or classes of shares in Straits Metals, at a general meeting every Straits Metals shareholder present in person or by proxy, attorney or representative will have one vote on a show of hands and, on a poll, one vote for each Straits Metals Share held.

B General meetings

Each holder of Straits Metals Shares is entitled to receive notice of, and to attend and vote at, general meetings of Straits Metals and to receive all notices, accounts and other documents required to be furnished to shareholders under the Straits Metals constitution, the Corporations Act or the Listing Rules.

C Dividend rights

Subject to the rights of holders of any Straits Metals Shares created or raised under any special arrangement as to dividends, any dividend as declared shall be payable on all Straits Metals Shares in proportion to the amount of capital for the time being paid up in respect of such Straits Metals Shares.

D Rights on winding-up

Subject to the rights of holders of Straits Metals Shares with special rights in a winding-up, on a winding-up of Straits Metals all monies and property that are to be legally distributed among holders of Straits Metals Shares will be distributed in proportion to the Straits Metals Shares held by them respectively.

E Transfer of shares

Subject to the Straits Metals Constitution and subject to any restrictions applicable to Straits Metals Shares which have been designated by ASX as “restricted securities”, Straits Metals Shares are freely transferable.

F Future issues of securities

Subject to the Corporations Act and the Listing Rules, the Directors may issue, grant options over, or otherwise dispose of unissued shares in Straits Metals at the times and on the terms that the Directors think proper and a share may be issued with preferential or special rights.

G Variation of rights

The rights, privileges and restrictions attaching to the Straits Metals Shares can only be varied by a special resolution passed at a meeting of holder of Straits Metals Shares or with the written consent of holders of Straits Metals Shares who hold at least 75% of the votes attaching to Straits Metals Shares.

10 Additional information

10.7 Straits top 20 shareholders

As at the date immediately before the date of this Demerger Scheme Booklet, the top 20 Straits Shareholders in the Straits Share Register held approximately 75.83% of all issued Straits Shares.

After conversion of the Straits Convertible Notes, SCPE will hold approximately 19.4% of all issued Straits Shares.

10.8 Straits substantial holders

The substantial holders of Straits Shares as at the date immediately before the date of this Demerger Scheme Booklet are as follows:

Name	Number of Straits Shares	Percentage of issued Straits Shares
Merricks Capital Pty Ltd	24,809,765	9.7
Acorn Capital Limited	14,314,851	5.6
Gerald Alain Denis Keet and associates	13,878,487	5.4
Ausbil Dexia Limited	13,183,782	5.2

Straits has relied on substantial holder notices provided to it up to the date of this Demerger Scheme Booklet, which are available on the ASX website, to compile the above table. Information in regard to substantial holdings arising, changing or ceasing after this time or in respect of which the relevant announcement is not available on the ASX website is not included above. The percentage figures given above will change if the Straits Convertible Notes are converted, as described further in **Section 1.6**.

10.9 ASX listing of Straits Metals

On or about the date of this Demerger Scheme Booklet, Straits Metals will apply to ASX for admission to the Official List and for quotation of Straits Metals Shares on the ASX. Such application will be conditional upon the approval of the Demerger Scheme and the Capital Reduction.

Straits Metals Shares are expected to commence trading on the ASX, initially on a deferred settlement basis, on 2 February 2011, subject to ASX agreeing to admit Straits Metals to the Official List and commencing quotation of Straits Metals Shares. It is the responsibility of Eligible Shareholders to confirm their holding before trading in Straits Metals Shares. Normal trading of Straits Metals Shares is expected to commence on or about 11 February 2011.

It is the responsibility of each Straits Shareholder to determine their entitlement to Straits Metals Shares before trading those shares to avoid the risk of selling Straits Metals Shares they do not own. If a Straits Shareholder sells Straits Metals Shares without receiving confirmation of their entitlement, they do so at their own risk.

Whether or not the Demerger proceeds, Straits will continue to be listed on the ASX and Straits Shares will continue to be quoted on the ASX, trading under the code “SRL”.

10.10 Transaction costs

The total transaction costs of the Demerger and the Acquisition Proposal are estimated to be approximately $5.5 million, of which $4.5 million will be incurred by Straits and $1.0 million will be incurred by Straits Metals. An additional $8.5 million of costs associated with the Demerger relate to employee termination costs.

These costs relate to a range of activities associated with the Demerger and the Acquisition Proposal, including redundancy costs, stamp duty, advisory, legal, accounting, listing and administrative fees as well as printing, advertising and other expenses.

Approximately $11.2 million of these costs will be committed prior to the Demerger Scheme Meeting.

10.11 Foreign selling restrictions

The distribution of this Demerger Scheme Booklet outside of Australia may be restricted by law and persons who come into possession of it should seek advice and observe any such restrictions. Any failure to comply with such restrictions may contravene applicable securities laws. Straits disclaims all liabilities to such persons. Eligible Shareholders who are nominees, trustees or custodians are therefore advised to seek independent advice as to how they should proceed.

No action has been taken to register or qualify this Demerger Scheme Booklet, the Demerger or the Demerger Shares, or otherwise permit a public offering of the Straits Metals Shares, in any jurisdiction outside of Australia.

10.12 Lodgement of this Demerger Scheme Booklet

This Demerger Scheme Booklet was given to ASIC on 14 December 2010 in accordance with section 411(2)(b) of the Corporations Act.

10.13 No unacceptable circumstances

The Straits Directors believe that the Demerger Scheme does not involve any circumstances in relation to the affairs of any Straits Shareholder that could reasonably be characterised as constituting “unacceptable circumstances" for the purposes of section 657A of the Corporations Act.

10 Additional information

10.14 ASX and ASIC waivers, confirmations and relief

A ASIC confirmations as to disclosure matters

Sub-regulation 5.1.01 of the Corporations Regulations requires that, unless ASIC otherwise allows, this Demerger Scheme Booklet must contain the matters set out in Part 3 of Schedule 8 to the Corporations Regulations. ASIC has granted the following relief in relation to Regulation 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations, which would have required the Demerger Scheme Booklet to disclose particulars of any payment or benefit that is proposed to be made or given to any director, secretary or executive officer of Straits or a related body corporate of Straits as compensation for loss of office, or as consideration for or in connection with their retirement from office.

ASIC has allowed Straits to depart from certain requirements of Regulation 8302(d) of Part 3 of Schedule 8 of the Corporations Regulations. The effect of this relief is that this Demerger Scheme Booklet:

i) is not required to disclose particulars of payments or benefits which may be made to a director, secretary or executive officer of Straits in relation to their loss of office or retirement of office, unless the relevant person will lose office or retire from office in connection with the Demerger Scheme or the amount of any payment or benefit which may be made to the relevant person upon their loss of office or retirement from office may be materially affected by the Demerger Scheme;

ii) is not required to disclose the name of any director, executive officer or secretary of Straits who will lose office or retire from office in connection with the Demerger Scheme except where that person is a Straits Director; or

iii) may describe payments or benefits to any director, executive officer or secretary of Straits who will lose office or retire from office in connection with the Demerger on an aggregate rather than an individual basis.

B ASX waivers and confirmations

ASX has:

- confirmed to Straits for the purposes of Listing Rule 1.1, condition 3 that Straits Metals may use an information memorandum (incorporating parts of this Demerger Scheme Booklet) rather than a Prospectus for the purpose of its admission to the ASX and that the information memorandum does not need to be sent to Straits Metals Shareholders;
- granted Straits a waiver of Listing Rule 6.23.2 so that shareholder approval is not required in relation to the cancellation of Straits Options;
- confirmed that Straits is not required to comply with Listing Rule 10.1 so that shareholder approval is not required for the transfer for the Straits Metals Shares held by Straits to Scheme Shareholders on the Demerger Scheme Implementation Date;
- granted a waiver from Listing Rule 10.14 so that shareholder approval is not required by Straits Metals to issue incentive shares under the Straits Metals Share Plan to Directors; and
- confirmed that Straits does not require shareholder approval for the purposes of Chapter 11 of the Listing Rules (Significant transactions).

10.15 Consents and disclaimers

Each of the parties named in this **Section 10.15** as consenting parties:

- has given and has not, before lodgement of this Demerger Scheme Booklet with ASIC, withdrawn its written consent to be named in this Demerger Scheme Booklet in the form and context in which it is named;
- has given and has not, before the lodgement of this Demerger Scheme Booklet with ASIC, withdrawn its written consent to the inclusion of their respective statements and reports (where applicable) noted next to their names in this **Section 10.15**, and the references to those statements and reports in the form and context in which they are included in this Demerger Scheme Booklet;
- does not make, or purport to make, any statement in this Demerger Scheme Booklet other than those statements referred to in this **Section 10.15** in respect of that person's name (and as consented to by that person);
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any statements in or omissions from this Demerger Scheme Booklet; and
- in the case of PricewaterhouseCoopers Securities Ltd, has given and has not, before the lodgement of this Demerger Scheme Booklet with ASIC, withdrawn its consent for the inclusion of the Investigating Accountant's Report in the form and context in which it appears in **Annexure B**.

The term “consent", as used in this Demerger Scheme Booklet, is used solely in the context of this Demerger Scheme Booklet and as that term is used in Australia. It is different from, and therefore not to be used as that term is or would be used in the US, including as defined under securities law in the US, in particular the US Securities Act.

Role	Consenting Party
Share Registry	Computershare Investor Services Pty Limited
Financial advisers	Standard Chartered Bank
Australian legal adviser	Corrs Chambers Westgarth
Australian taxation adviser	PricewaterhouseCoopers
Independent Expert	Ernst & Young Transaction Advisory Services Limited
Investigating Accountant	PricewaterhouseCoopers Securities Ltd

10.16 Disclosure of interests of certain persons

Except as disclosed elsewhere in this Demerger Scheme Booklet, no:

(1) director of Straits Metals;

(2) person named in this Demerger Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Demerger Scheme Booklet; or

(3) promoter of Straits Metals,

holds at the date of this Demerger Scheme Booklet or held at any time during the last two years, any interest in:

(4) the formation or promotion of Straits Metals;

(5) property acquired or proposed to be acquired by Straits Metals in connection with its formation or promotion, or the offer of Straits Metals Shares under the Demerger Scheme; or

(6) the offer of Straits Metals Shares under the Demerger Scheme.

10 Additional information

10.17 Disclosure of fees and benefits received by certain persons

Other than as set out below or elsewhere in this Demerger Scheme Booklet, no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given:

(1) to a director Straits Metals to induce them to become, or to qualify as, a director of Straits Metals; or

(2) for services provided by any person referred to in **Section 10.15** in connection with the formation or promotion of Straits Metals or the offer of Straits Metals Shares under the Demerger Scheme.

The persons named in this Demerger Scheme Booklet as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Demerger Scheme Booklet are those persons listed in **Section 10.15**.

10.18 Documents available

An electronic version of this Demerger Scheme Booklet is available for viewing and downloading online at Straits' website www.straits.com.au.

10.19 Other material information

Except as set out in this Demerger Scheme Booklet, there is no other information material to the making of a decision in relation to the Demerger being information that is within the knowledge of any Straits Director, or any director of any related body corporate of Straits, which has not previously been disclosed to Straits Shareholders.

10.20 Supplementary information

Straits will issue a supplementary document to this Demerger Scheme Booklet if it becomes aware of any of the following between the date of lodgement of this Demerger Scheme Booklet for registration with ASIC and the Effective Date:

- a material statement in this Demerger Scheme Booklet is or becomes false or misleading;
- a material omission from this Demerger Scheme Booklet;
- a significant change affecting a matter included in this Demerger Scheme Booklet; or
- a significant new matter has arisen and it would have been required to be included in this Demerger Scheme Booklet if it had arisen before the date of lodgement of this Demerger Scheme Booklet for registration by ASIC.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, Straits may circulate and publish any supplementary document by:

- placing an advertisement in a prominently published newspaper which is circulated generally throughout Australia;
- posting the supplementary document on Straits website; or
- making an announcement to the ASX.

10.21 Information relating to Mineral Resources and Ore Reserves

The information in this Demerger Scheme Booklet that relates to Mineral Resources and Ore Reserves (as both of those terms are defined in the JORC Code) of the Metals Business is based on information compiled by Mr. Byron Dumpleton, who is a member of the Australian Institute of Geoscientists. Mr. Dumpleton is a full-time employee of Straits and has sufficient experience relevant to the style of mineralisation, type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the JORC Code. Mr. Dumpleton consents to the inclusion in this Demerger Scheme Booklet of the matters based on his information in the form and context in which it appears.

11 Glossary of terms

11.1 Definitions

In this Demerger Scheme Booklet (including the Annexures), unless the context requires otherwise:

Term	Meaning
Acquisition Proposal	the proposal by PTTML to pay cash of $1.72 per Straits Share more fully described in the Acquisition Scheme Booklet.
Acquisition Scheme	the members' scheme of arrangement under Part 5.1 of the Corporations Act between Straits and the Straits Shareholders relating to the Acquisition Proposal, as more particularly described in the Acquisition Scheme Booklet.
Acquisition Scheme Booklet	the scheme booklet in relation to the Acquisition.
Acquisition Scheme Effective Date	the date on which the Acquisition Scheme becomes Effective.
Acquisition Scheme Implementation Agreement	the agreement between Straits, PTTML and PTTML relating to the Acquisition Scheme as further detailed in the Acquisition Scheme Booklet.
Acquisition Scheme Implementation Date	the second Business Day after the Acquisition Scheme Record Date or such other date as: 1 Straits, PTTML and PTTI may agree; 2 is ordered by the Court; or 3 may be required by ASX.
Acquisition Scheme Meeting	the meeting of Straits Shareholders to be convened by the Court in relation to the Acquisition Scheme in accordance with section 411(1) of the Corporations Act.
Acquisition Scheme Record Date	7.00pm (Sydney Time) on the fifth Business Day following the Acquisition Scheme Effective Date.
Additional Cash Balance	any cash or cash equivalents that Straits ICH is entitled to after the Restructure Date in excess of the Retained Cash Amount other than any amount: 1 received from PTTAPM; or 2 which Straits ICH is not required to bring to account within 90 days after the Restructure Date.
Adjusted Retained Cash	the Retained Cash Amount, as adjusted in accordance with the Indemnity and Adjustment Deed to ensure that Straits (following the Demerger) retains Net Cash of $50 million (less any amounts invested in PTTAPM by Straits between 11 November 2010 and the Acquisition Scheme Implementation Date) on the Acquisition Scheme Implementation Date.
Adverse Adjustment Event	has the meaning given to it in **Section 1.1** of the Acquisition Scheme Booklet.
ASIC	Australian Securities and Investments Commission.

11 Glossary of terms

11.1 Definitions (continued)

Term	Meaning
ASTC Settlement Rules	the operating rules of ASX Settlement Transfer Corporation Pty Limited.
ASX	ASX Limited or, as the context requires, the financial market operated by it.
ATO	Australian Taxation Office.
BCM	bank cubic metre.
Brunei Coal Project	PTTAPM's 35% interest in a joint venture with FEE to explore for potential Coal Resources in Brunei.
Business Day	a day on which banks are open for business in Perth and Sydney, excluding a Saturday, Sunday or public holiday and which is a "Business Day" as defined in the Listing Rules.
Capital Reduction	a reduction of the share capital of Straits equal to the Market Capitalisation less the Demerger Dividend (if any) provided that, in each case, the amount does not exceed the maximum capital return permitted by law, applied equally against each Scheme Share in accordance with the Capital Reduction Resolution.
Capital Reduction Amount	the amount of capital on each Straits Share that is to be reduced in accordance with the Capital Reduction Resolution, being the total amount of the Capital Reduction divided by the number of Scheme Shares.
Capital Reduction Entitlement	in relation to each Scheme Shareholder, means the Capital Reduction Amount multiplied by the number of Straits Shares held by the Scheme Shareholder on the Demerger Scheme Record Date.
Capital Reduction Resolution	the ordinary resolution to approve the reduction of the share capital of Straits to be considered at the General Meeting set out in resolution one of the notice of meeting in **Annexure H**.
Carbon in leach or Carbon in pulp	metallurgical processing terms that describe the extraction methodology for gold ores, wherein gold leached by cyanide is adsorbed into activated Carbon before being extracted and smelted to metal.
CHESS	the clearing house electronic subregister system of share transfers operated by ASX Settlement and Transfer Corporation Pty Ltd ABN 49 008 504 532.
Coal Business	the business carried on by Straits as at 5:00pm on the Restructure Date, excluding the Metals Business.
Constitution	the constitution of Straits filed in accordance with the Corporations Act and the Listing Rules.
Corporations Act	*Corporations Act 2001* (Cth).
Corporations Regulations	*Corporations Regulations 2001* (Cth).

11.1 Definitions (continued)

Term	Meaning
Court	the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act as agreed in writing by Straits and Straits Metals.
Demerger	the proposal by Straits to effect the demerger of Straits Metals from Straits to be implemented through the Capital Reduction, the Demerger Dividend (if any) and the Demerger Scheme in the manner more fully described in this Demerger Scheme Booklet.
Demerger Deed	the demerger deed dated 11 November 2010 between Straits and Straits Metals describing the transactions required to effect the transfer of the Metals Business to the Straits Metals Group and describing the transitional arrangements and ongoing relationship between Straits and Straits Metals.
Demerger Deed Poll	a deed poll in the form of **Annexure F** or in such other form as agreed by Straits and Straits Metals to be executed by Straits Metals in favour of the Scheme Shareholders.
Demerger Dividend	the aggregate of the special dividend (if any) referred to in **Section 1.2C** to be paid to the holders of Scheme Shares in the amount determined by the Straits Board and announced to the ASX by the third Business Day after the Demerger Scheme Record Date.
Demerger Dividend Amount	the amount of the Demerger Dividend (if any) divided by the number of Scheme Shares.
Demerger Dividend Entitlement	in relation to each Scheme Shareholder, means the Demerger Dividend Amount multiplied by the number of Straits Shares held by that Scheme Shareholder on the Demerger Scheme Record Date.
Demerger Implementation Agreement	the demerger implementation agreement entered into between Straits and Straits Metals dated 11 November 2010, as amended, relating to the implementation of the Demerger.
Demerger Resolutions	1 the Demerger Scheme Resolution; and 2 the General Meeting Resolutions.
Demerger Scheme	the members' scheme of arrangement under Part 5.1 of the Corporations Act between Straits and the Scheme Shareholders relating to the Demerger in the form of **Annexure E**, together with any alterations or conditions made or required in accordance with section 411(6) of the Corporations Act and agreed or consented to by Straits, Straits Metals and PTTML.
Demerger Scheme Booklet	this scheme booklet in relation to the Demerger Scheme.
Demerger Scheme Effective Date	the date on which the Demerger Scheme becomes Effective.
Demerger Scheme Implementation Date	means the third Business Day after the Demerger Scheme Record Date or such other date as: 1 Straits and Straits Metals may agree; 2 is ordered by the Court; or 3 may be required by ASX.

11 Glossary of terms

11.1 Definitions (continued)

Term	Meaning
Demerger Scheme Meeting	the meeting of Straits Shareholders to be convened by the Court in relation to the Demerger Scheme in accordance with section 411(1) of the Corporations Act.
Demerger Scheme Meeting Proxy Form	the blue proxy form for the Demerger Scheme Meeting that accompanies this Demerger Scheme Booklet.
Demerger Scheme Record Date	7.00pm (Sydney time) on the fifth Business Day after the Demerger Scheme Effective Date.
Demerger Scheme Resolution	the resolution to approve the Demerger Scheme to be considered by Straits Shareholders at the Demerger Scheme Meeting set out in the notice of meeting in **Annexure G**.
Demerger Tax Relief	relief from any Australian capital gains tax that may arise from the transfer of shares in Straits Metals to Scheme Shareholders and confirmation from the ATO that no part of the Demerger Distribution Amount will be an assessable dividend.
Distribution Amount	Distribution Entitlement multiplied by the number of Straits Shares on issue at the Demerger Scheme Record Date.
Distribution Entitlement	in relation to each Scheme Participant, the aggregate of the Capital Reduction Amount and, to the extent the Capital Reduction Amount is less than the Market Value, such amount for each Scheme Share held by that Scheme Participant.
Dore	a term used to describe semi-pure alloy of gold and silver. Dore usually takes the form of Dore bar, which is the case at Mt Muro
Effective	the coming into effect, under section 411(10) of the Corporations Act, of the order of the Court made under section 411(4)(b) in relation to the Demerger Scheme or the Acquisition Scheme, as the context requires.
Eligible Shareholder	a Straits Shareholder as at the Demerger Scheme Record Date whose registered address on the Straits Share Register is in: 1 Australia; 2 New Zealand; 3 Canada; 4 the United Kingdom; 5 the United States; 6 countries within the European Economic Community; 7 Switzerland; 8 Singapore; 9 Hong Kong; or 10 any other jurisdiction in relation to which Straits reasonably believes that the implementation of the Demerger Scheme and the transfer of the Straits Metals Shares to Scheme Shareholders in that jurisdiction is not prohibited, not unduly onerous and not impracticable.

11.1 Definitions (continued)

Term	Meaning
Explanatory Statement	has the meaning given to it in Part 5.1 of the Corporations Act.
FATA	the *Foreign Acquisitions and Takeovers Act 1975* (Cth).
FEE	FEE Pty Ltd ACN 118 152 873.
First Court Hearing	the day on which an application was made to the Court for orders under section 411(1) of the Corporations Act convening the Demerger Scheme Meeting to consider the Demerger Scheme, being 17 December 2010.
General Meeting	the extraordinary general meeting of Straits Shareholders convened to consider the General Meeting Resolutions set out in the notice of meeting in **Annexure H** and to be held immediately following the Demerger Scheme Meeting.
General Meeting Proxy Form	the white proxy form for the General Meeting that accompanies this Demerger Scheme Booklet.
General Meeting Resolutions	1 Capital Reduction Resolution; and 2 Name Change Resolution.
Goldminco	Goldminco Corporation.
g/tonne	grams per tonne.
Hillgrove	The Hillgrove Antimony / Gold Mine.
Indemnity and Adjustment Deed	the indemnity and adjustment deed to be entered into by Straits and Straits Metals prior to the date of the Acquisition Scheme Meeting which amends the Demerger Deed and the Intra-group Transfer Agreement a summary of which is contained in **Section 1.9**.
Independent Expert	Ernst & Young Transaction Advisory Services Limited.
Independent Expert's Report	the report by the Independent Expert, a copy of which is contained in **Annexure A**.
Ineligible Foreign Shareholder	Straits Shareholders whose registered addresses are shown in the Straits Share Register on the Demerger Scheme Record Date as being in a jurisdiction outside Australia, New Zealand, Canada, the United Kingdom, the United States, countries within the European Economic Community, Switzerland, Singapore, Hong Kong and the other countries referred to in **Section 1.5B(2)**.
Intra-group Transfer Agreement	the intra-group transfer agreement to be entered into by Straits and Straits Metals on the Restructure Date relating to the transfer of the Metals Business from Straits to Straits Metals in consideration for the issue of shares by Straits Metals to Straits.
IOCG	Iron oxide copper gold.
Investigating Accountant	PricewaterhouseCoopers Securities Ltd ACN 003 311 617.
Investigating Accountant's Report	the report by PricewaterhouseCoopers Securities Ltd, a copy of which is contained in **Annexure B**.

11 Glossary of terms

11.1 Definitions (continued)

Term	Meaning
JORC Code	2004 Edition of the Australasian Code for Reporting of Mineral Resources and Ore Reserves.
JPMM&C	J.P. Morgan Metals & Concentrates LLC.
Listing Rules	the listing rules of ASX.
Long Stop Date	30 June 2011 or such later date: 1 as PTTML and Straits agree in writing; or 2 as provided under the Acquisition Scheme Implementation Agreement.
Madagascar Coal Project	PTTAPM's 33.5% interest in RIM which owns the Sakoa coal tenements in Madagascar.
Market Capitalisation	the amount which is the Market Value multiplied by the number of Straits Metals Shares on issue on the Demerger Scheme Record Date.
Market Value	the volume weighted average price of Straits Metals Shares as traded on ASX (whether on a deferred or normal settlement basis) over the first five trading days after the Demerger Scheme Effective Date.
Meeting Record Date	7.00pm (Sydney Time) on 19 January 2011.
Meetings	1 Demerger Scheme Meeting; and 2 General Meeting.
Merril-Crowe	is a processing method, typically used where ores have a high silver content and involves the capture of gold and silver by zinc adsorption prior to smelting to metal.
Metals Business	all the businesses carried on by the Metals Subsidiaries immediately prior to 5:00pm on the Restructure Date.
Metals Subsidiaries	1 Straits Exploration (Australia) Pty Ltd; 2 Straits Mine Management Pty Ltd; 3 Straits Gold Pty Ltd; 4 Straits Mining Pty Ltd; 5 Straits Mineral Investments Pty Ltd; 6 Tritton Resources Pty Ltd; and 7 each subsidiary of the above companies.
Mineral Resources	a Mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form, quality or quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral Resource are known, estimated or interpreted from specific geological evidence or knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories.
Mt Muro	the Mt Muro Gold Mine located in Central Kalimantan, Indonesia owned by PT Indo Muro Kencana.
Mtpa	million tonnes per annum.

11.1 Definitions (continued)

Term	Meaning
Name Change Resolution	the special resolution to approve the change of name of Straits to International Coal Holdings Limited, to be considered at the General Meeting set out in resolution two of the notice of meeting in **Annexure H**.
Net Cash	Straits cash and cash equivalents less Straits aggregate current and non-current liabilities calculated in accordance with the accounting principles set out in the Indemnity and Adjustment Deed.
Official List	the official list of ASX.
Oz	troy ounce.
Ore Reserve	the economically mineable part of a Measured and / or Indicated Mineral Resource. It includes diluting materials and allowances for losses, which may occur when the material is mined. Appropriate assessments have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate at the time of reporting that extraction could reasonably be justified. Ore Reserves are sub-divided in order of increasing confidence into Probable Ore Reserves and Proved Ore Reserves.
Perth Time	the time zone currently observed in Perth, Western Australia, Australia.
PTTAPM	PTT Asia Pacific Mining Pty Ltd ACN 075 415 806.
PTTAPM Joint Venture	the joint venture between Straits and PTTML as set out in the PTTAPM Shareholders Agreement.
PTTAPM Shareholders Agreement	the SBI Global Coal Co-Investment Shareholders' Agreement dated 28 April 2009 between Straits, PTTML and PTTAPM for the management, control and funding of PTTAPM.
PTTI	PTT International Company Limited (a company incorporated in Thailand with registered number 0105550103485, and which is a subsidiary of PTT Plc, a public company listed on the Stock Exchange of Thailand).
PTTML-SCPE Conversion Agreement	the Conversion Agreement dated 11 November 2010 between PTTML and SCPE dealing with the conversion of the Straits Convertible Notes.
PTTML	PTT Mining Limited, a company incorporated in Hong Kong (with Registration Number 1211985) and which is a wholly owned subsidiary of PTTI.
Related Body Corporate	has the meaning given to it in the Corporations Act.
Relevant Interest	has the meaning given to that term in the Corporations Act.
Restructure	the restructure of the business of Straits into a separate Coal Business and Metals Business as more fully described in **Section 1.1**.
Restructure Date	the date on which Straits will transfer the Metals Business to Straits Metals which is expected to be 24 January 2011.

11 Glossary of terms

11.1 Definitions (continued)

Term	Meaning
Retained Cash Amount	$50 million less any amounts invested in PTTAPM by Straits between 11 November 2010 and the Demerger Scheme Implementation Date and before any liabilities for which Straits is liable under the Demerger Deed have been taken into account such as transaction costs and employee termination and redundancy payments (which are expected to amount to approximately $14 million in aggregate).
RIM	Red Island Minerals ACN 113 194 504.
RIM Option	the option granted to PTTAPM under the Investment & Option Agreement dated 21 January 2008 between Straits, PTTAPM and other parties.
SAR	Straits Asia Resources Limited incorporated in the Republic of Singapore with Company Registration Number 199504024R (SGX: SAR).
SAR Group	SAR and its subsidiaries.
SAR Proposal	any expression of interest, offer or proposal by a Third Party (as that term is defined in the Acquisition Scheme Booklet) in respect of a transaction under which, if the transaction were completed, a person (whether alone or together with one or more Associates) would: 1 acquire directly or indirectly the whole or a substantial part of the business or assets of SAR or the SAR Group; 2 acquire control of SAR, within the meaning of section 50AA of the Corporations Act; 3 otherwise acquire or merge with SAR (including by reverse takeover bid or scheme, or by establishing a dual listed company structure or stapled security structure); or be able to remove or appoint directors to the board of SAR.
SAR Share	a share in the ordinary capital of SAR.
Sale Facility	the facility available to certain Straits Shareholders, as described in **Section 1.8**.
SCB	Standard Chartered Bank.
SCPE	Standard Chartered Private Equity Limited, which holds the Straits Convertible Notes.
Second Court Hearing	the hearing of the application made to the Court for orders pursuant to section 411(4)(b) of the Corporations Act approving the Demerger Scheme (currently scheduled for 31 January 2011 as set out in the Timetable).
Sempra Contract	the offtake agreement between Tritton Resources and JPMM&C.
SGX	Singapore Exchange Ltd or, as the context requires, the financial market operated by it.
Scheme Share	each Straits Share on issue on the Demerger Scheme Record Date.
Scheme Shareholder	a person registered in the Straits Share Register as the holder of Demerger Scheme Shares on the Demerger Scheme Record Date.

11.1 Definitions (continued)

Term	Meaning
Share Registry	Computershare Investor Services Pty Limited.
SRL-SCPE Conversion Agreement	the agreement of that name dated 11 November 2010 between Straits and SCPE dealing with the conversion of the Straits Convertible Notes, a summary of which is contained in **Annexure C**.
Straits	Straits Resources Limited ABN 22 056 601 417 (which is proposed to be renamed International Coal Holdings Limited on approval of the Name Change Resolution and implementation of the Demerger).
Straits Board	The board of Straits Directors.
Straits Convertible Notes	the 55,000,000 4% convertible notes issued by Straits to Standard Chartered Private Equity Limited with an aggregate face value of $79.8 million.
Straits Cross Guarantee	a deed of cross guarantee dated 14 December 2006 (as amended) between Straits, Straits Mining Pty Limited and Straits (Hillgrove) Gold Pty Ltd in the form of ASIC Pro Forma 24 to meet a requirement of ASIC Class Order CO 98/1418.
Straits Director	a director of Straits from time to time.
Straits Group	1 Straits; and 2 each of its Subsidiaries.
Straits ICH	International Coal Holdings Limited (which will be the new name of Straits subject to the approval of the Name Change Resolution and the implementation of the Demerger Scheme).
Straits Metals	Straits Metals Limited ACN 147 131 977.
Straits Metals Board	the board of Straits Metals Directors.
Straits Metals Director	a director of Straits Metals from time to time.
Straits Metals Group	Straits Metals and each of its Subsidiaries.
Straits Metals Share Plan	the Straits Metals Employee Share Acquisition Plan, a summary of the terms of which is contained at Part 2 of **Annexure D**.
Straits Metals Share	a fully paid ordinary share in the capital of Straits Metals.
Straits Option	the 150,000 options over Straits Shares issued under the Straits Share Plan.
Straits Share	a fully paid ordinary share in the capital of Straits.
Straits Share Plan	the Straits Employee Share Acquisition Plan originally adopted in 2002 and most recently amended and approved at the Straits annual general meeting on 30 November 2009.
Straits Share Register	the Straits Share Register of members of Straits maintained in accordance with the Corporations Act.
Straits Shareholder	a person who is registered as the holder of Straits Shares.
Subsidiary	has the meaning in the Corporations Act.

11 Glossary of terms

11.1 Definitions (continued)

Term	Meaning
Sydney Time	the time zone currently observed in Sydney, New South Wales, Australia.
Timetable	the indicative timetable of key dates and times set out under the heading entitled "Timetable of key dates and times".
Torrens or Torrens Joint Venture	Torrens Joint Venture between Argonaut Resources NL and Straits in relation to EL 4296.
tpa	tonnes per annum.
Transition Services Agreement	the agreement to be entered into between Straits and Straits Metals (or their Related Bodies Corporate) pursuant to which Straits Metals will provide Straits ICH with certain services to facilitate the transfer and continued operation of their respective businesses following the Demerger.
Tritton	Tritton Copper Mine.
Tritton Resources	Tritton Resources Pty Ltd.
Tritton Copper Project	the mines comprising Tritton Copper Mine, Murrawombie Copper Mine, North East Copper Mine, the historical oxide copper mine at Hartmans and the Budgery copper deposit.
Trustee	the trustee of the existing Straits employee share plans being CPU Share Plans Pty Limited.
US	the United States of America
US Person	has the meaning defined in Regulation S under the US Securities Act.
US Securities Act	the US Securities Act of 1933.
VWAP	volume weighted average price.

11.2 Interpretation

In this Demerger Scheme Booklet (including the Annexures) unless the context otherwise requires:

- A number of figures, amounts, percentages, estimates, calculations of value and fractions in this Demerger Scheme Booklet are subject to the effect of rounding. Accordingly, the actual calculation of these figures may differ from the figures set out in this Demerger Scheme Booklet.
- All references to times in this Demerger Scheme Booklet are references to Sydney Time. All dates following the date of the Demerger Scheme Meeting are indicative only and are subject to the Court approval process, ASX approval and the satisfaction or, where applicable, waiver of the conditions precedent to the implementation of the Demerger Scheme.
- All references to "$", "dollar" and "cent" are references to Australian currency, unless stated otherwise.
- Words and phrases not otherwise defined in this Demerger Scheme Booklet (excluding the Annexures) have the same meaning (if any) as is given to them by the Corporations Act.
- The singular includes the plural and vice versa. A reference to a person includes a reference to a corporation.
- Headings are for ease of reference only and do not affect the interpretation of this Demerger Scheme Booklet.
- A reference to a Section is to a section in this Demerger Scheme Booklet unless stated otherwise.

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Part 1 – Independent Expert's Report

ERNST & YOUNG

The Directors
Straits Resources Limited
Level 1, 35 Ventnor Avenue
WEST PERTH WA 6005

1 December 2010

Ernst & Young Transaction Advisory Services Limited
ABN 87 003 599 844
Australian Financial Services Licence No. 240585

Ernst & Young Building
11 Mounts Bay Road
PERTH WA 6000 Australia
GPO Box M939
PERTH WA 6843
Telephone +61 8 9429 2222
Facsimile +61 8 9429 2192

www.ey.com/au

Dear Sirs

PROPOSED DEMERGER SCHEME

Straits Resources Limited ("Straits" or the "Company") intends to transfer all assets and liabilities other than its 40% interest in PTT Asia Pacific Mining Pty Ltd ("PTTAPM"), an amount of cash and some sundry liabilities to a new entity, Straits Metals Limited ("Straits Metals") (the "Demerger").

Pursuant to a scheme of arrangement under Section 411 of the Corporations Act 2001 (the "Act"), shareholders of Straits ("Straits Shareholders") will receive shares in Straits Metals in the same proportion to their Straits shareholding ("Demerger Scheme"). Accordingly, at the time of the Demerger the shareholders of Straits and the shareholders of Straits Metals will be the same, with each shareholder having the same percentage interest in both Straits and Straits Metals.

Straits Metals will be listed on the Australian Securities Exchange ("ASX"). If the Demerger is approved and proceeds as anticipated, it is intended that, subject to shareholder approval, Straits will be renamed 'International Coal Holdings Limited' ("Straits ICH").

Straits Shareholders are to consider a resolution seeking the approval of the Demerger at a general meeting of the Company that is to be held on or about 21 January 2011 (the "Meeting").

Under clause 8303 of Schedule 8 of the Corporations Regulations 2001 (the "Regulations"), if the parties subject to the scheme have a common director then the documents sent to shareholders must be accompanied by a report prepared by an independent expert in which that person provides an opinion as to whether or not the proposed scheme is in the best interests of shareholders and setting out the reasons for that opinion.

With Straits and Straits Metals having a number of common directors, the directors of Straits have engaged Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services") as independent expert. Accordingly, we have prepared this independent expert's report for the purpose of stating, in our opinion, whether or not the Demerger Scheme is in the best interests of Straits Shareholders and to set out the reasons for that opinion. Our report is being included in the Notice of Meeting and Demerger Scheme Booklet being sent to Straits Shareholders in respect to the Meeting.

The Act, the Regulations or the ASX Listing Rules do not define the term 'in the best interests of'. In stating this, Australian Securities and Investment Commission has issued Regulatory Guide 111: *Content of expert reports* ("RG 111") which provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

In the circumstance of a demerger that does not involve a change in the underlying economic interests of shareholders, a change of control in the company or the selective treatment of different shareholders, RG 111 suggests that the independent expert should consider the advantages and disadvantages of the transaction. If after consideration of the advantages and disadvantages, in the independent expert's opinion the advantages outweigh the disadvantages then RG 111 advocates that the expert should conclude that the demerger is in the best interests of shareholders.

With Straits Shareholders holding shares in Straits Metals in the same proportion as their shareholding in Straits, the Demerger does not involve a change in their underlying economic interests, a change of control of Straits or the selective treatment of different Straits shareholders. On this basis, in considering whether or not the Demerger Scheme is in the best interests of Straits Shareholders we have considered the advantages of the Demerger together with the disadvantages of the Demerger.

Subject to the Demerger proceeding, a second scheme is proposed to be put to Straits Shareholders whereby PTT Mining Limited, a subsidiary of PTT International Company Limited, intends to acquire all of the issued shares in Straits (the "Acquisition Scheme"). If the Demerger is not approved or is not implemented as anticipated the Acquisition Scheme will not proceed. Straits Shareholders are to vote on the Acquisition Scheme at a general meeting of the Company to be held on 21 January 2011 straight after the Meeting.

The Directors of Straits have separately engaged Ernst & Young Transaction Advisory Services to prepare an independent expert's report in relation to the Acquisition Scheme. The separate independent expert's report prepared on the Acquisition Scheme is included in the Acquisition Scheme Booklet being sent to Straits Shareholders in respect to the Meeting.

We recommend that Straits shareholders read both the Demerger and Acquisition Scheme Booklets to obtain a full understanding of the Demerger Scheme and the Acquisition Scheme.

While the Acquisition Scheme is one of the matters considered, whether or not the Demerger Scheme is in the best interests of Straits Shareholders has been assessed in isolation of the Acquisition Scheme.

Summary of Opinion

- In Section 5.1 we set out the rationale for the Demerger Scheme.
- In Section 5.2 we describe the impact the Demerger Scheme is expected to have on the underlying businesses.
- In Section 5.3, we set out the commercial and qualitative factors which should be taken into consideration.
- In Section 5.4 we consider the alternatives and in Section 5.5 we consider other matters (including tax implications) relevant to Straits Shareholders.

While individual shareholders may interpret these factors differently depending on their own individual circumstances, in Ernst & Young Transaction Advisory Services' opinion the potential advantages outweigh the potential disadvantages to the shareholders as a whole.

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Ernst & Young

Taking into consideration the matters detailed in our independent expert's report, in the opinion of Ernst & Young Transaction Advisory Services the Demerger Scheme is in the best interests of Straits Shareholders.

Having regard to the nature of the Demerger Scheme and the advantages and disadvantages, it is the opinion of Ernst & Young Transaction Advisory Services, that, on balance, Straits shareholders are likely to be better off if the Demerger Scheme proceeds.

Ernst & Young Transaction Advisory Services considers that the Demerger Scheme will not materially prejudice Straits' ability to pay its creditors.

Other Matters

This independent expert's report has been prepared specifically for Straits Shareholders. Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any employee thereof undertakes responsibility to any person, other than Straits Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Straits Shareholders. The decision as to whether to approve or not approve the Demerger Scheme is a matter for individual Straits Shareholders. Straits Shareholders should have regard to the Notice of Meeting and Demerger Scheme Booklet prepared by the Directors and management of Straits. Straits Shareholders who are in doubt as to the action they should take in relation to Demerger Scheme should consult their own professional adviser.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

Brenda J Moore
Representative

Ken Pendergast
Director and Representative

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Part 1 – Independent Expert's Report

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1. Details of the Demerger Scheme

1.1 Overview of the Demerger Scheme

On 2 November 2010, Straits Resources Limited ("Straits" or the "Company") announced that it proposed to transfer all assets and liabilities other than its 40% interest in PTT Asia Pacific Mining Pty Ltd ("PTTAPM"), an amount of cash and some sundry liabilities to a new entity, Straits Metals Limited ("Straits Metals") (the "Demerger").

The purpose of the Demerger is to restructure the operations of Straits to separate its coal assets (the "Coal Business"), which is represented by the Company's investment in PTTAPM, from its non-coal assets (referred to as the "Metals Business"). The Metals Business includes:

- a 100% interest in the Tritton Copper Mine, located near Nyngan which is approximately 600 km north west of Sydney in New South Wales;
- a 100% interest in the Mt Muro Gold Mine, located in the northern region of the Indonesian province of Central Kalimantan;
- a 100% interest in the Hillgrove antimony/gold mine, which is currently on care and maintenance, located near Armidale in the north east region of New South Wales;
- a 71% interest in Goldminco Corporation ("Goldminco"), a copper and gold exploration company listed on the TSX Venture Exchange in Canada and headquartered in Perth;
- an active Australian based exploration portfolio; and
- the Magontec magnesium alloy business based in the Germany town of Bottrop.

The Demerger is to be undertaken by way of a scheme of arrangement (the "Demerger Scheme") under which Straits is to transfer the Metals Business plus some cash to Straits Metals, who will issue shares to Straits as consideration for the transfer. The Straits Metals shares held by Straits will be transferred to Straits shareholders ("Straits Shareholders"). Straits Shareholders are to receive shares in Straits Metals in the same proportion to their Straits shareholding. Accordingly, at the time of the Demerger the shareholders of Straits and the shareholders of Straits Metals will be the same, with each shareholder having the same percentage interest in both Straits and Straits Metals.

Both Straits and Straits Metals will be listed on the Australian Securities Exchange ("ASX"). If the Demerger is approved and proceeds as anticipated, it is intended that, subject to shareholder approval, Straits will be renamed 'International Coal Holdings Limited' ("Straits ICH").

Post the Demerger, Straits ICH's major asset, besides cash net of some liabilities, will be its 40% interest in PTTAPM. PTTAPM's assets include:

- a 45.6% interest in Straits Asia Resources Limited ("SAR"), a coal mining company listed on the Singapore Exchange ("SGX");
- an indirect 35% interest in an early stage coal exploration project located in Brunei;
- an indirect 33.5% in an early stage coal exploration project located in Madagascar; and
- the early stage and yet to be approved Yannarie solar salt project, located on the eastern shore of the Exmouth Gulf in the northern Western Australia.

The 60% interest in PTTAPM not held by Straits is held by PTT Mining Limited ("PTTML"), a wholly owned subsidiary of PTT International Company Limited ("PTTI"), which is in turn a wholly owned subsidiary of PTT Public Company Ltd ("PTT"). PTT is listed on the Stock Exchange of Thailand, is an integrated energy and petrochemical company with many subsidiaries and interests in various companies worldwide (collectively known as the "PTT Group").

On 11 November 2010, Straits and Straits Metals entered into the Demerger Implementation Agreement (the "Agreement") and the Demerger Deed (the "Deed"), which together set out how the Demerger is to be undertaken, the terms and conditions of the Demerger and the rights and obligations of both parties through the Demerger.

Under the Demerger, it is proposed that on the transfer of the Metals Business, Straits Metals will issue to Straits the same number of shares Straits has on issue as at that date, less the one share that Straits Metals already has on issue. The share Straits Metals has on issue is held by Straits.

At the date of this report Straits had on issue 255,203,614 ordinary shares, 55,000,000 convertible notes and 150,000 options.

The convertible notes are held by Standard Chartered Private Equity Limited ("SCPE") and at a conversion rate of approximately 1.11 shares per note equate to 61,139,221 ordinary shares, representing a 19.3% interest in the expanded capital of the Company. Subject to certain terms and conditions, SCPE has entered into an agreement with Straits to convert the convertible notes prior to the Meeting.

The options on issue are held by Straits employees, who have agreed to have the options cancelled prior to the completion of the Demerger.

Accordingly, at the date of the Demerger it is expected that Straits will have on issue 316,342,834 shares. Under the terms of the Demerger, Straits Metals will issue that number of shares, less the one share it has on issue, to Straits and Straits will distribute the Straits Metals shares to Straits Shareholders, including SCPE.

While Straits ICH and Straits Metals will have a common non-executive chairman and two common directors, the objective of the Demerger is for Straits ICH and Straits Metals to have separate management and to be separately managed businesses.

On 11 November 2010, Straits announced that, subject to the Demerger Scheme being approved by shareholders and proceeding as anticipated, under a separate scheme of arrangement, PTTML intends to acquire all of the issued shares in Straits ICH for a cash consideration of $1.72 per share (the "Acquisition Scheme").

At the time of the Acquisition Scheme, besides cash, Straits ICH's major asset will be its 40% interest in PTTAPM. With PTTML owning the 60% interest in PTTAPM that Straits does not hold, if the Acquisition Scheme proceeds, PTTML's interest in PTTAPM will increase to 100%. Straits ICH will become a wholly owned subsidiary of PTTML.

Straits Shareholders are to consider the Demerger Scheme at a general meeting of the Company that is to be held on or about 21 January 2011 (the "Meeting"). A second general meeting for Straits Shareholders to consider the Acquisition Scheme is scheduled to occur immediately after the Meeting (the "Acquisition Meeting"). If the Demerger Scheme is not approved the Acquisition Scheme will not be put to shareholders.

A separate Acquisition Scheme Booklet has been prepared for presentation to Straits Shareholders as part of the information being provided for the Acquisition Meeting. Included in the Acquisition Scheme Booklet is a separate independent expert's report prepared by Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services"), the purpose of which is to provide an opinion as to whether or not the Acquisition Scheme is in the best interests of shareholders.

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1.2 Conditions precedent

Completion of the Demerger Scheme is subject to a number of conditions (which may, in some cases, be waived by Straits) including, amongst other matters:

- Straits shareholders and Court approval of the Demerger Scheme;
- Straits shareholders approval of the capital reduction;
- cancellation of outstanding employee options for consideration;
- the conversion of the convertible notes held by SCPE;
- the admission of Straits Metals to the official list of ASX and official quotation of Straits Metals shares; and
- other required regulatory approvals obtained.

Full disclosure of the conditions precedent to the Demerger Scheme is included in the Demerger Scheme Booklet.

2. Scope of the Report

2.1 Purpose of the Report

The Demerger Scheme is a scheme of arrangement being conducted under the provisions of section 411 of the Corporations Act 2001 (the "Act"). Under clause 8303 of Schedule 8 of the Corporations Regulations 2001 (the "Regulations"), if a party to the scheme holds at least 30% of the company the subject of the scheme or if the parties have a common director then the documents sent to shareholders must be accompanied by a report prepared by an independent expert in which that entity provides an opinion as to whether or not the proposed scheme is in the best interest of shareholders and setting out the reasons for that opinion.

With Straits and Straits Metals having a number of common directors, the Directors of Straits have engaged Ernst & Young Transaction Advisory Services as independent expert. Accordingly, we have prepared this independent expert's report for the purpose of stating, in our opinion, whether or not the Demerger Scheme is in the best interests of Straits Shareholders and to set out the reasons for that opinion.

Our report is being included in the Notice of Meeting and Demerger Scheme Booklet that is sent to Straits Shareholders in respect to the Meeting.

2.2 Basis of assessment

The Act, the Regulations or the ASX Listing Rules do not define the term 'in the best interests of'. In stating this, Australian Securities and Investment Commission ("ASIC") has issued Regulatory Guide 111: *Content of expert reports* ("RG 111") which provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is in the best interests of shareholders.

In the circumstance of a demerger that does not involve:

- a change in the underlying economic interests of shareholders;
- a change of control in the company; or
- the selective treatment of different shareholders,

RG 111 suggests that the independent expert should consider the advantages and disadvantages of the transaction. If after consideration of the advantages and disadvantages, in the independent expert's opinion the advantages outweigh the disadvantages then RG 111 states, inter alia, that, *"the expert should say that the scheme is in the best interests of the members"*.

With Straits Shareholders holding shares in Straits Metals in the same proportion as their shareholding in Straits, the Demerger does not involve a change in their underlying economic interests, a change of control of Straits or the selective treatment of different Straits Shareholders. On this basis, in considering whether or not the Demerger Scheme is in the best interests of Straits Shareholders we have considered the advantages and disadvantages of the Demerger.

As the Demerger does not impact the value of Straits' mineral assets, in considering the advantages and disadvantages of the Demerger Scheme we have not had to undertake an assessment of the fair value of Straits' underlying assets and liabilities.

In this regard, in forming our opinion as to whether the Demerger Scheme is in the best interests to Straits' Shareholders, we have considered:

- the terms and conditions of the Demerger Scheme;
- rationale for the Demerger Scheme;
- the impact of the Demerger on the underlying businesses;
- all factors relevant to the Demerger Scheme, both quantitative and qualitative;
- the Acquisition Scheme;
- whether or not Straits Shareholders are likely to be better off if the Demerger Scheme is implemented than if it is not; and
- the alternatives available to the Straits Shareholders.

The Acquisition Scheme is dependent on the Demerger Scheme being approved and implemented. While we have considered the Acquisition Scheme as one of the matters taken into account in considering the Demerger Scheme, we have assessed the Demerger Scheme in isolation of the Acquisition Scheme. On this basis we have considered the future of Straits, as a standalone company separate from the Metals Business, assuming the offer from PTT under the Acquisition Scheme has not been made.

In undertaking our analysis and preparing this report, we have had access to management information in relation to the Company. A list of the sources of information used and relied on is contained in Appendix C

All amounts in this report are expressed in Australian dollars ($) unless otherwise stated. A glossary detailing the abbreviations we have used in this report is contained in Appendix D.

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2.3 Shareholders' decisions

This independent expert's report has been prepared specifically for Straits Shareholders at the request of the Directors of the Company with respect to the Demerger Scheme. As such, Ernst & Young Transaction Advisory Services, Ernst & Young and any member or employee thereof, take no responsibility to any entity other than Straits Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the shareholders. The decision to approve or not approve the Demerger Scheme is a matter for individual shareholders. Shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Straits Shareholders should have regard to the Notice of Meeting and Demerger Scheme Booklet prepared by the Directors and management of the Company. Straits Shareholders who are in doubt as to the action they should take in relation to the Demerger Scheme should consult their own professional adviser.

Ernst & Young Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

2.4 Limitations and reliance on information

In the preparation of this independent expert's report, Ernst & Young Transaction Advisory Services was provided with information in respect of Straits and obtained additional information from public sources, as set out in Appendix C.

We have had discussions with management of Straits in relation to the Demerger Scheme, operations, financial position, operating results and outlook of Straits.

Ernst & Young Transaction Advisory Services' opinion is based on economic, market and other external conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

This independent expert's report is also based upon financial and other information provided by Straits in relation to the Demerger Scheme. Ernst & Young Transaction Advisory Services has considered and relied upon this information.

The information provided to Ernst & Young Transaction Advisory Services has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Demerger Scheme is in the best interest of Straits Shareholders. However, Ernst & Young Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Straits. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

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In forming our opinion we have also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Notice of Meeting and Scheme Booklet to be sent by Straits to shareholders is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied upon by Ernst & Young Transaction Advisory Services in its analysis was accurate and not misleading.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the Directors and management of Straits for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Amendments made to this report as a result of this review have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix B of this report.

This report has been prepared in accordance with APES 225 *Valuation Services* issued by the Accounting Professional & Ethical Standards Board Limited in July 2008.

3. Overview of Straits

3.1 Background

Straits listed on the ASX in July 1994 as an established low cost copper producer, with interests in various resource projects at various stages of development throughout Australia.

In 1996 Straits acquired an 80% interest in the Sebuku Coal Project on Sebuku Island in the Indonesian province of south east Kalimantan, as a major step to diversify its asset base. The Sebuku Coal Mine was developed through 1997 with the first shipment of thermal coal from Sebuku being completed in early 1998. Straits acquired the 20% of Sebuku it did not own in 2005.

Throughout its history Straits has been active in identifying, acquiring and developing mineral assets in Australia and Indonesia, concentrating on projects in the copper, gold and bulk commodities sectors. When opportunities for divestment have arisen, Straits has sold assets to take advantage of market conditions.

Pursuing a strategy of establishing an Asia based resource company, in November 2006, Straits Asia Resources Limited (i.e. SAR), the Straits subsidiary that held the Sebuku Coal Project, listed on the SGX via an initial public offering ("IPO"). Straits reduced its interest in SAR to 60.4% by offering for sale shares in SAR through the IPO. Proceeds generated from the sale totalled approximately $220 million. Between listing and 30 June 2008, Straits' interest in SAR was diluted from the 60.4% to 47.1%.

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In April 2008 after a strategic review of the Company's structure, the Directors announced an intention to separate Straits' coal assets from its other mineral assets by undertaking an in specie distribution of the shares it held in SAR to its shareholders on a proportionate basis (the "Proposed 2008 Demerger"). The rationale for the separation of Straits and SAR reflected the Directors' view that it would allow both companies to pursue their separate growth objectives in a more focused and efficient manner. It was also believed that the separation of the Coal Business from Straits' other minerals business as enabled investors to better align their investment objectives with the strategies of each company.

Although the Proposed 2008 Demerger was well advanced, with the onset of the global financial crisis (the "GFC") and the impact of that on world stock markets, in September 2008, Straits announced that the Proposed 2008 Demerger would not proceed.

In March 2009 Straits announced that it had entered into an agreement with PTTML for the sale of a 60% interest in its wholly owned subsidiary Straits Bulk and Industrial Pty Ltd ("SBI") for up to US$335 million in cash. SBI was the holding company for Straits' 47.1% shareholding in its SAR and Brunei and Madagascan coal exploration interests. In addition, the transaction included the transfer of the Yannarie solar salt project and a team of coal executives to SBI.

The transaction was completed in April 2009 with an upfront payment of US$220 million. SBI was renamed 'PTT Asia Pacific Mining Pty Ltd' and the board was reconstituted to comprise of two Straits nominees and three PTT nominees. The outstanding performance payment of US$115 million was received in October 2009.

An overview of Straits' mineral assets is detailed in the following section.

3.2 Overview of Straits' coal and metals assets

Straits has an interest in various mineral assets, indirectly through its 40% interest in PTTAPM and through direct ownership. The assets that the Company has an indirect interest in via its interest in PTTAPM (i.e. the Coal Business) are as follows:

- Investment in SAR (an indirect 18.2% interest): The main operations of SAR are the Sebuku and Jembayan Coal Mines which are based in the Kalimantan province of Indonesia. The Sebuku mine has been in production since 1997 and produced 2.0 million tonnes ("Mt") of coal during 2009. Jembayan was acquired by SAR in 2007 and produced 6.5 Mt of coal during 2009. Both mines produce high quality thermal coal at a low cost, with major customers being regional power utilities. SAR expects production from the Jembayan mine to increase to around 10 Mt in 2010. Production at Sebuku is expected to increase when access is granted on its northern leases.

  For 2009, SAR generated revenues of in excess of US$750 million and a net profit after tax ("NPAT") of US$133 million. For the nine months to 30 September 2010, while production was 24% up on 2009, sales are only marginally above last year at US$529 million compared to US$515 million, with NPAT being US$58 million compared to US$95 million. The 2010 result was impacted by higher costs and unseasonal wet weather at both locations.

- Brunei coal project (an indirect 14% interest): The Brunei coal project is at an early exploration stage, with PTTAPM being in joint venture ("JV") with Far East Energy Corporation Pty Ltd ("Far East") via a JV company, FEE (Bru) Pte Ltd ("FEE").

- Madagascar coal project (an indirect 13.4% interest): The Madagascar coal project is at an early exploration stage.

- Yannarie Solar Project (an indirect 40% interest): The Yannarie solar salt project has been delayed due to environmental concerns surrounding the location of the proposed project.

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The portfolio of operating and mineral exploration projects held directly by Straits (i.e. the Metals Business) includes the following:

- Tritton Copper Mine (100%): The Tritton underground copper mine is located near Nyngan in New South Wales and is 100% owned and operated by Straits. The Company's recent focus has been to increase Tritton's processing capacity to 1.4 Mt per annum ("Mtpa") and copper metal in concentrate production to 30,000 tonnes per annum ("tpa"). Production for the year ended 30 June 2010 ("FY10") at Tritton totalled 20,847 tonnes.
- Mt Muro Gold Mine (100%): Mt Muro is located in the northern part of the province of Central Kalimantan, Indonesia. The mine is owned by PT Indo Muro Kencana, a 100% subsidiary of Straits. During FY10 Mt Muro produced 45,521 ounces of gold and 143,496 ounces of silver. In the September 2010 quarter, Straits announced that the development of the underground mine at Mt Muro had ceased with immediate plans being modified to concentrate on identifying new ore sources from the existing open pit at Serjujan.
- Hillgrove Antimony/Gold Project (100%): The Hillgrove antimony/gold mine is located near Armidale, New South Wales and was purchased by Straits in 2004. During 2008 and 2009 the quantities of metal produced were significantly below design levels due to a number of issues in the processing plant. As a result, it was decided in August 2009 to suspend operations in order to investigate the technical issues encountered. Straits is currently considering alternative strategies for Hillgrove.
- Magontec Business (100%): Magontec supplies a range of magnesium alloys to the automotive industry, as well as cathodic corrosion protection systems for the water heater industry. The head offices of Magontec are located in Germany, with operational plants in Germany and China, with a total magnesium alloy annual capacity of 36,000 tonnes. Depending on the pace of global economic recovery, Magontec has set a five year plan with growth expected in all markets.
- Torrens JV: The Torrens JV is between Straits and Argonaut Resources NL, with Straits having the right to earn a 70% interest. Drilling at Torrens is expected to commence in late 2010 to explore for iron-oxide copper-gold systems in the Stuart Shelf region of South Australia.
- Yandan Gold JV: While Straits has a 100% interest in the Yandan tenements, it has farmed out its interest in the tenements to Drummond Gold Limited ("Drummond"). By spending $3 million over a period of up to three years, Drummond can earn a 51% stake in the Yandan gold project. There has been previous mining undertaken in the Yandan region and regional studies have defined other mineralised targets with potential to delineate gold deposits.
- Kokomo Scandium JV: Straits and Nornico Pty Ltd, a subsidiary of ASX listed company Metallica Metals Limited, are joint venture partners for the Kokomo Scandium JV, which is located within the Wairuna Formation, 60 km north-east of Greenvale in North Queensland. Straits has the option to earn a 10% interest in the project for every $200,000 of expenditure incurred. In the middle of 2008 Straits decided to cap its interest at 20%. With the addition of the newly discovered Lucknow deposit to the joint venture during 2010, the Kokomo Scandium JV contains scandium resources of 15.1 Mt at 133 g/t, these resources being compliant with the Code for Reporting of Mineral Resources and Ore Reserves ("JORC Code").

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In addition to its direct mineral assets, Straits has a 71% interest in Goldminco Corporation Limited ("Goldminco") and 100% interest in the GfE-MIR Group of companies ("GfE"). A summary of these assets is provided below:

- Goldminco is a junior minerals exploration company registered in Canada and listed on the TSX Venture Exchange, with over 2,000 km^2 in exploration tenements in the Lachlan Fold Belt of New South Wales; and
- GfE specialises in the marketing and servicing of alloys and related products for the steel, foundry and non-ferrous industries. On 11 November 2010, Straits announced that it agreed to sell GfE to a consortium that includes existing GfE management, with completion expected before year-end. The total consideration for the sale is US$15 million, with US$3 million due at closure and the balance of US$12 million payable in instalments over a five year period.

In August 2009 Straits agreed to sell its Whim Creek copper project (excluding the solvent extraction/electrowinning ("SX-EW") plant), which had shut down in April 2009, to Venturex Resources Limited ("Venturex") for shares in Venturex equating to a deemed value of $8 million, plus an additional $3 million of shares after a formal commitment to mine is made by Venturex. As a result of this transaction, Straits has a 19.9% interest in Venturex with a holding of 106.7 million shares. The SX-EW plant was sold to Finders Resources Limited ("Finders") in March 2010 for an 11.2% interest in Flinders, equating to a deemed value of $5 million.

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3.3 Financial performance and position

Included below is a summary of Straits' income statements for FY09 and FY10 and for the three month period ended 30 September 2010 ("YTDSept10"). The FY09 and FY10 amounts have been extracted from the Company's audited financial statements and the YTDSept10 amounts from the management accounts.

Straits Income Statement

$000's	YTD Sept10	FY10	FY09
Revenue			
- Sales	75,797	293,539	258,531
- Other revenue from ordinary activities	2,989	7,472	5,234
	78,786	301,011	263,765
Other Income	17,561	6,715	1,402
Expense			
- Cost of goods sold	(59,405)	(311,329)	(366,073)
- Other expenses from ordinary activities	(45,015)	(49,829)	(77,825)
- Impairment loss		(72,316)	(161,727)
- Finance costs	(2,619)	(12,306)	(12,922)
- Share of net profit of associates accounted for using the equity method	3,720	20,139	7,915
Profit/(Loss) before income tax	(6,972)	(117,915)	(345,465)
Income Tax benefit / (expense)	(3,204)	27,055	86,559
Profit/(Loss) after tax from continuing operations	(10,176)	(90,860)	(258,906)
Profit from discontinued operations	356	21,471	296,949
Profit/(Loss) for the period	(9,820)	(69,389)	38,043

Source: Straits, EY analysis

The trading performance of Straits reflects the ongoing impact of the GFC on commodity prices and economic conditions generally, together with the operational difficulties the Company experienced with its Hillgrove and Whim Creek operations. A significant portion of the FY09 impairment loss related to write downs for the Tritton mine as a consequence of falling metal prices during that period. The A$72 million impairment loss in FY10 related primarily to Hillgrove.

Profit from discontinued operations in FY09 and FY10 includes the sale of the 60% interest in PTTAPM to PTTML. The FY10 amount also includes the sale of the Whim Creek assets to Venturex.

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Straits balance sheets as at 30 June 2009, 30 June 2010 and 30 September 2010 are summarised in the table below. The balances as at 30 June 2009 and 30 June 2010 have been extracted from the Company's audited financial statements, and the balances at 30 September 2010 have been sourced from unaudited management accounts.

Straits Balance Sheet

$000's	YTD Sept10	FY10	FY09
Current assets			
Cash and cash equivalents	147,253	192,146	222,961
Receivables	55,777	56,957	95,990
Inventories	66,683	65,445	112,823
Other Financial Assets	68,699	36,618	8,128
Derivative financial instruments	4,579	-	226
	342,991	351,166	440,128
Assets classified as held for sale	48,069	78,221	3,924
	391,060	429,387	444,052
Non-current assets			
Receivables	568	547	711
Investments accounted for using the equity method	264,120	260,159	242,415
Other financial assets	5,131	3,784	99,012
Property, plant and equipment	106,864	101,438	135,098
Deferred tax assets	81,505	1,379	1,685
Intangible assets	4,901	5,630	5,876
Exploration and evaluation	76,283	73,690	71,935
Mine Properties in use	111,457	110,474	123,432
	650,829	557,101	680,164
Total assets	1,041,889	986,488	1,124,216
Current liabilities			
Payables	41,231	49,101	64,229
Interest bearing liabilities	22,238	27,490	59,281
Derivative financial instruments	1,468	3,291	94
Current tax liabilities	408	431	3,666
Provisions	5,875	5,742	9,508
Non interest bearing liabilities	250	250	250
	71,470	86,305	137,028
Liabilities classified as held for sale	48,119	56,119	-
	119,589	142,424	137,028
Non-current liabilities			
Interest bearing liabilities	86,553	82,004	75,373
Deferred tax liabilities	87,419	1,919	15,396
Provisions	24,835	23,662	22,117
Non interest bearing liabilities	250	250	500
Total non-current liablities	199,057	107,835	113,386
	318,646	250,259	250,414
Net assets	**723,243**	**736,229**	**873,802**

Source: Straits, EY analysis

We make the following observations in regards to the Straits' financial position:

- Straits' cash position reflects the sale of 60% of its interest in PTTAPM in March 2009. Other significant movements in the Company's cash balance include the receipt of $78 million cash from issuing convertible notes to SCPE and the payment of a $74 million dividend during 2010.
- Other current financial assets include an investment in ASX listed securities, with the increase to September 2010 relating to the increase in value of those investments. The decrease in the non-current other financial assets from FY09 to FY10, reflects the deferred performance consideration in relation to the sale of the 60% interest in PTTAPM being received in October 2009.
- Investments accounted for using the equity method relate to Straits' 40% interest in PTTAPM.
- Assets and liabilities classified as held for sale consists of the net assets of the GfE business. As at 30 June 2010 the Company had initiated an active program to locate a buyer for the business. On 11 November 2010, the Company announced it had entered into an agreement with a purchaser. Subject to the satisfaction of a number of conditions precedent, Straits' management anticipates the transaction will be completed by the end of 2010.
- Interest bearing debt consists primarily of the convertible notes issued to SCPE.

The relatively large net asset position at 30 June 2009, 30 June 2010 and 30 September 2010 largely reflect Straits' strong cash position and its equity investment in PTTAPM.

3.4 Capital structure

At the date of this report Straits had the following securities on issue:

- 255,203,614 fully paid ordinary shares; and
- 150,000 unlisted share options, with 100,000 being exercisable at $2.58 any time up to 21 December 2010, 5,000 being exercisable at $3.98 any time up to 7 January 2011 and 45,000 being exercisable at $3.98 any time up to 21 December 2011.

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As at 18 November 2010, the top 10 shareholders (on a beneficial interest basis) held 44.8% of the shares on issue. The 10 largest shareholders of Straits at that date are summarised in the following table.

Straits - Shareholder Profile

		No. of shares	%
1	Merricks Capital	23,771,437	9.3%
2	Acorn Capital	13,982,851	5.5%
3	Gerald Keet	12,917,282	5.1%
4	Ausbil Dexia	12,818,782	5.0%
5	Dimensional Fund Advisors	11,922,818	4.7%
6	Paradice Investment Mgt	10,199,530	4.0%
7	Taurus Funds Mgt	9,446,830	3.7%
8	JPMorgan Asset Mgt	8,277,700	3.2%
9	Mr Milan Jerkovic	6,381,347	2.5%
10	Globeflex Capital	4,676,428	1.8%
Total - Top 10		114,395,005	44.8%
Other Straits Shareholders		140,808,609	55.2%
Total shares on issue		255,203,614	100.0%

Source: Straits

Straits also has 55,000,000 convertible notes on issue held by SCPE. These are convertible to ordinary shares at a rate of approximately 1.11 shares per convertible note, equating to a further 61,139,221 shares. Subject to the terms of the conversion agreement entered into between Straits and SCPE, SCPE has agreed to convert the convertible notes prior to the Demerger Scheme occurring. As a result, the number of shares Straits will have on issue will increase to 316,342,835. SCPE will become Straits' largest shareholder with a 19.3% interest.

The 100,000 options which are due to expire on 21 December 2010 and the 5,000 options which are due to expire on 7 January 2011 will lapse if they are not exercised. Under the Demerger, the 45,000 options that expire on 21 December 2011 are to be cancelled for a cash consideration of $0.20 per option.

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3.5 Share price performance

The following table summarises the monthly trading prices of Straits shares on the ASX over the period 1 November 2009 to 31 October 2010. The last trading price of a Straits share on 1 November 2010, being the last trading day prior to the announcement of the Demerger, was $1.875.

Straits - Share Trading History

	High $	Low $	Close $	Monthly VWAP $	Monthly Volume 000's	Monthly Liquidity Issued Shares
Nov-09	1.715	1.487	1.599	1.610	25,365	10.3%
Dec-09	1.681	1.458	1.677	1.555	23,998	9.4%
Jan-10	1.793	1.351	1.375	1.598	31,962	12.5%
Feb-10	1.453	1.220	1.239	1.326	34,786	13.6%
Mar-10	1.404	1.225	1.400	1.305	38,656	15.2%
Apr-10	1.458	1.205	1.220	1.333	31,562	12.4%
May-10	1.293	1.157	1.249	1.225	33,336	13.1%
Jun-10	1.419	1.132	1.268	1.272	30,778	12.1%
Jul-10	1.400	1.220	1.380	1.305	17,915	7.0%
Aug-10	1.502	1.317	1.463	1.428	29,026	11.4%
Sep-10	1.900	1.472	1.850	1.724	36,016	14.1%
Oct-10	1.975	1.755	1.865	1.874	34,636	13.6%

Source: Bloomberg, EY analysis

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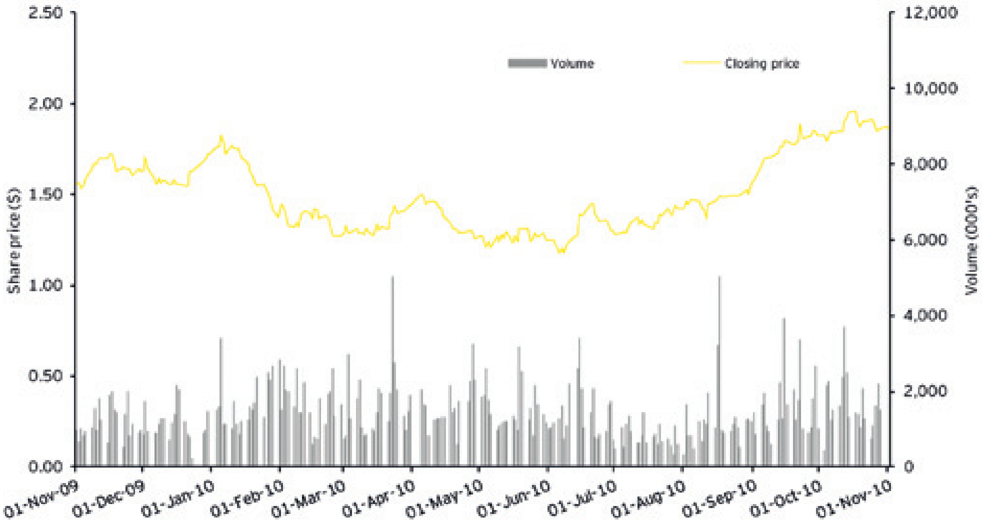
The following chart is a summary of Straits' share trading history on the ASX for the period 2 November 2009 to 2 November 2010. The trading price is based on the daily closing price.

Straits -Share Trading and Volume History



Source: Bloomberg, EY analysis

The table and chart show that over the period considered, Straits' share price drifted from levels of around $1.70 in early November 2009 to $1.50 across December 2009, up to $1.79 in January 2010 before decreasing to a low of $1.13 in June 2010. From June 2010 Straits' share price increased to levels of around $1.50 by the end of August 2010 then up over $1.90 in September and in October 2010, to close on 29 October 2010 (the last trading day in that month) at $1.874.

Liquidity in Straits' shares is strong with the monthly volumes being traded in most months across November 2009 to October 2010 being in the range of 10% to 15% of the number of shares the Company has had on issue.

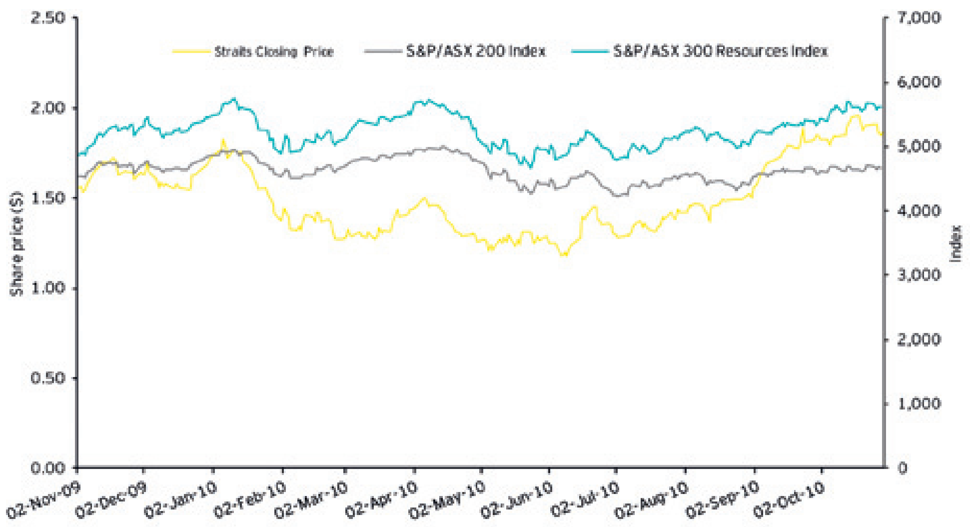
With respect to announcements made by the Company that may have had an impact on underlying trading prices, in addition to the required quarterly, half yearly and annual lodgements, we note the following:

- in November 2009 Straits announced promising exploration progress at its Budgery prospect near Tritton;
- in December 2009 the Company announced that the sale of the Whim Creek SX-EW plant to Flinders had been completed;
- in January 2010 the Kokomo Scandium JV announced promising exploration progress;
- in February 2010 it was announced that the sale of the Whim Creek project to Venturex had been completed;
- in May 2010 the Kokomo Scandium JV announced promising exploration progress with the delineation of the Lucknow deposit;
- in August 2010 Straits announced an on market buy-back where it would buy-back a maximum of 10% of its issued shares over the next 12 months; and
- on 2 November 2010 the Demerger Scheme was announced.

In addition to the impact these announcements may have had on Straits' share price, the Company may have benefitted from the general improvement in world financial markets over 2010 as conditions began to improve after the worst of the GFC had been realised. Demand for resources improved through the latter half of 2009 together with commodity prices.

The following chart summarises Straits' share trading history on the ASX for the period 2 November 2009 to 2 November 2010, along with the values of the S&P/ASX 200 Index and the S&P/ASX 300 Resources Index. The trading price is based on the daily closing price.

Straits vs S&P/ASX Indices



Source: Bloomberg, EY analysis

The chart shows that over the period the trend in Straits' share price was generally consistent with the S&P/ASX 300 Resources Index and the S&P/ASX 200 Index. From September 2010 the increase in Straits' share price was above the movement in the other indices.

4. Overview of the Demerged entities

4.1 Introduction

On completion of the Demerger Scheme, the Metals Business, being all assets currently held by Straits other than its 40% interest in PTTAPM, cash and some liabilities, will be transferred from Straits to Straits Metals. As consideration for the transfer of the Metals Business, Straits Metals is to issue shares to Straits which will be transferred to Straits Shareholders on a proportional basis to the number of shares they hold in Straits.

The amount of cash to be retained in Straits should be more than sufficient to meet the Company's requirements over the medium term.

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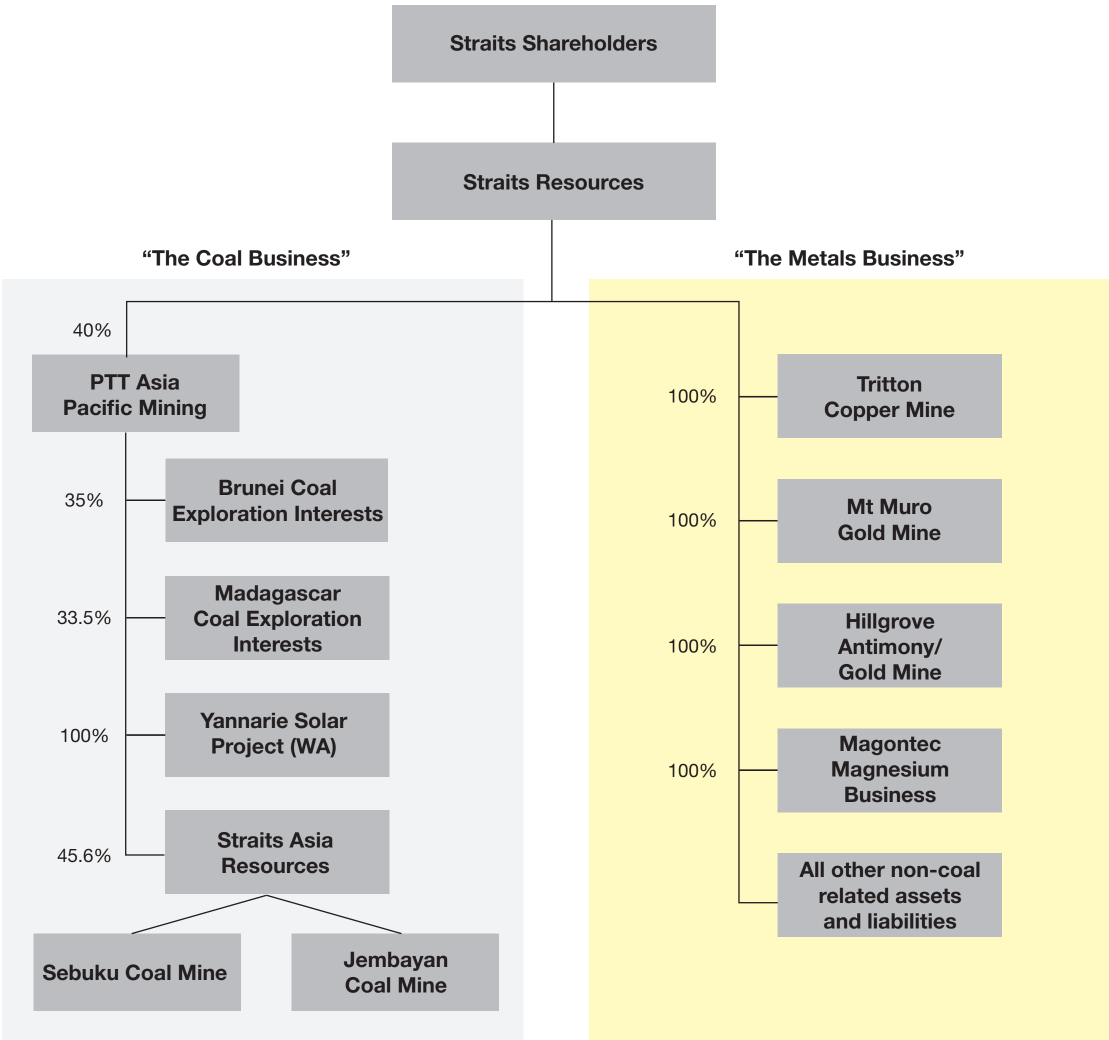
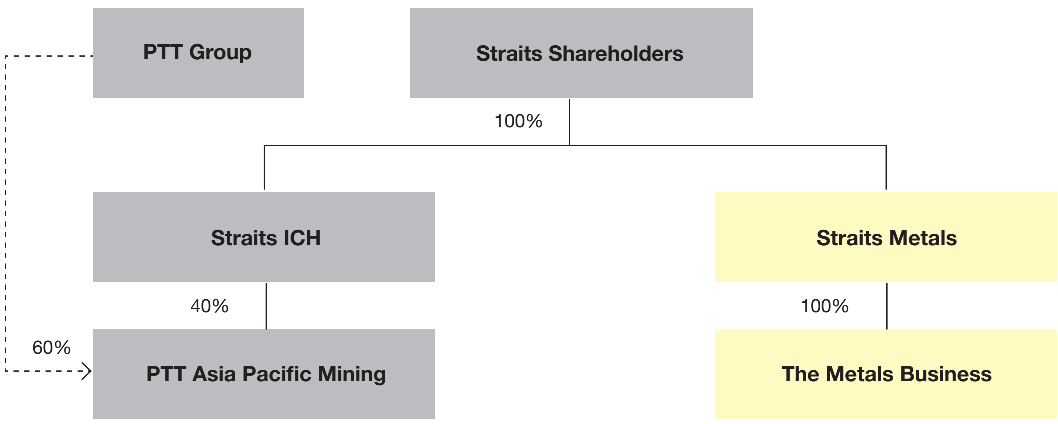
4.2 Impact of the Demerger

4.2.1 Corporate structure

The Demerger is effectively splitting the assets of one company into two distinct companies. The structure and ownership of Straits prior to the Demerger is shown below:



The structure and ownership after the Demerger Scheme is shown below:



As a result of the Demerger Scheme, Straits, as Straits ICH, will effectively have:

- the entire economic benefit, commercial risk and liabilities of the Coal Business, as if Straits ICH had owned and operated the Coal Business, at all times (and as if no member of the Straits Metals Group had owned or operated the Coal Business at any time); and
- none of the economic benefit, commercial risk and liabilities of the Metals Business.

Straits Metals will effectively have:

- the entire economic benefit, commercial risk and liabilities of the Metals Business, as if Straits Metals had owned and operated the Metals Business at all times (and as if no member of the Straits had owned or operated any of the Metals Business at any time); and
- none of the economic benefit, commercial risk and liabilities of the Coal Business.

4.2.2 Directors and Management

Following the Demerger, Straits ICH's and Straits Metals' directors and executive management will be as follows:

Straits ICH Post Demerger

	Position
Alan J Good	Non-Executive Chairman
Dr Garry G Lowder	Non-Executive Director
Alastair Morrison	Non-Executive Director
Peter Storey*	Chief Executive Officer
James Carter	Chief Financial Officer
Mark Hands*	Company Secretary

** On secondment from Straits Metals*

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Straits Metals

	Position
Alan J Good	Non-Executive Chairman
Milan Jerkovic	Chief Executive Officer
Dr Garry G Lowder	Non-Executive Director
Michael G Gibson	Executive Director, corporate
Alastair Morrison	Non-Executive Director
Gail Campbell	Chief Financial Officer
Dave Greenwood	Executive General Manager - Marketing & Corporate Affairs
Nic Earner	Executive General Manager - Operations
Mark Hands	Company Secretary

Following the Demerger, Mr Alan J Good will be the Non-Executive Chairman of both Straits ICH and Straits Metals, and Dr Garry G Lowder and Mr Alastair Morrison will be Non-Executive Directors of both Straits ICH and Straits Metals.

4.2.3 Transitional services

Following the Demerger, under the Transition Services Agreement to be entered into between Straits ICH and Straits Metals, Straits Metals agrees to provide to Straits ICH, services to support Straits ICH's head office and corporate function for up to one year after the Demerger. The transitional services include provision of office facilities, accounting, treasury, transaction support, tax compliance, investor relations, information technology, company secretarial and general administration assistance. Straits ICH will pay Straits Metals a monthly fee for the services, which are to be determined on a cost recovery basis.

4.2.4 Shareholding

Following the Demerger, Straits Shareholders will receive one share in Straits Metals for each share they hold in Straits. As such, the relative ownership interest held by Straits shareholders will be equal to their ownership interest prior to implementation of the Demerger, albeit the ownership interest will be held in two separate companies.

5. Evaluation of the Demerger Scheme

In forming our opinion as to whether the Demerger Scheme is in the best interests to Straits' Shareholders, we have considered:

- the rationale for the Demerger Scheme;
- the impact on the underlying businesses;
- other qualitative factors which we believe represent either advantages or disadvantages to Straits Shareholders; and
- the alternatives available to Straits Shareholders.

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Consistent with RG 111 we have considered the potential advantages and disadvantages to the Straits Shareholders of the Demerger Scheme and considered whether the advantages outweigh the disadvantages in the context of Straits' position in the future.

In this regard, we consider that the advantages and disadvantages of rejecting the Demerger Scheme are the inverse of the advantages and disadvantages of accepting the Demerger Scheme.

Because the Demerger does not impact the value of Straits' mineral assets in considering the advantages and disadvantages of the Demerger Scheme we have not had to undertake an assessment of the fair value of Straits' underlying assets and liabilities.

Our assessment of whether the Demerger Scheme is in the best interests of Straits Shareholders has been done in isolation of the Acquisition Scheme.

5.1 Rationale for the Demerger Scheme

Straits has been considering a demerger of the Coal Business and the Metals Business since 2008. In April 2008, the Directors announced the Proposed 2008 Demerger which would have separated the Company's coal assets from its other metals and mining assets. The rationale behind the Proposed 2008 Demerger was the recognition that the existing corporate structure was no longer the most efficient way to support the growth of both Straits and SAR.

In September 2008, the Directors announced that in acknowledgment of the volatility and uncertainty in the markets at the time caused by the GFC, the Proposed 2008 Demerger was to be cancelled, despite the Directors' ongoing opinion that Straits' assets as a whole were being undervalued.

As with the rationale in the Proposed 2008 Demerger, the overriding reason for the Demerger Scheme is that the Directors and management believe by separating the Coal Business from the Metals Business, both businesses will benefit from increased value recognition. The Board believes that Straits is perceived by the market to be a holding company for SAR and as a result, the true value of Straits' other metal and mineral assets are not being fully recognised.

We have compared Straits' market capitalisation over the period 29 October 2008 to 29 October 2010 to the implied value of the Company's interest in SAR. The 'implied' value of Straits' interest in SAR is based on its proportional interest in SAR's market capitalisation across the same period. As SAR is listed on the SGX, in making the comparison we have converted SAR's market capitalisation from Singapore dollars ("S$") to A$'s. The market capitalisation of each company has been based on the daily closing prices.

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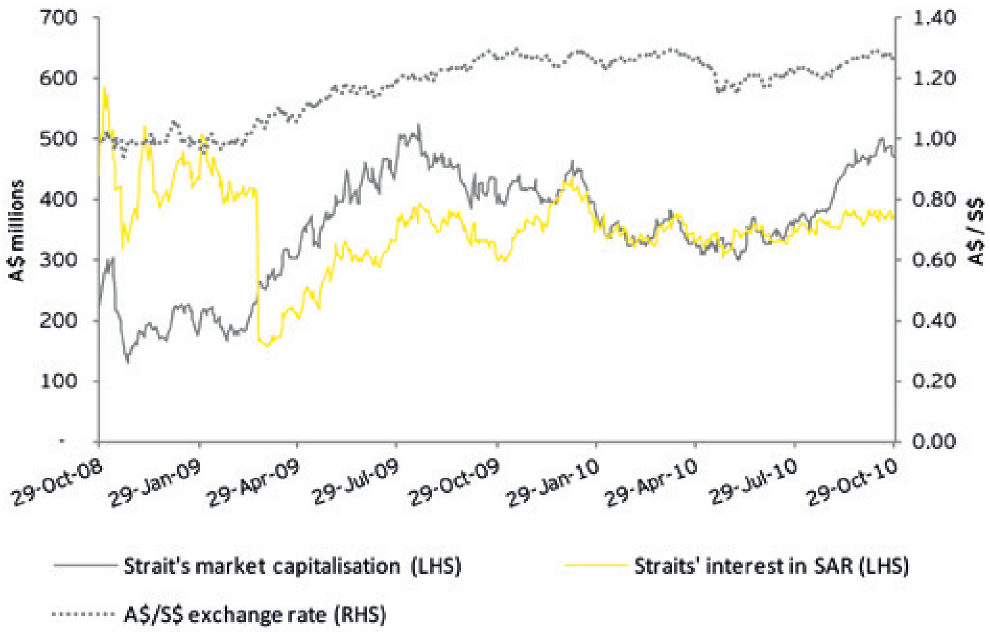
Prior to PTTML acquiring the 60% interest in PTTAPM, Straits had a 47.1% interest in SAR. The transaction with PTTML was announced on 23 March 2009. On completion of the PTTAPM transaction Straits' indirect interest in SAR decreased to 18.8% (being 40% of the 47.1% interest). Since then PTTAPM's interest in SAR has been diluted to 45.6%, with Straits' interest reducing to 18.2%. The respective reduction in Straits' interest in SAR has been reflected in the following chart.

Straits vs Straits' Interest in SAR



Source: Bloomberg, EY analysis

The analysis shows that in the period up to the announcement of the transaction with PTTML in March 2009, Straits' market capitalisation was at a substantial discount to the implied value of Straits' interest in SAR. This indicated that the market was significantly undervaluing all of Straits' mineral assets, including its interest in SAR, a position that appeared consistent with the Directors view and the rationale for the Proposed 2008 Demerger.

With PTTML acquiring the 60% interest in PTTAPM, across the period from March 2009 to mid-December 2009, Straits' market capitalisation was at a premium to the implied value of Straits' interest in SAR. This indicated that the market was allocating value to Straits' other assets. In stating this it is of note that at 30 June 2009, the premium of Straits' market capitalisation to the implied value of Straits' interest in SAR was $152 million while Straits' cash balance at the date was $162 million. Accordingly, while a premium existed the market may have still been undervaluing Straits' mineral assets other than its interest in SAR.

Between mid-December 2009 and July 2010 Straits' market capitalisation and the implied value of Straits' interest in SAR were closely correlated, with the market effectively recognizing no value for Straits' other mineral assets or the significant cash balance the Company continued to hold.

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Since the beginning of August 2010 through to 29 October 2010, Straits' market capitalisation was at a premium to the implied value of Straits' interest in SAR. The highest the premium increased to over this period was $128 million. When compared to the Company's cash balance at 30 September 2010 of $147 million, again it does not appear that the market was giving any value to Straits' other mineral assets.

The analysis indicates that the market has and continues to undervalue Straits' Metals Business and, at times, the Coal Business.

Consistent with this analysis, Straits' Directors rationale for the Demerger Scheme include the following considerations:

- the separation of the Metals Business will add visibility to Straits' metals assets which have, and continue to be, overshadowed by the Coal Business;
- the Demerger will assist in recognising the potential underlying value of both Straits and Straits Metals by enabling each company to focus on its own respective business, being the Coal Business for Straits and the Metals Business for Straits Metals;
- the Demerger will help provide clarity to investors by presenting the Coal Business and the Metals Business separately, with the expectation that the market will reflect the value of each entity's assets in their respective share price;
- the Demerger will allow each company's management to focus their efforts in pursuing growth for each business and articulating a distinct strategy for each;
- the Demerger will provide more flexibility for shareholders by allowing them to separately trade their coal and metals investments and, if desired, pursue their specific investment preferences separately (coal exposure against metals exposure);
- the Demerger will provide dedicated capital for each business to enable execution of their respective business plans;
- the Demerger will provide flexibility to implement independent capital structure and financial policies; and
- the Demerger should create a more liquid investment for Straits Shareholders.

5.2 Impact on the underlying businesses

5.2.1 Straits shareholders' ownership interests

The Demerger is effectively splitting the assets of one company into two distinct companies. As Straits Shareholders are entitled to receive one Straits Metals share for every Straits share they own, the Demerger Scheme does not result in a change to the shareholders' economic interests in the businesses currently owned by Straits. As a result, the relative ownership interest held by Straits Shareholders will be equal to their ownership interest prior to implementation of the Demerger, albeit the ownership interest will be held in two separate companies.

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5.2.2 Operations and strategy

With one of the main reasons for the Demerger Scheme being to enable the Coal and Metals Businesses to separately pursue their own growth strategies, if the Demerger proceeds Straits will focus on the coal assets, while Straits Metals will be focused on developing the metals assets.

Straits, through its investment in a 40% interest in PTTAPM, will continue to be actively engaged in developing the future strategies for PTTAPM's underlying assets. In this regard, Straits participates in the management decisions of PTTAPM and has two members on the company's five member board.

Straits Metals, as an emerging base and precious metals business, plans to continue to invest in its mining operations at Tritton and Mt Muro, focusing on resource and reserve definition drilling to extend the life of its operating assets. The company also plans to continue an active exploration program across each of its projects.

As a result of the Demerger Scheme, Straits ICH and Straits Metals will be operated on a stand-alone basis. Given the Coal Business and the Metals Business have no common operations and the locations of their respective mineral assets are diverse, neither business incurs shared expenses or has any inter-company transactions. This will continue in the same manner once the Demerger is completed.

5.2.3 Management and board of directors

As referred to above in Section 4.2.2, the two companies will operate as two distinct companies and will be arms' length parties, with separate management teams. Under the Demerger, at least initially, Straits Metals and Straits ICH will have a common non-executive chairman and two common directors.

5.2.4 Pro forma financial information

5.2.4.1 Straits Metals' pro forma income statement and statement of cash flows

The following table presents Straits Metals' historic pro forma income statement information for FY09 and FY10 as if had Straits Metals existed as a standalone entity for those years. The pro forma is consistent with the information contained in the Demerger Scheme Booklet.

Straits Metals Pro Forma Income Statement

$m	FY10	FY09
Revenue		
Tritton	138.6	93.9
Mt Muro	56.5	60.7
Hillgrove	1.8	3.6
Magontec	96.6	100.3
	293.5	258.5
EBITDA*		
Tritton	8.3	(62.8)
Mt Muro	(5.8)	(14.4)
Hillgrove	(13.3)	(11.8)
Magontec	4.5	(1.8)
Other	(29.9)	(12.3)
	(36.2)	(103.1)
Depreciation and amortisation	(27.6)	(44.0)
EBIT**	**(63.8)**	**(147.1)**

Source: Straits management - Demerger Scheme Booklet
**EBITDA = Earnings before interest, tax, depreciation and amortisation*
***EBIT = Earnings before interest and tax*

The above pro forma information was prepared making the following adjustments to Straits' historical results:

- discontinued operations included in the audited historical information were not excluded;
- asset impairment adjustments recognised during the historical period were removed; and
- the incremental costs of Straits Metals operating as a standalone listed entity rather than as part of the Straits Group were included.

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The following table illustrates the production statistics for the Tritton and Mt Muro mines:

Straits Metals Production Statistics

	FY10	FY09
Tritton		
Ore mined (tonnes)	911,539	932,532
Production - (tonnes copper concentrate)	20,847	24,111
Average cash costs (excludes TC/RC) ($/lb)	1.64	1.09
Mt Muro		
Ore mined (tonnes)	602,563	622,100
Production (gold ounces)	45,521	48,846
Production (silver ounces)	143,496	304,357
Average cash cost (US$/oz)	1,196	918

*Source: Straits management - Demerger Scheme Booklet *TC = treatment charge RC = refining charge*

We make the following observation with regards to Straits Metals operations:

- Tritton's copper production decreased from FY09 and FY10 and had average cash costs in FY10 that were 50% higher than in the FY09. Average cash costs increased during FY10 due to a change in mining methodology to allow recovery of more ore from the ore body. Tritton's improvement from an EBITDA loss in FY09 of $62.8 to an EBITDA of $8.3 million in FY10 was in part due to the improvement in the copper price in FY10.
- Mt Muro achieved similar levels of gold production in FY09 and FY10, however silver production more than halved from 304,000 ounces in FY09 to 143,400 ounces in FY10.
- The Hillgrove antimony/gold mine was placed on care and maintenance from August 2009 to enable Straits time to consider the future commercial viability of the operation.
- Magontec achieved an EBITDA of $4.5 million in FY10 compared to an EBITDA loss in FY09 of $1.8 million. Improved performance reflected the successful implementation of cost cutting programs and efficiency improvements.

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The following table presents Straits Metals' historic pro forma statement of cash flows.

Straits Metals Pro Forma Cash Flow Statement

$m	FY10	FY09
EBITDA	(36.2)	(103.1)
Other non-cash losses (gains)	(8.6)	65.5
Changes in net working capital	6.8	26.8
Net operating cash flow before finance and tax	(38.0)	(10.8)
Net payments for property, plant and equipment	(49.6)	(89.8)
Net payments for investments in shares	(9.4)	(6.0)
Payments for exploration expenditure	(11.6)	(10.6)
Net investing cash flows	(70.7)	(106.5)
Net cash flows from operating and investing before tax and finance	(108.7)	(117.3)

Source: Straits management - Demerger Scheme Booklet

We make the following observation with regards to Straits Metals' cash flows:

- the most significant factor in the other non-cash losses/gains was hedge accounting losses of $44.9 million in FY09;
- unrealised foreign exchange losses on working capital balances of $1.7 million in FY10 ($16.2 million in FY09);
- changes in working capital relate to movements in inventories, receivables, payables and provisions in the normal course of Straits' operations;
- investing cash flows in FY10 included the following expenditure:
  - within Tritton, the development of the North East mine, change of the mining method and commencement of construction on the pastefill plant, near mine exploration programs and re-evaluation of the ore body at the Murrawombie mine; and
  - a move to owner/operator surface mining at Mt Muro;
- investing cash flows in FY09 included the following expenditure:
  - expansion of the processing plant and a review of the Girilambone mineral field at Tritton; and
  - installation of a coal fired power station and exploration programmes at Mt Muro.

Further details regarding the historical pro forma data above can be found in the Demerger Scheme Booklet and Straits' 2010 annual report.

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5.2.4.2 Straits ICH's' pro forma income statement and statement of cash flows

The following table presents Straits' historic income statement information as if the Demerger had occurred and Straits ICH existed as a standalone entity for the corresponding historical period.

Straits ICH Pro Forma Income Statement

$m	FY10	FY09
Share of net profits of associates	20.1	29.8
Other	(1.4)	(1.4)
EBITDA	18.7	28.4
Depreciation and amortisation	–	–
EBIT	**18.7**	**28.4**

Source: Straits management - Demerger Scheme Booklet

The above results included the following pro forma adjustments:

- income and cash flows relating to Straits Metals were excluded;
- the equity accounted investment in PTTAPM was recognised as if it had been consistently held over the historical period; and
- reduced administration and support costs to reflect Straits' operation as a standalone listed entity, which are shown as "Other" in the table above.

Straits' operations consisted primarily of its 40% interest in PTTAPM. Straits' 40% share of PTTAPM's revenues was $336.8 million in FY10 and $365.6 million in FY09.

The following table presents Straits', as Straits ICH, historic pro forma statement of cash flows.

Straits ICH Pro Forma Cash Flow Statement

$m	FY10	FY09
EBITDA	18.7	28.4
Share of net profits of associates	(20.1)	(29.8)
Net operating cash flow before finance and tax	(1.4)	(1.4)
Dividends received from PTTAPM	13.1	12.6
Net Investing cash flows	13.1	12.6
Net cash flows from operating and investing before tax and finance	11.7	11.2

Source: Straits management - Demerger Scheme Booklet

The net operating cash outflow before finance and tax represents Straits' anticipated level of administration and support costs after the Demerger.

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5.2.4.3 Straits Metals' and Straits ICH pro forma balance sheets

The following table summarises the pro forma balance sheets of Straits Metals and Straits ICH as at 30 June 2010. The amounts are based on Straits accounts as at that date.

Pro Forma Balance Sheets as at 30 June 2010

$m's	Straits Metals	Straits ICH
Current assets		
Cash and cash equivalents	68.9	37.0
Receivables	57.0	–
Inventories	74.8	–
Other financial assets	51.4	–
Derivative financial instruments	4.4	–
Assets classified as held for sale	0.4	–
	256.9	37.0
Non-current assets		
Receivables	6.5	–
Investments accounted for using the equity method	–	260.2
Other financial assets	4.8	–
Property, plant and equipment	84.8	–
Exploration and evaluation	46.9	–
Mine properties in use	49.9	–
Deferred tax assets	–	–
Intangible asets	–	–
	193.0	**260.2**
Total Assets	**449.9**	**297.2**
Current liabilities		
Payables	49.1	–
Interest bearing liabilities	24.3	–
Non-interest bearing liabilities	0.3	–
Provisions	5.7	–
Derivative financial instruments	0.8	–
Current tax liabilities	0.4	–
	80.6	–
Non-current liabilities		
Interest bearing liabilities	5.1	–
Non-interest bearing liabilities	0.3	–
Deferred tax liabilities	–	65.0
Provisions	23.7	–
	29.0	65.0
Total Liabilities	**109.7**	**65.0**
Net assets	**340.2**	**232.2**

Source: Straits management - Demerger Scheme Booklet

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If the Demerger is approved, the Metals Business assets that are transferred will be accounted for at fair value. The Straits Metals and Straits ICH pro forma balance sheets reflect adjustments to the fair value of the assets and liabilities based on the Directors' current assessment of the estimated fair values of these assets and liabilities at the expected date of implementation of the Demerger.

The pro forma balance sheets also reflect pro forma adjustments for transaction and termination costs associated with the Demerger, Straits' announced sale of GfE and movement in the cash balance of Straits to 31 October 2010, including the conversion of the convertible notes issued to SCPE.

We make the following observation with regards to Straits Metals and Straits ICH pro forma balance sheets:

- At 31 October 2010, the cash balance of Straits had reduced by $75.9 million from the 30 June 2010 balance. The reduction in cash over the period from 30 June 2010 to 31 October 2010 predominately relates to:
  - an increase in inventory (mostly at Tritton);
  - the sale and purchase of other listed financial investments;
  - construction of the pastefill plant at Tritton;
  - mine development at Tritton's North East and Murrawombie mines and at Mt Muro; and
  - operating losses and payment of dividends to Straits Shareholders.

  The pro forma balance sheet assumes that Straits ICH will have cash of $37.0 million at the time of the Demerger. Under the Acquisition Scheme, cash of $50 million is to be retained by Straits after the Demerger.
- Based on movements in cash balances to 31 October 2010, the pro forma balance sheet assumes Straits Metals will have cash of $68.9 million at the time of the Demerger. Straits Metals' EBITDA loss for FY10 was $36.2 million and operating cash (out)/inflow before finance and tax for FY10 was ($38 million). Accordingly, if Straits Metals achieves EBITDA or operational cash flow for FY11 at similar or better levels for FY11, Straits Metals will have sufficient cash to sustain its operations for FY11.
- Straits ICH' balance sheet reflects a deferred tax liability that arises from the difference between the accounting carrying value and tax cost base of the equity accounted investment in PTTAPM. The balance reflects the notional amount of tax that would arise on the sale of the 40% investment in PTTAPM if the investment was sold at its accounting carrying value. No deferred tax liability has been recognised for Straits Metals as there are not expected to be any material differences between the accounting and tax carrying values of its assets at the time of Demerger.

5.2.5 Impact on Straits' ability to pay existing creditors

The pro forma balance sheets for Straits ICH and Straits Metals show that the Demerger will result in most obligations to Straits' existing creditors will be transferred to Straits Metals. We note that based on Straits Metals pro forma cash flow statement the net cash outflow from operations would be $37.0 million in FY10. Based on the company's pro forma net working capital balance of $176.0 million[1], including $68.9 million of cash, the Demerger Scheme will not materially impact Straits' or Straits Metals' ability to pay Straits' existing creditors. The pro forma financial information is based on adjusted 30 June 2010 balances, a review of Straits' 30 September 2010 management accounts show that the Company's creditor balance has not materially changed.

1 *Calculated as current assets minus current liabilities*

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5.3 Commercial and qualitative factors

In accordance with RG 111, in assessing whether the Demerger Scheme is in the best interests to Straits Shareholders, we have considered the potential advantages and disadvantages to Straits Shareholders and considered whether the advantages outweigh the disadvantages only in the context of the Demerger Scheme.

Ernst & Young Transaction Advisory Services consider that the advantages and disadvantages of rejecting the Demerger Scheme are the inverse of accepting the Demerger Scheme.

In considering the commercial and qualitative factors relating to the Demerger Scheme, Ernst & Young Transaction Advisory Services considered factors relating to the Demerger Scheme. These factors are summarised below. We note that individual Shareholders may interpret these factors differently depending on their individual circumstances.

5.3.1 Advantages of the Demerger Scheme

5.3.1.1 Increased transparency of the underlying businesses

The separation of Straits' Metals Business from its Coal Business should increase the transparency of each business. The significance of Straits' investment in PTTAPM compared to its other mineral assets means that, to some extent, the market perceives Straits as an investment holding company rather than a true diversified minerals company.

Straits' current holding of a 40% interest in PTTAPM, which holds a 45.6% controlling interest in SAR, may be viewed more favorably by the market as a pure coal investment listed on the ASX. The analysis in Section 5.1 shows that based on the implied value of Straits' interest in SAR in comparison to Straits' market capitalization (net of cash), the market has not historically attributed any significant value to Straits' Metals Business. The transfer of the Metals Business into Straits Metals will provide greater transparency of each individual operation within that business and to the strategies being pursued by those operations. Shareholders, potential investors and market analysts will be able to separately analyse the underlying performance, risks and growth prospects of the Metals Business.

As at 30 September 2010, Straits held a cash balance of $147 million. It is Straits' intention to retain $50 million[2] and to transfer the remaining balance to Straits Metals. This will give clarity to the market in regards to the use of this cash and the funding of the strategy within the Metals Business.

All of these factors should have a positive impact on the prices at which Straits Metals shares will trade at on the ASX, which should, in turn, be to the advantage of Straits Shareholders.

5.3.1.2 Change in Management focus

Currently Straits' management is shared amongst two very distinct businesses. Following the Demerger, while each company will have common directors for a period of time, they will have separate management teams. By allowing management to be specifically dedicated to each distinct business, Straits expects that both companies' management will focus their efforts on pursuing growth for each business and articulate a distinct strategy for the Metals Business and the Coal Business. This should have a positive impact on each of the businesses.

2 *Or an estimated $37.0 million if the Acquisition Scheme is not approved.*

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5.3.1.3 Shareholder flexibility

Straits Shareholders, on implementation of the Demerger Scheme, will hold shares in both Straits and Straits Metals. As such, they will effectively hold the same interest that they currently hold in Straits through separate shareholdings in Straits and Straits Metals.

With each company focusing on different commodities, having different management and different risk profiles given the nature of their underlying assets, it is expected that Straits and Straits Metals would attract different types of investors. By separating the two businesses, shareholders will be able to make investment decisions in relation to their investment in the Coal Business and Metals Business independently and in line with their individual risk profiles and investment preferences.

In addition, the Demerger may attract investors who were reluctant to invest in Straits due to its perception as a pure coal investment. The separation of the Metals Business may attract investors who want to invest in an emerging copper and gold producer with substantial exploration upside across a number of base and precious metal projects.

The change in the investor base of each company should allow for the underlying value of the assets of both Straits and Straits Metals to be more appropriately valued by the market. It would be expected that this would have a positive impact on each company's share price in comparison to Straits continuing in its current form.

In Appendix A we have undertaken an analysis of other demergers that have been undertaken by companies listed on the ASX. The analysis appears to indicate that from a sample of 13 demerger transactions, the market recognised a higher combined return (measured over a two year period) for the companies involved in eight demerger transactions, compared to returns indicated by movements in the S&P/ASX 200 Index.

5.3.1.4 Takeover potential / the Acquisition Scheme

Given the separation of the coal interests from the Metals Business the Demerger may increase the prospects of one or both of Straits and Straits Metals being exposed to a takeover offer. With takeovers being typically completed at a premium to share trading prices this would be to the benefit of shareholders.

Under its current structure, an acquirer wanting access to Straits' coal interests may not be willing to pay a premium on the basis that they would need to divest the Metals Business. Alternatively, it would be unlikely that an acquirer wanting access to Straits' Metals Business would pay a premium for the Coal Business.

Our market analysis of Straits indicates that the assets making up the Metals Business do not appear to be fully valued within the Straits entity. If the Demerger proceeds, as a standalone company Straits Metals will be focused solely on the Metals Business, and may be more attractive to potential acquirers.

Based on our analysis of past demergers in Appendix A, there was evidence that demerged entities are subject to takeover activity. Of the 13 demergers we reviewed over the time period of 2000 to 2010, five demerged entities were acquired within four years of the demerger.

On 11 November 2010, Straits announced that should the Demerger Scheme proceed, PTT proposes to acquire the outstanding shares in Straits by way of the Acquisition Scheme. The Acquisition Scheme is dependent on the Demerger Scheme proceeding. Accordingly, approval of the Demerger Scheme provides Straits Shareholders with the opportunity and right to consider and participate in the Acquisition Scheme. If the Demerger Scheme is not approved this opportunity is lost.

Given that Straits' major asset after the Demerger will be its 40% interest in PTTAPM, with the remaining 60% being held by PTT, in the absence of the Acquisition Scheme we would expect the prospect of a takeover of Straits is limited. At the date of this report, other than the Acquisition Scheme, Straits management is not aware of any other proposal to acquire either Straits or Straits Metals.

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5.3.2 Disadvantages of the Demerger Scheme

5.3.2.1 Reduced weighting in stock market indices

The market capitalisation of an entity listed on the ASX is an important factor affecting its inclusion in relevant stock market indices, and the weighting that it has within that index. Index weightings are also affected by the level of trading of a company's shares and its market capitalisation. Institutional investors may be prevented from investing in a company if that company is not in one of the top indices.

As at 30 September 2010, Straits was included in a number of major indices including the S&P/ASX200 Index, S&P/ASX300 Index, S&P/ASX 200 Resources, S&P/ASX300 Resources and S&P/ASX All Ordinaries. By transferring the Metals Business into Straits Metals, at least initially and subject to the extent of any re-rating, both Straits and Straits Metals will have separate market capitalisations that will be less than that of Straits as it currently stands.

This means that Straits and Straits Metals are likely to be included in fewer (or no) indices and will have a lower (or no) weighting in such indices than Straits before the Demerger Scheme. Due to uncertainty around the level of trading that will occur in relation to Straits and, in particular, Straits Metals and the free float market capitalisation following the Demerger Scheme, it is difficult to predict the index participation of the two stocks following the Demerger. The exclusion of Straits and Straits Metals from certain indices may have an impact on the level of trading and the type of investors investing and continuing to remain an investor in each company. This may have a negative impact on each company's share price.

5.3.2.2 Transaction and termination costs

Straits management has estimated that the costs associated with the Demerger Scheme will be approximately $14.0 million. We understand that of this amount, $3.0 million will be incurred by Straits regardless of whether the Demerger Scheme proceeds.

5.3.2.3 Loss of synergies

Although the relative size, nature and maturity profile of Straits' Metals assets and PTTAPM's coal assets result in limited synergies, there may be some duplication in costs associated with corporate overheads and separate ASX listings. In stating this, management believe that there may actually be some cost savings. This remains untested.

5.3.2.4 Straits Metals cannot utilise Straits' tax losses

Straits' carried forward tax losses will remain within Straits after the Demerger. Straits Metals will not be able to "transfer in" or utilise these losses against its future assessable income. In addition, for accounting purposes, it is likely that after the Demerger, Straits will derecognise the existing deferred tax asset in respect of the carried forward tax losses, as the accounting recognition criteria for the tax losses are unlikely to be satisfied after the Demerger.

5.3.2.5 Loss of diversification

As the rationale of the Demerger is to separate Straits' two distinct businesses, by completing the Demerger, the Company will lose the diversification of its current assets. Although after the Demerger current Straits Shareholders will have ownership in the same assets as they do now, some shareholders may prefer a larger company and a diversified portfolio of assets held by the company (albeit not in the same companies).

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5.3.2.6 Potential change in credit profile for Straits Metals

Following the Demerger, Straits Metals will no longer have the financial support of Straits, including the dividends Straits receives from its investment in PTTAPM which totalled approximately US$13 million for the nine month period to 30 September 2010. After the Demerger, Straits Metals will not have the financial support of Straits, and as a result, may have a higher cost of borrowing than Straits before the Demerger.

5.4 Alternatives

Alternatives to completing the Demerger Scheme include the following:

- continue operating as a coal investment and diversified metals company;
- divest the Metals Business through a sale of the business; or
- divest the Coal Business through a sale of the investment in PTTAPM.

Maintaining the status quo would see Straits continue as a coal investment and diversified metals company. On the basis that there are no material synergies between the Coal and Metals businesses the rationale for this is limited. Moreover, it is likely that the market would continue to attribute little value to Straits' Metals Business.

The sale of 100% of the Metals Business has the potential to realize a value for the Metals Business, but we are not aware of any prospective buyers for the business. If the Metals Business is separated from Straits, the business may be more attractive to potential investors. A takeover could result in Straits' shareholders realizing full value of their investment.

Having considered the advantages and disadvantages of these alternatives and comparing the same to those achieved by the Demerger, Straits' Board of Directors believes the Demerger achieves the best outcome for shareholders.

5.5 Other considerations

5.5.1 Board view

We note that the Directors of Straits have unanimously recommended the Demerger Scheme to Straits Shareholders, in the absence of a superior proposal.

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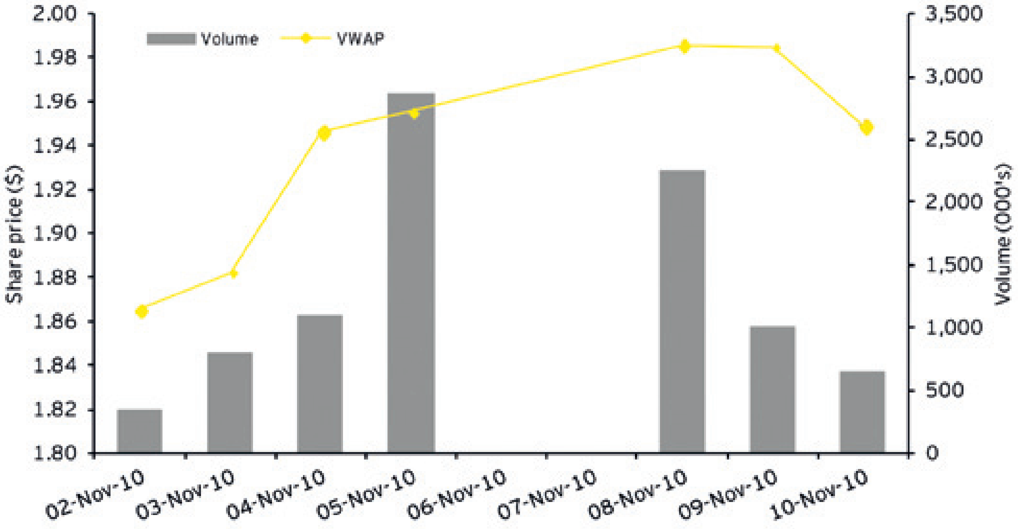
5.5.2 Market reaction to the proposed Demerger

The last trading price of a Straits share on 1 November 2010, being the last trading day prior to the announcement of the Demerger, was $1.875. The following chart illustrates the prices and volumes at which the Company's shares traded over the period 2 November 2010 and 10 November 2010, being the day before the Acquisition Scheme was announced.



Source: Bloomberg, EY analysis

The announcement of the Demerger appears to have had a positive impact on Straits' share price, with its shares trading from the close of $1.875 on 1 November 2010 to a high of $2.00 on 8 November, before closing at $1.94 on 10 November 2010. The share price may have also been impacted by the release of SAR's 30 September 2010 nine month results on 3 November 2010.

Given the positive reaction, if the Demerger does not proceed, the market may react negatively and cause Straits' share price to decrease to levels experienced prior to the announcement.

5.5.3 Tax implications

Ernst & Young Transaction Advisory Services has not considered the specific taxation implications for Straits or individual Straits Shareholders. The specific tax consequences of the Demerger Scheme will vary depending on the circumstances of each individual Straits Shareholder. Straits Shareholders should consider the information contained in the Scheme Booklet in relation to taxation implications. These specific tax consequences need to be borne in mind by each Straits Shareholder in weighing up the merits of the Demerger Scheme. Straits Shareholders who are in doubt as to the action they should take in relation to the Demerger Scheme should consult their own professional advisers.

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5.6 Conclusion on the Demerger Scheme

Ernst & Young Transaction Advisory Services considers the advantages of the Demerger Scheme outweigh the disadvantages of the Demerger Scheme. On this basis, in the opinion of Ernst & Young Transaction Advisory Services the Demerger Scheme is in the best interests of Straits Shareholders.

As a part of assessing whether or not the Demerger Scheme is in the best interests to Straits Shareholders, Ernst & Young Transaction Advisory Services considered the overall rationale for the Demerger Scheme and the likely advantages and disadvantages arising from the Demerger Scheme proceeding.

Having regard to the nature of the Demerger Scheme it is the opinion of Ernst & Young Transaction Advisory Services that, on balance, Straits Shareholders as a whole are likely to be better off if the Demerger Scheme proceeds than if it does not proceed.

The alternative to the Demerger Scheme proceeding is for the shareholders to vote against the proposal in the hope of either realising greater value through maintaining the stand-alone business of Straits or for a superior proposal emerging. There is no evidence to suggest that the Straits Shareholders would be better off under this alternative.

It is expected that most of Straits' obligations to existing creditors will be transferred to Straits Metals under the Demerger Scheme. Ernst & Young Transaction Advisory Services considers that the Demerger Scheme will not materially prejudice Straits' ability to pay existing creditors.

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APPENDIX A – OVERVIEW OF DEMERGER SCHEMES

In forming our opinion as to whether the Demerger Scheme is in the best interests of Straits' Shareholders, we had regard to publically available information regarding past demergers of companies listed on the ASX.

For each transaction, we collected data in relation to the following:

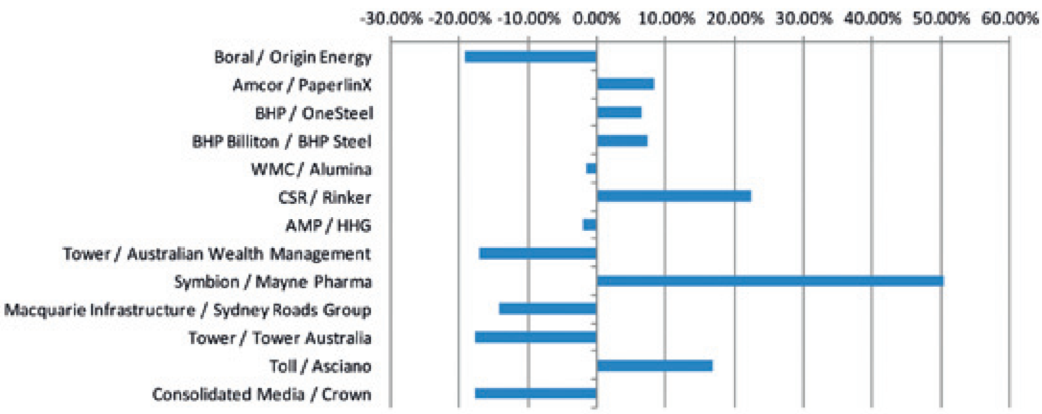
- the market capitalisation of each company on the day prior to the demerger being announced;
- the market capitalisation on the day the demerged entity is listed for both the original company and the demerged entity ("Demerger Date");
- the market capitalisation of the original entity and the demerged entity 3 months, 12 months and 24 months subsequent to the Demerger Date; and
- the S&P/ASX 200 Index at each of the above dates.

We then conducted the following analysis:

- Market deemed premium analysis: Compared market capitalisation of the original entity from the date prior to the demerger announcement against the total market capitalisation of the demerged entities at the Demerger Date, to assess a "Market Deemed Premium". This analysis was conducted to assess the perceived value attributed to a demerger transaction by the market at the Demerger Date; and
- Ongoing returns analysis: Compared the market capitalisation of the original entity at the Demerger Date and the demerged entities 3 months, 12 months and 24 months from the Demerger Date. To eliminate growth in the value of the demerged entities attributable to an overall growth in the market, we have calculated market capitalisation performances in excess of the S&P/ASX 200 performance over these periods. The returns calculated in excess or below the S&P/ASX 200 over each of the relevant periods are outlined in the graph below.

The results of our market deemed premium analysis is shown below:

Market deemed premium



For seven of the 13 transactions analysed, the combined market capitalisation of the demerged entities at the Demerger Date was below the market capitalisation of the original entity on the day prior to the announcement of the demerger. This appears to indicate market indifference to demerger transactions at the Demerger Date, and that value realised from a demerger is expected to result from improved performance from the demerged entities after the demerger.

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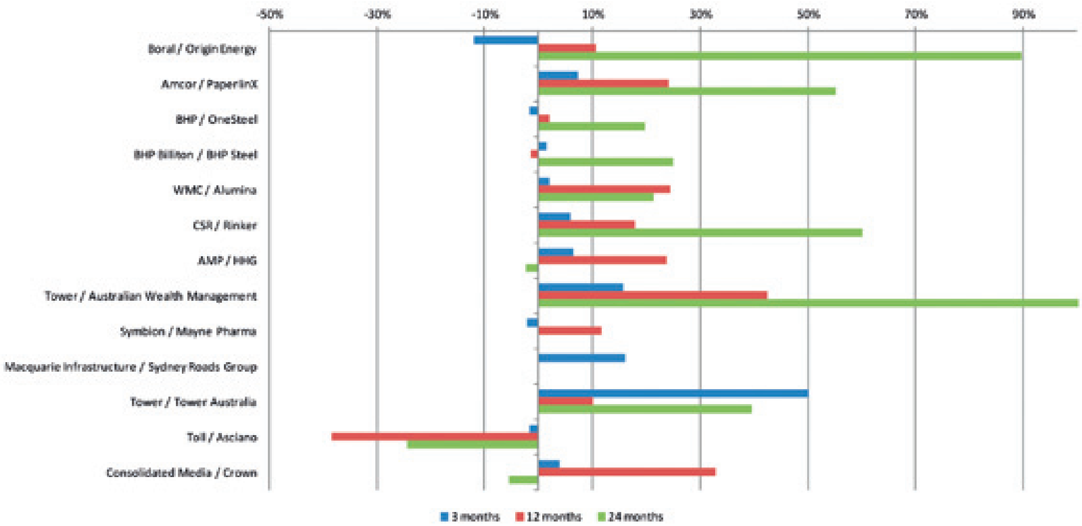
The results of our ongoing returns analysis is shown below:



We make the following comments in relation to the above:

- For the majority of transactions, there appears to be an increase in the combined market capitalisation of the demerged entities in excess of returns of the original entity adjusted for the movement in the S&P/ASX 200. This indicates that for the transactions analysed, in most cases, when the companies traded as separate entities, they were able to outperform the S&P/ASX 200. Whilst there are various reasons for demergers to occur, these results indicate that separate companies with a focused business plan and identity tend to be recognised favourably by the market.
- Some of the demerger transactions occurred before the onset of strong economic conditions and as such increased market capitalisation cannot be solely attributed to the implementation of a demerger. We recognise that the economic conditions have been taken into account to some extent with the removal of the S&P/ASX 200 performance from these returns; however, the companies that experienced strong performance are in the building, wealth management and mining industries, all of which were major beneficiaries of these economic conditions.
- The negative results shown for the Toll/Ascianco and Consolidated Media/Crown transactions occurred over a period that included the GFC. Whilst this is in part reflected within movements of the S&P/ASX 200, some companies were more adversely affected than others during the GFC.
- Another indication that the majority of demergers analysed may have been favourably recognised by the market, were takeovers that occurred after the demerger. Of the 13 transactions, there were five companies that were approached in relation to a possible takeover. These companies include:
  - WMC Resources Limited was acquired by BHP Billiton Limited in 2005, three years after its demerger from Alumina Limited.
  - Rinker Group Limited was acquired by Cemex in 2007, four years after its demerger from CSR Limited.
  - Mayne Pharma Limited was acquired by Hospira Incorporated in 2007, two years after its demerger from Symbion Health Limited.
  - Symbion Health Limited was acquired by Primary Health Care Limited in 2008 three years after the spin-off of Mayne Pharma Limited.
  - Asciano Group was approached by TPG Capital and Global Infrastructure Partners for a potential acquisition, however Asciano did not agree to the transaction and the acquisition did not occur.

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APPENDIX B – STATEMENT OF QUALIFICATIONS AND DECLARATIONS

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Straits.

Prior to accepting this engagement, Ernst & Young Transaction Advisory Services considered its independence with respect to Straits with reference to Regulatory Guide 112, *Independence of experts*.

This report has been prepared specifically for the Shareholders of Straits in relation to the Demerger Scheme. Neither Ernst & Young Transaction Advisory Services, Ernst & Young and any employee thereof undertakes responsibility to any person, other than the Straits Shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Straits, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out in Appendix C to this report.

Straits has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of Straits for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately $30,000 (exclusive of GST). Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Ms Brenda Moore, a representative of Ernst & Young Transaction Advisory Services and an executive director of Ernst & Young and Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

Annexure A

Part 1 – Independent Expert's Report

It is not intended that the report should be used for any other purpose other than to be included in the Notice of Meeting and Demerger Scheme Booklet to be sent to Straits shareholders with respect to the Demerger Scheme. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the Demerger Scheme is in the best interests for Straits Shareholders.

The financial forecasts used in the preparation of this report reflect the judgement of directors and management of Straits based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the forecast period will almost always differ from the forecast and such differences may be material. To the extent that our conclusions are based on forecasts, we express no opinion on the achievability of those forecasts.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Meeting and the Demerger Scheme Booklet.

ERNST & YOUNG

APPENDIX – C SOURCES OF INFORMATION

In preparing this report, Ernst & Young Transaction Advisory Services had regard to the following sources of information:

- Straits' management accounts for the period YTD July 10, YTD August 10 and YTD September 10;
- Straits' budgets for FY10 and FY11;
- Scheme of Arrangement between Straits and Straits Shareholders;
- Straits Demerger and Acquisition Scheme Implementation Agreements;
- Board paper in relation to the Coal Demerger Proposal dated 14 September 2010;
- Pro-forma Balance Sheet for Straits Metals and Straits after the Demerger;
- Straits 10 year Business Plan and Strategy Update dated June/July 2010;
- SAR management accounts for the period YTD September 2010;
- various presentations prepared by Straits in relation to its operations, the Demerger Scheme and Acquisition Scheme;
- various presentations prepared by SCPE for Straits in relation to the Demerger;
- Straits shareholder information at various dates, as provided by the Company's share registry;
- Final draft Notice of Meeting and Demerger Scheme Booklet prepared by Straits for the Meeting;
- discussions with Straits management;
- various public disclosure documents lodged by Straits with the ASX, including Straits' annual reports for FY10 and FY09 and public announcements in relation to the Proposed Transactions;
- various public disclosure documents lodged by SAR with the SGX;
- information from Straits' website, http://www.straits.com.au;
- ASIC Regulatory Guides;
- Bloomberg;
- Capital IQ;
- various broker and analyst reports prepared in regards to Straits and SAR;
- Thompson Research;
- the Act and Regulations;
- DatAnalysis; and
- other publicly available information.

Annexure A

Part 1 – Independent Expert's Report

ERNST & YOUNG

APPENDIX – D GLOSSARY

Abbreviation	Full Title / Description
A$	Australian dollar
Acquisition Meeting	Straits' general meeting of shareholders to be held after the Meeting to consider the Acquisition Scheme
Acquisition Scheme	PTTML's proposal to acquire all of the issued shares in Straits, as detailed in the Acquisition Implementation Agreement
Acquisition Scheme Booklet	The booklet that is to be sent to Straits Shareholders in relation to the Acquisition Scheme
Act	The Corporations Act
Agreement	Straits and Straits Metals Demerger Implementation Agreement
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Coal Business	Straits' 40% interest in PTTAPM , cash and some liabilities
Company	Straits Resources Limited
Deed	Demerger Deed
Demerger, Demerger Scheme	Demerger of Straits Metals from Straits to be implemented by a scheme of arrangement
Demerger Scheme Booklet	The booklet that is to be sent to Straits Shareholders in relation to the Demerger Scheme
Ernst & Young Transaction Advisory Services	Ernst & Young Transaction Advisory Services Limited
Far East	Far East Energy Corporation Pty Ltd
FEE	FEE (Bru) Pte Limited
FYxx	Financial year ended 30 June 20xx
g/t	Grams per tonne
GFC	Global financial crisis
GfE	GfE-MIR Group of companies
Goldminco	Goldminco Corporation
JORC Code	Code for Reporting of Mineral Resources and Ore Reserves as prescribed by the Australasian Joint Ore Reserves Committee
LHS	Left hand side
m	Million
Meeting	Straits' general meeting of shareholders to be held on or about 21 January 2011

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Abbreviation	Full Title / Description
Metals Business	Straits' assets other than the Company's 40% interest in PTTAPM and $50 million cash
Mt	Million tonnes
Mtpa	Million tonnes per annum
NPAT	Net profit after tax
PTT	PTT Public Company
PTTAPM	PTT Asia Pacific Mining Pty Ltd
PTT Group	PTT and its subsidiaries and interests in various companies
PTTI	PTT International Company Limited
PTTML	PTT Mining Limited
Regulations	Corporations Regulations 2001
Report	Independent Expert's Report
RG 111	ASIC Regulatory Guide 111: Content of expert reports
RHS	Right hand side
S$	Singapore dollars
S&P	Standard & Poor's
SAR	Straits Asia Resources Ltd
SCPE	Standard Chartered Private Equity Limited
SGX	Singapore Exchange
Straits	Straits Resources Limited
Straits ICH	International Coal Holdings Limited, which will be the new name of Straits subject to the approval of the special resolution to be considered at an extraordinary general of meeting of Straits Shareholders
Straits Metals	A new company, being Straits Metals Limited, which after the Demerger will hold the Metals Business
Straits Shareholders	Shareholders of Straits
t	Tonnes
US$	United States dollars
VWAP	Volume-weighted average price
YTD	Year to date

Annexure A

Part 2 - Financial Services Guide

1 December 2010

THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

Ernst & Young Transaction Advisory Services Limited
ABN 87 003 599 844
Australian Financial Services Licence No. 240585

Ernst & Young Building
11 Mounts Bay Road
PERTH WA 6000 Australia
GPO Box M939
PERTH WA 6843
Telephone +61 8 9429 2222
Facsimile +61 8 9429 2192

www.ey.com/au

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- Financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- Arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

Annexure A

Part 2 - Financial Services Guide

ERNST & YOUNG

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	**Contacting the Independent Dispute Resolution Scheme:**
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

Annexure B – Investigating Accountant's Reports

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial Services Licence No 244572

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999
Direct Phone (08) 9238 3476
Direct Fax (08) 9488 8615
pwc.com.au

The Directors
Straits Resources Limited
Level 1, 35 Ventnor Avenue
WEST PERTH WA 6005

13 December 2010

Investigating Accountant's Report on Straits Metals Pro Forma Historical Financial Information and Financial Services Guide

We have prepared this report on certain pro forma historical financial information prepared by Straits Resources Limited (Straits or the Company) for inclusion in a demerger scheme booklet dated on or about 17 December 2010 (the Demerger Scheme Booklet) relating to the proposed separation of Straits' metals business (the Metals Business or Straits Metals) from the remainder of Straits' business (the Coal Business) (the Demerger).

Expressions defined in the Demerger Scheme Booklet have the same meaning in this report.

The nature of this report is such that it should be given by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian Financial Services Licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Background

On 11 November 2010, the Straits Board announced that it had entered into a Demerger Implementation Agreement whereby Straits would create a new listed company, Straits Metals, through a demerger of Straits' Metals Business from its Coal Business.

Scope

The Company has requested PricewaterhouseCoopers Securities Ltd to prepare this investigating accountant's report (the Report) covering the following financial information:

(a) summary historical income statements of Straits Metals for the years ended 30 June 2009 and 30 June 2010 as set out in Section 5.3 of the Demerger Scheme Booklet which have been adjusted for the income statement pro forma adjustments described in Section 5.2 (the Straits Metals Pro Forma Income Statements);

(b) summary historical cash flows from operating and investing activities of Straits Metals for the years ended 30 June 2009 and 30 June 2010 as set out in Section 5.4 of the Demerger Scheme Booklet which have been adjusted for the cash flow pro forma adjustments described in section 5.2 (the Straits Metals Pro Forma Cash Flow Statements); and

Annexure B – Investigating Accountant's Reports

PRICEWATERHOUSECOOPERS

(c) the pro forma balance sheet of Straits Metals as at 30 June 2010 as set out in Section 5.5 of the Demerger Scheme Booklet which has been adjusted for the balance sheet pro forma adjustments described in Section 5.5 (the Straits Metals Pro Forma Balance Sheet),

(collectively, the Straits Metals Pro Forma Historical Financial Information).

This Report has been prepared for inclusion in the Demerger Scheme Booklet. We disclaim any assumption of responsibility for any reliance on this Report or on the Straits Metals Pro Forma Historical Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Scope of Review of Straits Metals Pro Forma Historical Financial Information

The Directors are responsible for the preparation of the Straits Metals Pro Forma Historical Financial Information, including the determination of the pro forma adjustments. The Straits Metals Pro Forma Historical Financial Information set out in Section 5 of the Demerger Scheme Booklet has been extracted from the audited financial statements of the Company. The financial statements were audited by PricewaterhouseCoopers which issued an unqualified audit opinion on them. The Straits Metals Pro Forma Historical Financial Information incorporates such pro forma transactions and adjustments as the Directors considered necessary to present the Straits Metals Pro Forma Historical Financial Information on a basis consistent with the proposed demerger of Straits Metals from the Company.

We have conducted our review of the Straits Metals Pro Forma Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents;
- a review of the pro forma adjustments made to the historical financial information;
- a review of the assumptions used to compile the Straits Metals Pro Forma Historical Financial Information;
- a comparison of consistency in application of the recognition and measurement principles under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company in its financial statements for the years ended 30 June 2009 and 30 June 2010; and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Straits Metals Pro Forma Historical Financial Information.

Review Statement on Straits Metals Pro Forma Historical Financial Information

Based on our review of the Straits Metals Pro Forma Historical Financial Information, which is not an audit, nothing has come to our attention which causes us to believe that:

- the Straits Metals Pro Forma Income Statements have not been properly prepared on the basis of the income statement pro forma adjustments, the Straits Metals Pro Forma Cash Flow Statements have not been properly prepared on the basis of the cash flow pro forma adjustments and the Straits Metals Pro Forma Balance Sheet has not been properly prepared on the basis of the balance sheet pro forma adjustments.
- the pro forma adjustments do not form a reasonable basis for the summary Straits Metals Pro Forma Income Statements, the Straits Metals Pro Forma Cash Flow Statements and the Straits Metals Pro Forma Balance Sheet.

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- the Straits Metals Pro Forma Historical Financial Information does not present fairly:
  - (a) the Straits Metals Pro Forma Income Statements for the years ended 30 June 2009 and 30 June 2010 as set out in Section 5.3 of the Demerger Scheme Booklet;
  - (b) the Straits Metals Pro Forma Cash Flow Statements for the years ended 30 June 2009 and 30 June 2010 as set out in Section 5.4 of the Demerger Scheme Booklet; and
  - (c) the Straits Metals Pro Forma Balance Sheet as at 30 June 2010 as set out in Section 5.5 of the Demerger Scheme Booklet.

  in accordance with the recognition and measurement principles prescribed under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company in its financial statements for the years ended 30 June 2009 and 30 June 2010.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Demerger other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Demerger Scheme Booklet in the form and context in which it is included. The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this Report in the Demerger Scheme Booklet. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Demerger Scheme Booklet.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

Roger Port
Authorised Representative
PricewaterhouseCoopers Securities Ltd

Annexure B – Investigating Accountant's Reports

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial Services Licence No 244572

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999
pwc.com.au

Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 13 December 2010

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (PwC Securities) has been engaged by Straits Resources Limited (Straits or the Company) to provide an Investigating Accountant's Report (the Report) in relation to certain financial information in the Demerger Scheme Booklet dated on or about 17 December 2010 to be issued by the Company relating to the proposed separation of Straits' Metals Business from the remainder of the Straits business through a scheme of arrangement.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide (FSG) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian Financial Services Licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

PRICEWATERHOUSECOOPERS

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees have been charged on an hourly basis.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. The Australian firm of PricewaterhouseCoopers is currently the Company's auditors.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service (FOS), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using this service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Roger Port
PricewaterhouseCoopers Securities Ltd
GPO Box D198
PERTH WA 6840

Annexure B – Investigating Accountant's Reports

PRICEWATERHOUSECOOPERS

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ACN 003 311 617
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Services Licence No 244572

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999
Direct Phone (08) 9238 3476
Direct Fax (08) 9488 8615
pwc.com.au

The Directors
Straits Resources Limited
Level 1, 35 Ventnor Avenue
WEST PERTH WA 6005

13 December 2010

Dear Directors

Investigating Accountant's Report on Straits ICH Pro Forma Historical Financial Information and Financial Services Guide

We have prepared this report on certain pro forma historical financial information prepared by Straits Resources Limited (Straits or the Company) for inclusion in a demerger scheme booklet dated on or about 17 December 2010 (the Demerger Scheme Booklet) relating to the proposed separation of Straits' metals business (the Metals Business) from the remainder of Straits' business (the Coal Business or Straits ICH) (the Demerger).

Expressions defined in the Demerger Scheme Booklet have the same meaning in this report.

The nature of this report is such that it should be given by an entity which holds an Australian Financial Services Licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian Financial Services Licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Background

On 11 November 2010, the Straits Board announced that it had entered into a Demerger Implementation Agreement whereby Straits would create a new listed company, Straits Metals, through a demerger of Straits' Metals Business from its Coal Business.

Scope

The Company has requested PricewaterhouseCoopers Securities Ltd to prepare this investigating accountant's report (the Report) covering the following financial information:

(a) summary historical income statements of Straits ICH for the years ended 30 June 2009 and 30 June 2010 as set out in Section 7.3 of the Demerger Scheme Booklet which have been adjusted for the income statement pro forma adjustments described in Section 7.2 (the Straits ICH Pro Forma Income Statements);

(b) summary historical cash flows from operating and investing activities of Straits ICH for the years ended 30 June 2009 and 30 June 2010 as set out in Section 7.4 of the Demerger Scheme Booklet which have been adjusted for the cash flow pro forma adjustments described in Section 7.2 (the Straits ICH Pro Forma Cash Flow Statements); and

PRICEWATERHOUSECOOPERS

(c) the pro forma balance sheet of Straits ICH as at 30 June 2010 as set out in Section 7.5 of the Demerger Scheme Booklet which has been adjusted for the balance sheet pro forma adjustments described in Section 7.5 (the Straits ICH Pro Forma Balance Sheet),

(collectively, the Straits ICH Pro Forma Historical Financial Information).

This Report has been prepared for inclusion in the Demerger Scheme Booklet. We disclaim any assumption of responsibility for any reliance on this Report or on the Straits ICH Pro Forma Historical Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Scope of Review of Straits ICH Pro Forma Historical Financial Information

The Directors are responsible for the preparation of the Straits ICH Pro Forma Historical Financial Information, including the determination of the pro forma adjustments. The Straits ICH Pro Forma Historical Financial Information set out in Section 7 of the Demerger Scheme Booklet has been extracted from the audited financial statements of the Company. The financial statements were audited by PricewaterhouseCoopers which issued an unqualified audit opinion on them. The Straits ICH Pro Forma Historical Financial Information incorporates such pro forma transactions and adjustments as the Directors considered necessary to present the Straits ICH Pro Forma Historical Financial Information on a basis consistent with the proposed demerger of the Metals Business from the Company.

We have conducted our review of the Straits ICH Pro Forma Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents;
- a review of the pro forma adjustments made to the historical financial information;
- a review of the assumptions used to compile the Straits ICH Pro Forma Historical Financial Information;
- a comparison of consistency in application of the recognition and measurement principles under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company in its financial statements for the years ended 30 June 2009 and 30 June 2010; and
- enquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Straits ICH Pro Forma Historical Financial Information.

Review Statement on Straits ICH Pro Forma Historical Financial Information

Based on our review of the Straits ICH Pro Forma Historical Financial Information, which is not an audit, nothing has come to our attention which causes us to believe that:

- the Straits ICH Pro Forma Income Statements have not been properly prepared on the basis of the income statement pro forma adjustments, the Straits ICH Pro Forma Cash Flow Statements have not been properly prepared on the basis of the cash flow pro forma adjustments and the Straits ICH Pro Forma Balance Sheet has not been properly prepared on the basis of the balance sheet pro forma adjustments.
- the pro forma adjustments do not form a reasonable basis for the summary Straits ICH Pro Forma Income Statements, the Straits ICH Pro Forma Cash Flow Statements and the Straits ICH Pro Forma Balance Sheet.

Annexure B – Investigating Accountant's Reports

PRICEWATERHOUSECOOPERS

- the Straits ICH Pro Forma Historical Financial Information does not present fairly:
  - (a) the Straits ICH Pro Forma Income Statements for the years ended 30 June 2009 and 30 June 2010 as set out in Section 7.3 of the Demerger Scheme Booklet;
  - (b) the Straits ICH Pro Forma Cash Flow Statements for the years ended 30 June 2009 and 30 June 2010 as set out in Section 7.4 of the Demerger Scheme Booklet; and
  - (c) the Straits ICH Pro Forma Balance Sheet as at 30 June 2010 as set out in Section 7.5 of the Demerger Scheme Booklet.

in accordance with the recognition and measurement principles prescribed under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company in its financial statements for the years ended 30 June 2009 and 30 June 2010.

Subsequent Events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or Disclosure of Interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Demerger other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.

Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Demerger Scheme Booklet in the form and context in which it is included. The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this Report in the Demerger Scheme Booklet. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Demerger Scheme Booklet.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours faithfully

Roger Port
Authorised Representative
PricewaterhouseCoopers Securities Ltd

PricewaterhouseCoopers Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
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Services Licence No 244572

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999
pwc.com.au

Appendix A – Financial Services Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD

FINANCIAL SERVICES GUIDE

This Financial Services Guide is dated 13 December 2010

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) (PwC Securities) has been engaged by Straits Resources Limited (Straits or the Company) to provide an Investigating Accountant's Report (the Report) in relation to certain financial information in the Demerger Scheme Booklet dated on or about 17 December 2010 to be issued by the Company relating to the proposed separation of Straits' Metals Business from the remainder of the Straits business through a scheme of arrangement.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide (FSG) is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian Financial Services Licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

Annexure B – Investigating Accountant's Reports

PRICEWATERHOUSECOOPERS

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report our fees have been charged on an hourly basis.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. The Australian firm of PricewaterhouseCoopers is currently the Company's auditors.

7. Complaints

If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service (FOS), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using this service.

8. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Roger Port
PricewaterhouseCoopers Securities Ltd
GPO Box D198
PERTH WA 6840

Annexure C – Part 1
Summary of material contracts relating to the Demerger

1 Demerger Implementation Agreement

The Demerger Implementation Agreement sets out the steps required to be taken by each of Straits and Straits Metals to give effect to the Capital Reduction, the Demerger Dividend and the Demerger Scheme and other steps necessary to give effect to the Demerger on the Demerger Scheme Implementation Date.

The key terms of the deed are as follows:

(1) **Obligations of Straits / Straits ICH**

Under the Demerger Implementation Agreement, Straits has agreed that it will take certain steps necessary or required to implement the Demerger including:

- executing (and procuring that each member of the Straits Group executes) the transaction documents necessary to give effect to the internal restructure transactions referred to in **Section 1.2** and the other documents referred to in Part 1 of this **Annexure C**;
- convening a general meeting for the purposes of the General Meeting Resolutions, applying for Court orders to convene the Demerger Scheme Meeting and holding a Straits Directors meeting to approve the Demerger Dividend;
- lodging this Demerger Scheme Booklet with ASIC for registration in accordance with section 412(6) of the Corporations Act;
- applying for Court orders to approve the Demerger Scheme;
- lodging copies of the Court order approving the Demerger Scheme with ASIC;
- procuring the transfer of Straits Metals Shares from Straits to its shareholders;
- on or prior to the Demerger Scheme Implementation Date, declaring the Demerger Divided (if applicable);
- on the Demerger Scheme Implementation Date, reducing the capital of each Scheme Share in accordance with the Capital Reduction Resolution, and on behalf of each Scheme Shareholder, applying the Capital Reduction Entitlement and Demerger Dividend Entitlement of each Scheme Shareholder as consideration for the transfer of Straits Metals Shares; and
- procuring the sale of Straits Metals Shares in respect of Ineligible Foreign Shareholders.

(2) **Obligations of Straits Metals**

Under the Demerger Implementation Agreement, Straits Metals agrees that it will take certain steps necessary or required to implement the Demerger including:

- executing (and procuring that each member of the Straits Metals Group executes) the transaction documents necessary to give effect to the internal restructure transactions referred to in **Section 1.2** and the other documents referred to in this **Annexure C**;
- entering into deeds of access, indemnity and insurance with the directors of Straits Metals;
- executing the Deed Poll prior to the First Court Hearing;
- applying to the ASX for the admission of Straits Metals to the Official List and official quotation of all Straits Metals Shares and taking such action as is required to satisfy any conditions or requirements associated with any conditional ASX listing approval or deferred settlement trading on the ASX of Straits Metals Shares;
- on the Demerger Scheme Implementation Date, registering the transfers to Straits Shareholders of the Straits Metals Shares required to be transferred under the terms of the Demerger Scheme; and
- issuing transaction confirmation statements and holding statements within the time required by the Listing Rules.

Annexure C – Part 1
Summary of material contracts relating to the Demerger

1 Demerger Implementation Agreement (continued)

(3) Demerger steps

The Demerger Implementation Agreement also contains details of the order in which the obligations of the parties as mentioned are to be performed, and certain other steps to be completed by Straits and Straits Metals in order to give effect to the implementation of the Demerger.

The conditions to the implementation of the Demerger are as set out in clause 3.1 of the Demerger Scheme set out in **Annexure E**.

The Demerger will become binding on Straits Shareholders only if all of the following conditions are satisfied (or, in some cases, waived by Straits):

ASIC and ASX	ASIC and ASX (as the case may be) grants Straits and/or Straits Metals (as the case may be) such consents, approvals, waivers or other relief, as Straits Metals determines are necessary or desirable to implement the Demerger (including, but without limitation, in the case of ASIC, a statement under section 411(17)(b) of the Corporations Act), before 8.00am on the Second Court Date (and any such consent, approval, waiver and relief, once granted, is not subsequently withdrawn for any reason).
Independent Expert's Report	The Independent Expert does not change the conclusions expressed in the Independent Expert's Report or withdraw that report prior to 8.00am on the Second Court Date.
Straits Shareholder approval – Demerger Scheme	Straits Shareholders approve the Demerger Scheme by the necessary majorities at the Demerger Scheme Meeting (or any adjournment or postponement of the Demerger Scheme Meeting).
Straits Shareholder approval – Capital Reduction	Straits Shareholders approve the Capital Reduction by the necessary majority under the Corporations Act and the Constitution prior to the date of the Second Court Hearing.
Court approval of Demerger Scheme	The Court approves the Scheme under section 411(4)(b) of the Corporations Act at the Second Court Hearing and an office copy of the Scheme Order is lodged with ASIC as contemplated by section 411(10) of the Corporations Act.
Straits' convertible notes	All of the Straits Convertible Notes have been converted in full and new Straits Shares issued pursuant to that conversion.
Straits Metals' admission to ASX	ASX approves the admission of Straits Metals to the Official List, and grants permission for official quotation of Straits Metals Shares on ASX (subject only to the Demerger Scheme becoming Effective, the provision of information required by ASX and other customary pre-quotation conditions), before 8.00am on the Second Court Date.
No restraint	No temporary restraining order, preliminary or permanent injunction or other order is issued by a court of competent jurisdiction or other legal restraint or prohibition preventing the Demerger is in effect as at 8.00am on the Second Court Date.

1 Demerger Implementation Agreement (continued)

(3) Demerger steps (continued)

Cancellation of Straits Options	As at 8.00am on the date of the Second Court Hearing, either: (a) each holder of Straits Options has entered into an agreement with Straits to have the Straits Options held by that person cancelled by no later than 6.00pm on the date of the Second Court Hearing; or (b) both: (i) the holders of Straits Options approve a scheme of arrangement pursuant to which all the Options will be acquired by Straits before the Second Court Date; and (ii) the Straits Option holders' scheme of arrangement referred to in paragraph (b)(i) above is implemented before the Demerger Scheme Implementation Date.

2 Demerger Deed

The Demerger Deed was entered into on 11 November 2011 and deals with certain commercial, legal and transitional issues arising in connection with the legal separation of Straits Metals from Straits.

The key terms of the Demerger Deed are as follows:

(1) Separation Principle

The fundamental Demerger principle of the separation of Straits Metals from Straits is that, following the Demerger, as between Straits Metals, on the one hand, and Straits ICH on the other:

- Straits Metals will have:
  - the entire economic and commercial benefit (including all profits) of the Metals Business on and from the Restructure Date;
  - the entire economic and commercial risk and liabilities of the Metals Business as if Straits Metals had owned and operated the Metals Business at all relevant times;
  - none of the economic or commercial benefit of the Coal Business on and from the Restructure Date; and
  - none of the economic or commercial risk or liabilities of the Coal Business whenever arising; and
- Straits ICH will have:
  - the entire economic and commercial benefit (including all profits) of the Coal Business on and from the Restructure Date;
  - the entire economic and commercial risk and liabilities of the Coal Business as if Straits Metals had not owned and operated the Coal Business at any time;
  - the Retained Cash Amount; and
  - none of the economic or commercial risk or liabilities of the Metals Business whenever arising.

Straits Metals will also be entitled to any cash which is received by Straits ICH (including any repayment of shareholder loans within two years from the Restructure Date) in excess of the Retained Cash Amount after the Restructure Date and which, broadly, does not relate to the Coal Business.

Straits ICH and Straits Metals indemnity each other for any claim or loss relating to the Separation Principle, the Coal Business (in the case of Straits Metals) and the Metals Business (in the case of Straits ICH).

Annexure C – Part 1
Summary of material contracts relating to the Demerger

2 Demerger Deed (continued)

(2) **No claims**

Consistent with the Demerger separation principle, Straits Metals and Straits acknowledge that once the Demerger is complete, Straits Metals will not have any rights against Straits ICH, and Straits ICH will not have any rights against Straits Metals, except in specified circumstances.

Neither Straits Metals nor Straits ICH will have any right to make a claim for liability or loss arising directly or indirectly in relation to the Demerger, the Demerger Scheme Booklet or the Restructure or the operation of the Metals Business prior to the Restructure Date (in the case of Straits Metals) and the operation of the Coal Business prior to the Restructure Date (in the case of Straits ICH).

(3) **Wrong pockets**

To the extent an asset which belongs to the Metals Business is not transferred to Straits Metals within 24 months of the Restructure Date, Straits ICH must transfer that asset for nominal consideration.

To the extent an asset which belongs to the Coal Business is not transferred to Straits ICH within 24 months of the Restructure Date, Straits Metals must transfer that asset for nominal consideration.

(4) **Guarantees**

Straits Metals agrees to use its best endeavours to release any guarantees or financial support which is provided by Straits ICH in relation to the Metals Business.

Straits ICH agrees to use its best endeavours to release any guarantees or financial support which is provided by Straits Metals in relation to the Coal Business.

(5) **Intellectual property**

Except as permitted under the Transition Services Agreement, Straits ICH must cease to use any intellectual property relating to the Metals Business and the name “Straits”.

(6) **Contract novation and assignment**

Straits Metals and Straits ICH agree to use their best endeavours to novate or assign any contract which relate to the Coal Business to Straits ICH.

Straits Metals and Straits ICH agree to use their best endeavours to novate or assign any contract which relate to the Metals Business to Straits Metals.

(7) **Litigation management**

Straits Metals and Straits ICH will assist each other in relation to the management of current and new litigation matters. Straits Metals indemnifies Straits ICH in respect of liability or loss suffered by Straits ICH in connection with a claim arising from such matters where that liability relates to the Metals Business. Straits ICH indemnifies Straits Metals in respect of a liability or loss suffered by Straits Metals in connection with a claim arising from such matters where that liability relates to the Coal Business.

2 Demerger Deed (continued)

(8) **Employees**

Straits Metals must offer employment to each Straits employee prior to the Restructure Date. Straits will terminate any employee who has not accepted employment with Straits Metals on the Restructure Date.

Straits will remain liable for any liability arising from any Straits' current or past employee.

(9) **Access to records**

Under the Demerger Deed both Straits ICH and Straits Metals will have the right to hold, have copies of or access to all records that are connected with or relevant to its business.

(10) **Insurance**

From the Restructure Date, Straits ICH is to maintain a directors' and officers' insurance policy for the Straits Directors (as the date of this Demerger Scheme Booklet) for a period of seven years.

Straits ICH will assign the benefit (subject to the burden) of all the insurance policies of Straits to Straits Metals or Straits Metals may elect for these to be cancelled.

(11) **Tax assistance**

Straits Metals and Straits ICH will assist each other in relation to the preparation of their respective tax returns and in the event of any tax audit by a relevant authority. The Demerger Deed also contains provisions as to the handling of any tax claims.

(12) **Tax consolidation**

Straits Metals and Straits ICH will, prior to the Demerger Scheme Effective Date, do all things necessary to comply with the Straits under the tax sharing agreements relating to the Straits tax consolidated group in respect of their exit from that tax consolidated group. Upon making those payments, the Straits Metals group companies will be released from those tax sharing agreements and the Straits ICH group will have no right to make any claim against any Straits Metals group company in respect of a tax liability.

(13) **Confidentiality**

Straits Metals and Straits ICH must not use the other's confidential information for any purposes other than purposes permitted by the Demerger Deed or other agreements between them, must store the other's confidential information securely and must not allow any person access to the other's confidential information except to the extent that the disclosure is strictly necessary and is permitted under the Demerger Deed.

As further set out in the Acquisition Scheme Booklet, Straits has agreed with PTTML that it will enter into, and will procure that Straits Metals enters into, the Indemnity and Adjustment Deed prior to the date of the Acquisition Scheme Meeting. The Indemnity and Adjustment Deed will become operable only if the Acquisition Scheme becomes Effective.

The purpose of the Indemnity and Adjustment Deed is to alter the commercial position between Straits Metals and Straits ICH under the Demerger Deed and the Intra-group Transfer Agreement should the Demerger and the Acquisition proceed. For further information on this, please refer to the Acquisition Scheme Booklet.

Annexure C – Part 1
Summary of material contracts relating to the Demerger

3 Transition Services Agreement

On the Restructure Date, Straits ICH and Straits Metals will enter into an agreement pursuant to which Straits Metals will provide Straits ICH with certain services to facilitate the transfer and continued operation of their respective businesses following the Demerger. It is expected that the transitional period will be for a period of 12 months unless terminated by Straits ICH earlier.

The services to be provided include:

Service	Description
Accounting (including payroll function)	Monthly processing of invoices, preparation of monthly management accounts, and running monthly payroll services
Treasury	Banking and other treasury functions
Administration (including company secretarial)	General office administration and company secretarial duties including corporate governance
Management	Managing corporate transactions
Tax support	Preparation of income tax return, BAS preparation and lodging, and PAYG lodgement
Investor relations	News and media support incorporating presentations and broker liaison as required
Information technology	Information technology hardware and software provision and on-going support
Serviced office facilities	Provision and maintenance of serviced office facilities and related support

The services will be charged on a cost recovery basis.

Except in the case of negligence or wilful acts or omissions, each party indemnifies the other party for any losses, costs or damages incurred by the other party. The maximum liability of each party under the Transition Services Agreement is $50,000. Each party is not liable for any loss of profits or indirect or consequential loss in relation to the provision of the services.

Either party may terminate the agreement for an unremedied breach by the other, if an insolvency event occurs in relation to the other party or by mutual agreement. Straits ICH may also terminate by giving five Business Days' notice to Straits Metals.

4 Intra-group Transfer Agreement

On the Restructure Date, Straits ICH and Straits Metals will enter into the Intra-group Transfer Agreement. Under the Intra-group Transfer Agreement, Straits agrees to sell all of its assets to Straits Metals in consideration of the issue of such number of Straits Metals Shares as are equal to the number of shares of Straits that will be on issue on the Demerger Scheme Record Date other than:

1. Straits' shareholding in PTTAPM;
2. Straits' rights under the PTTAPM Joint Venture;
3. the Retained Cash Amount; and
4. records relating to Straits ICH and the Coal Business.

Straits Metals will also be entitled to any cash received by Straits ICH in excess of the Retained Cash Amount after the Restructure Date which, broadly, does not relate to the Coal Business.

As further set out in the Acquisition Scheme Booklet, the Intra-group Transfer Agreement will be amended by the Indemnity and Adjustment Deed such that Straits Metals will not be entitled to the additional cash balance referred to above, should the Acquisition Scheme proceed.

5 SRL-SCPE Conversion Agreement

Straits has entered into the SRL SCPE Conversion Agreement with SCPE to ensure that all Straits Convertible Notes will be converted to Straits Shares:

(a) in certain circumstances, in sufficient time to enable it to vote the Straits Shares received upon conversion at the Demerger Scheme Meeting and Acquisition Scheme Meeting; and

(b) in any event, before the Demerger Scheme Record Date.

Broadly, those circumstances referred to in (a) above, exist if on the second business day before the record date for entitlement to vote the Demerger Scheme Meeting the proxies received, when combined with the shares to be issued on conversion of the Straits Convertible Notes, indicate that the Demerger Scheme is likely to be approved. This is subject to certain conditions, including the conversion by SCPE not breaching takeovers laws or the FATA, the delivery of a proxy report by Straits, the conditions to the Demerger Scheme being capable of being satisfied or being waived and no right to terminate the Demerger Implementation Agreement having arisen and not having been waived.

If SCPE is not able to convert all of the Straits Convertible Notes due to restrictions under takeover laws or the FATA, then SCPE is required to sell the residual notes to a third party who can and is obliged to convert them before the Demerger Scheme Record Date.

Under this agreement, Straits agrees that if it receives a conversion notice in respect of the Straits Convertible Notes before midday (Perth Time), then it will issue the Straits Shares on the same day.

Annexure C – Part 2
Summary of material contracts relating to Straits Metals

A Tritton Copper Project Offtake Agreement

The material contract for the Metals Business is the Third Amended and Restated Copper Concentrate Offtake Agreement between Tritton Resources Limited and JPMM&C dated 25 October 2005 (**Sempra Contract**).

The agreement has since been amended and restated 3 times with the latest revision of the agreement executed on 24 January 2007.

Under the Sempra Contract, Tritton Resources Pty Limited must sell and JPMM&C must purchase 100% of the clean sulphide flotation copper concentrates produced from the Tritton Copper Project and Girilambone Exploration Project in New South Wales. Tritton Resources Limited is required to deliver concentrate to JPMM&C's ports in the People's Republic of China, Korea, Japan or India.

The purchase price varies according to, among other things, the market price and the contract price which, in turn, varies according to the metal value of copper, gold and silver contained in the concentrate and the quality of the concentrate.

The contracted TC/RC deduction under the Sempra Contract is much higher than TC/RC charges currently available in the market.

Upon delivery of 162,500 tonnes of copper metal in concentrate (calculated in accordance with the terms of the agreement), either party may elect to terminate the agreement by giving 6 months written notice to the other party with the termination taking effect from the later of the expiry of the six month notice period or the delivery of a further 12,500 tonnes of copper metal in concentrate.

Either party may terminate the contract early for an unremedied default by the other party or on the occurrence of an event of default by giving the other party a notice of early termination.

B Magontec Borrowing Base Facility

On 18 March 2009, Magontec entered into an agreement with SCB whereby SCB has made available to Magontec on an uncommitted basis short term facilities of up to a maximum aggregate principal amount of US$30,000,000 (or its equivalent in "Alternative Currencies") (**Facility**). Interest is charged under the Facility at a margin of 2.5% plus the higher of the London interbank offer rate or SCB's cost of funds for the period of utilisation of the Facility.

Notwithstanding the uncommitted, on demand nature of the short term facilities, drawings under the Facility may be used by Magontec for periods of up to a maximum of 120 days at which time the loan must be repaid or rolled over.

The amount made available to Magontec for utilisation under the Facility depends on, and is secured against (among other assets):

(a) Magontec's inventory which is either en route on a vessel or held in a warehouse acceptable to SCB; or

(b) Magontec's outstanding receivables drawn on buyers acceptable to SCB and covered by an acceptable credit insurance policy where SCB is noted as loss payee.

As a condition precedent to the granting of the Facility, SCB must receive a guarantee issued by Varomet Holdings Limited in favour of SCB covering the obligations of Magontec.

SCB can at any time with immediate effect by giving Magontec written notice terminate the Facility, demand repayment of all outstanding monies or require Magontec to provide additional security to SCB's satisfaction.

The Facility is governed by English law.

C Mt Muro Contract of Work

On 27 February 1985, having received the relevant Indonesian regulatory approvals, PT Indo Muro Kencana (**IMK**) entered into a 3rd generation Contract of Work (**CoW**) with the Indonesian Government (**GOI**) for the purposes of mining gold and other associated minerals in Central Kalimantan, Indonesia.

Under the CoW, the GOI grants IMK the right to develop and exploit the mineral resources (excluding radioactive material and hydrocarbons without further approval from GOI) in a specified mining area within Central Kalimantan including the right to sell such minerals produced from the mining operation. This is subject to an obligation on IMK to maximize the economic return from the operation including an obligation on IMK to sell minerals to its affiliates on an arm's length basis to ensure that GOI's national interests are taken into account.

IMK is currently in an operating/producing stage. During this stage, IMK has various reporting obligations in respect of its production and refining activities including a requirement to submit regular quarterly reports to the Indonesian Ministry of Energy and Mineral Resources.

Under the CoW, IMK is required to make various payments in respect of taxes, duties and other levies including, among other things, payments in relation to deadrent, royalties in respect of the production of minerals at the rates specified under the CoW, corporate income tax, personal income tax of employees, withholding tax, value added tax, stamp duty, import duty on good imported into the GOI, land and building, levies, taxes, charges and duties impose by Provincial and/or Regency Government; general administrative fees and charges for facilities or services rendered or rights granted by the government and duty on registration and transfer of ownership of vehicles and ships.

There is an obligation to offer at least 51% of IMK's shares to be owned by Indonesians which must be achieved by making annual offers for value in accordance with the terms of the CoW. IMK has made offers in accordance with the CoW requirements in the past but as of the date of this Demerger Scheme Booklet the offers made by IMK have not been taken up.

The Indonesian Government is entitled to terminate the CoW in the event that IMK:

(a) defaults on its obligations under the CoW and does not remedy that default within 180 days of receiving a written notice of the default from the Indonesian Government; and

(b) defaults on a payments under the CoW and fails to remedy the default within 30 days of receiving written notice of the default from the Indonesian Government.

IMK is entitled to terminate the CoW at any time during the life of the CoW with the termination taking effect upon IMK receiving written confirmation from the GOI of the termination or will be deemed terminated within 6 months.

Annexure C – Part 3
Summary of material contracts relating to Straits ICH

PTTAPM Shareholders Agreement

The PTTAPM Shareholders Agreement governs the operation of the PTTAPM Joint Venture as follows:

(1) **Composition of PTTAPM board**

PTTML is entitled to appoint up to three directors and Straits may appoint up to two directors to the PTTAPM board.

A director appointed by a shareholder is the nominee of that shareholder and may represent and act in the interests of their appointing shareholder.

(2) **Quorum for meetings**

A quorum for a PTTAPM board meeting is one director appointed by each shareholder.

(3) **Decision making**

Subject to law, decisions of the PTTAPM board and shareholders are decided by majority vote, other than in the case of material decisions relating to PTTAPM and its investments, which require the unanimous approval of the PTTAPM board or shareholders (as relevant).

(4) **Related party agreements**

Any related party agreement or any decision to enter into, terminate, amend or waive any rights in relation to a related party agreement must be on "arms length" terms and not be voted on by any director appointed by that shareholder.

If all the directors would be disqualified form voting on any decision relating to a related party agreement, then all of the directors may vote on that decision.

(5) **SAR investment**

Unless agreed otherwise by the shareholders by a special majority decision, the nominees of PTTAPM on the board of SAR (**SAR Nominee Directors**) are the chief executive officer of PTTAPM, one director nominated by Straits and one director nominated by PTTML (who, for so long as PTTML hold more than 50% of the PTTAPM Shares, will act as the chairman of SAR) and such other persons approved by the PTTAPM Board.

Under the Acquisition Scheme Implementation Agreement, from until the later of when the Acquisition Scheme Implementation Agreement is terminated and 30 June 2011, Straits has agreed that the Straits' SAR Nominee Directors on the SAR board will resign from the SAR board. Straits has also agreed other matters relating to SAR during the same time period. See **Section 1.8** of the Acquisition Scheme Booklet for further information.

(6) **Dividends**

PTTAPM and each shareholder must ensure any votes PTTAPM has in relation to each subsidiary are exercised to ensure that a dividend is paid from the profits of PTTAPM or a subsidiary, no less regularly than SAR pays its dividends.

Straits and PTTML have also agreed that no dividend will be declared or paid by PTTAPM from the date of the Acquisition Scheme Implementation Agreement until the date on which the Acquisition Scheme Implementation Agreement is terminated. Absent this agreement, the next dividend would be expected to be paid in May 2011.

(7) **Funding**

The shareholders agree that they will not approve the raising of any additional funding by the issue of PTTAPM shares until all reasonable steps have been taken to raise the additional funding from a third party finance provider.

PTTAPM Shareholders Agreement (continued)

(8) **Minority buy-out option**

If a shareholder does not intend to participate in a proposed issue of shares and the result is that the non-participation would reduce the shareholders shareholding to less than 25% (**Minority Shareholder**), a shareholder who holds an interest of more than 50% may require the Minority Shareholder to sell its entire shareholding to the other shareholder at an expert determined value unless the Minority Shareholder participates in the proposed issue of shares.

(9) **Transfer of PTTAPM shares and pre-emption rights**

Neither shareholder can sell their PTTAPM shares to a third party for a period of two years from the date of the PTTAPM Shareholders Agreement.

After that time, before a shareholder can sell their PTTAPM shares to a third party, notice of the proposed sale must be given. A continuing shareholder first has the right to buy on the proposed terms of sale to the third party. If the continuing shareholder does not offer to buy the PTTAPM shares then the shareholder can complete the sale to the third party.

(10) **Deadlocks**

If the event of an ongoing deadlock in relation to certain specified material matters, there are a range of dispute resolution and exit mechanisms that will apply. Straits cannot be forced to exit its shareholding in PTTAPM except at an agreed price, a price determined by an independent valuer or an arms length price as a result of a process to sell 100% of the PTTAPM shares.

(11) **Material default**

Upon the occurrence of an unremedied material default, the non-defaulting shareholder has an option to acquire the shares of the defaulting shareholder at 95% of the value determined by an independent valuer.

Annexure D – Employee Incentive Arrangements

Part 1 – Terms of issue of incentive shares

- Straits Metals Shares will be issued or purchased at market price and funded by way of a limited recourse interest free loan.
- The Straits Metals Shares will be issued to, or acquired by, a nominee on behalf of Mr. Jerkovic and Mr. Gibson (and held by the nominee, subject to the satisfaction of the vesting condition and subject to the Straits Metals Plan Rules) following a decision of the Straits Metals remuneration committee to grant participation to them and, in any event, no later than three years after the Demerger Scheme Implementation Date.
- Mr. Jerkovic and Mr. Gibson will not be permitted to sell or otherwise deal with their shares before they vest and the loan is repaid. The shares would be eligible to vest after three years, subject to Mr. Gibson and Mr. Jerkovic meeting the vesting condition as outlined below and subject to the rules of the Straits Metals Share Plan.
- Funds raised when each loan is repaid will be used for the working capital purposes of Straits Metals. If the Straits Metals Shares are sold under the rules of the Straits Metals Share Plan and the amount received on such sale does not exceed the amount of the loan, there is no requirement for either Mr. Jerkovic or Mr. Gibson to pay the balance between the amount of the loan and the amount received on the sale of such shares.
- The Straits Metals Shares will rank equally with all other Straits Metals Shares on issue.
- The maximum number of Straits Metals Shares for each will be based on the weighted average sale price of Straits Metals Shares traded on ASX over the period of five trading days immediately before the date of issue, and will be equivalent to the value of one times their respective initial annual base cash salaries, being:
  - for Mr. Jerkovic, $945,000; and
  - for Mr. Gibson, $615,000.
- The vesting of the legal interest in the Straits Metals Shares to Mr. Jerkovic and Mr. Gibson would be subject to the satisfaction of the vesting condition. The vesting condition relates to a comparison of Straits Metals' performance against the group of companies that form the S&P / ASX300 Metals & Mining Index (**Index**).
- Straits Metals Shares would be eligible to vest on the third anniversary of acquisition in accordance with the following vesting condition (provided the relevant Straits Metals Director remains employed at that time and subject to the terms of the Straits Metals Share Plan):

Relevant Period	Hurdle	% vesting
Initial three year period Or Third year of period	Straits Metals Shares TSR is equal to the 50th percentile of the Index	50%
	Straits Metals Shares TSR is between the 51st percentile and 74th percentile of the Index	Between 50% and 100% on a pro rata basis
	Straits Metals Shares TSR is equal to or greater than the 75th percentile of the Index	100%

- If granted, the relevant Straits Metals Shares will be issued in one tranche. However, the vesting condition can be satisfied by Straits Metals Shares outperforming the Index over either of the relevant periods shown in the table above.
- **TSR** means the total amount returned on a Straits Metals Share to a Straits Metals Shareholder during the relevant period calculated as:
  - the growth in value of a Straits Metals Share over the relevant period; plus
  - the value of dividends and other distributions paid to the Straits Metals Shareholder nominally reinvested.
- In determining the TSR, the Straits Metals remuneration committee will have the discretion to compute the closing price of the Straits Metals Shares as based on a volume weighted average price over a period not exceeding 20 trading days, in order to mitigate the effect of any short term share price volatility and better reflect market value.

Annexure D – Employee Incentive Arrangements

Part 2 – Straits Metals Share Plan – summary of terms

Straits Metals Share Plan – summary of terms

1 The Straits Metals Share Plan will be administered by a remuneration committee. The remuneration committee has the authority to issue or transfer Straits Metals Shares to any executive of Straits Metals or a subsidiary of Straits Metals whom the remuneration committee determines is eligible to participate in the Straits Metals Share Plan and who achieves the individual key performance indicators set by the remuneration committee. Participation in the Straits Metals Share Plan is not open to Straits Metals Directors, other than executive directors. The invitation to participate in the Straits Metals Share Plan may be subject to other restrictions or conditions as determined by the remuneration committee.

2 Straits Metals Shares acquired or issued under the Straits Metals Share Plan (**Plan Shares**) will be issued to a nominee (acting as trustee) who will hold legal title to the Plan Shares on behalf of the participant. The Plan Shares will be quoted on the ASX and will (except as described below) rank equally with all other Straits Metals Shares from the date of issue in all respects, including in respect of all reconstructions, rights issues, bonus issues and dividends.

3 The subscription price for the Plan Shares will be the weighted average sale price of Straits Metals Shares traded on ASX over the period of five business days up to and including the date of issue or such other date as specified in the invitation (though if the remuneration committee determines that the weighted average sale price determined in this way is unrepresentative or otherwise distorted, an alternate price shall be set by the remuneration committee on such basis as it deems appropriate). The subscription price for the Plan Shares will be fully funded by way of an interest free limited recourse loan (**Share Plan Loan**) made by Straits Metals to the participant. Straits Metals may only require a participant to repay the Share Plan Loan in accordance with the Straits Metals Share Plan rules, and will not be entitled to have recourse to any assets of the Participant other than the Plan Shares held by that participant. The Share Plan Loan will be repaid by Straits Metals retaining part of the dividends payable on the Plan Shares acquired by the participant and applying them in reduction of the Share Plan Loan. In the case of franked dividends, 53.5% of the grossed up amount of the dividend will be applied in reduction of the Share Plan Loan and 16.5% of the grossed up dividend will be paid to the participant. In the case of unfranked dividends, 53.5% of the grossed up amount of the dividend will be applied in reduction of the Share Plan Loan and the remaining 46.5% will be paid to the participant. Other than as set out below, a participant may not make additional Share Plan Loan repayments.

4 The Share Plan Loan will become repayable on the earlier of an event occurring which requires forfeiture or surrender of the Straits Metals Shares and the 15th anniversary of the shares being acquired. The Share Plan Loan must be repaid in full before the legal ownership of the Shares is transferred to the eligible participant. The shares will be subject to a holding lock until the loan is repaid and the relevant vesting conditions are met (subject to any adjustments made by the Remuneration Committee).

Annexure D – Employee Incentive Arrangements

Part 2 – Straits Metals Share Plan – summary of terms

Straits Metals Share Plan – summary of terms (continued)

5 If prior to the repayment of the Share Plan Loan, the participant ceases to be employed by Straits Metals for any reason, dies, is totally or permanently disabled, or becomes bankrupt and the vesting condition has not been met, the participant may be required to forfeit or surrender the beneficial interest in their Shares to the nominee if the remuneration committee so determines. The Remuneration Committee can only make a determination in relation to a forfeiture event or other vesting event after taking all relevant considerations into account. If a forfeiture event occurs, the nominee will sell any forfeited shares on market and apply the proceeds against the loan. If the sale proceeds do not cover the balance of the loan amount, the forfeiture of the Shares will be treated as being a full satisfaction of the Share Plan Loan and the participant will have no further obligation with respect to the Share Plan Loan. If the sale proceeds exceed the loan amount the excess amount will represent an additional subscription price and an additional loan as provided for in the Straits Metals Share Plan rules and such excess amount will be added to the Share Plan Loan and repaid in accordance with the Straits Metals Share Plan rules. This will ensure that a participant who forfeits the shares does not receive any financial benefit from them.

6 No share is to be issued under the Straits Metals Share Plan if at that time the number of the Straits Metals Shares on issue, plus the number of Straits Metals Shares issued in the previous five years under the Straits Metals Share Plan or any other employee share scheme extended to employees or Directors of Straits Metals (other than “excluded offers”, or offers that do not require disclosure, under the Corporations Act) would exceed 5% of the total number of issued Straits Metals Shares.

7 Any treatment of the shares issued under the Straits Metals Share Plan in the event of a change of control of Straits Metals (in whatever manner) will, subject to the terms of any offer of shares under the Straits Share Plan, be at the absolute discretion of the remuneration committee.

The remuneration committee may, in accordance with the Listing Rules, amend the Rules of the Straits Metals Share Plan at any time (except that no amendment may be made which adversely affects a participant’s rights without the consent of that participant).

Annexure E – Scheme of Arrangement

Contents

Annexure E – Scheme of Arrangement

PARTIES

Straits Resources Limited ACN 056 601 417 **(Straits)**

The holders of ordinary shares in Straits Resources Limited as at the Record Date

AGREED TERMS

1 Interpretation

1.1 Definitions

In this document:

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it.

ASX Listing Rules means the official listing rules of ASX.

Business Day means a day on which banks are open for business in Sydney, excluding a Saturday, Sunday or public holiday.

Capital Reduction means a reduction of the ordinary share capital of Straits by an amount equal to the Market Capitalisation less the Demerger Dividend (if any) on or prior to the Demerger Date provided that the amount does not exceed the maximum capital return permitted by law.

Capital Reduction Amount means the amount of capital on each Straits Share that is to be reduced in accordance with the Capital Reduction Resolution, being the total amount of the Capital Reduction divided by the number of Scheme Shares.

Capital Reduction Entitlement means, in relation to a Scheme Participant, the Capital Reduction Amount multiplied by the number of Scheme Shares held by that Scheme Participant.

Capital Reduction Resolution means an ordinary resolution of Straits Shareholders in the form set out in the notice of general meeting contained in the Scheme Booklet.

CHESS means the Clearing House Electronic Subregister System, which facilitates electronic security transfer in Australia, operated by ASX Settlement and Transfer Corporation Pty Limited ACN 008 504 532.

Coal Business means the business carried on by Straits as at the Restructure Time excluding the Metals Business.

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

Court means the Federal Court of Australia or any other court of competent jurisdiction under the Corporations Act agreed in writing by Straits and Straits Metals.

Deed Poll means the deed poll dated 15 December 2010 executed by Straits Metals in favour of the Scheme Participants.

Demerger means the demerger of Straits Metals from Straits to be implemented by way of the Capital Reduction, the Demerger Dividend and the Scheme as more fully described in the Scheme Booklet.

Demerger Date means the third Business Day after the Record Date.

Demerger Dividend means the aggregate of the special dividend (if any) to be paid to the holders of Scheme Shares in the amount determined by the Straits Board and announced to the ASX by the Demerger Date.

Demerger Dividend Amount means the amount of the Demerger Dividend (if any) divided by the number of Scheme Shares.

1 Interpretation (continued)

1.1 Definitions (continued)

Demerger Dividend Entitlement means, in relation to each Scheme Participant, the Demerger Dividend Amount multiplied by the number of Scheme Shares held by that Scheme Participant.

Demerger Dividend Resolution means the resolution by the Straits Board to declare the Demerger Dividend.

Distribution Entitlement means, in relation to each Scheme Participant, the aggregate of the Capital Reduction Amount and, to the extent the Capital Reduction Amount is less than the Market Value, such amount for each Scheme Share held by that Scheme Participant.

Demerger Implementation Agreement means the scheme implementation agreement between Straits and Straits Metals dated 11 November 2010 as amended.

Effective means the time at which the Scheme Order takes effect pursuant to section 411(10) of the Corporations Act.

Effective Date means the date on which the Scheme becomes Effective.

End Date means 30 June 2011 or such later date as the Court approves with the consent of Straits.

GST has the meaning given to that term in the *A New Tax System (Goods & Services Tax) Act 1999* (Cth).

Independent Expert means Ernst & Young Transaction Services Limited.

Ineligible Foreign Shareholders means a Scheme Participant whose Registered Address is in a jurisdiction other than Australia and its external territories or New Zealand, except where Straits and Straits Metals are reasonably satisfied that the transfer of Straits Metals Shares to the Scheme Participant in that jurisdiction is neither prohibited by law nor unduly onerous.

Intra-group Transfer Agreement means the agreement for the transfer of the Metals Business by Straits to Straits Metals in consideration for shares issued in the capital of Straits Metals.

Market Capitalisation means the Market Value multiplied by the number of Straits Metals Shares on issue on the Record Date.

Market Value means the volume weighted average price of Straits Metals Shares as traded on ASX (whether on a deferred or normal settlement basis) over the first five trading days after the Effective Date.

Metals Business means all the businesses carried on by the Metals Subsidiaries immediately prior to the Restructure Time.

Metals Subsidiaries means Straits Mining Limited, Straits Gold Pty Ltd, Straits Mineral Investments Pty Ltd, Straits Mine Management Pty Ltd, Straits Exploration (Australia) Pty Ltd, Tritton Resources Pty Ltd and their respective Subsidiaries.

Option means an option or other right to acquire Straits Shares under a Straits Option Plan.

Record Date means 7.00 pm on the fifth Business Day following the Effective Date or such other date and time as Straits and Straits Metals agree.

Registered Address means, in relation to a Straits Shareholder, the address shown in the Straits Register as at the Record Date.

Annexure E – Scheme of Arrangement

1 Interpretation (continued)

1.1 Definitions (continued)

Regulatory Approval means:

(a) any approval, consent, authorisation, registration, filing, lodgement, permit, franchise, agreement, notarisation, certificate, permission, licence, approval, direction, declaration, authority or exemption from, by or with a Regulatory Authority; or

(b) in relation to anything that would be fully or partly prohibited or restricted by law if a Regulatory Authority intervened or acted in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.

Regulatory Authority means any Australian or foreign government or governmental, semi-governmental, administrative, fiscal, regulatory or judicial entity, commission, tribunal agency or authority or any Minister, department, office or delegate of any government. It includes a self-regulatory organisation established under statute or a stock exchange, ASIC, ASX, the Foreign Investment Review Board and the Australian Competition and Consumer Commission.

Restructure Date means the date on which Straits will transfer the Metals Business to Straits Metals which is expected to be 24 January 2011.

Restructure Time means 5.00pm on the Restructure Date.

Sale Facility means the facility under which Straits Metals Shares to which Ineligible Foreign Shareholders would otherwise have been entitled under the Scheme are sold.

Sale Facility Agent means the appropriate licensed agent appointed by Straits to administer the Sale Facility.

Scheme means this scheme of arrangement, subject to any alterations or conditions made or required by the Court under section 411(6) of the Corporations Act and approved in writing by Straits and Straits Metals.

Scheme Booklet means the information to be dispatched to Straits Shareholders and approved by the Court, including the Scheme, explanatory statement in relation to the Scheme issued pursuant to section 412 of the Corporations Act and registered with ASIC, an independent expert's report prepared by the Independent Expert, the Deed Poll, a tax opinion on the Scheme provided by Straits' taxation advisers and notices convening the Scheme Meeting (together with proxy forms).

Scheme Consideration means one Straits Metals Share for each Straits Share held by a Scheme Participant as at the Record Date.

Scheme Meeting means the meeting to be ordered by the Court to be convened pursuant to section 411(1) of the Corporations Act in respect of the Scheme.

Scheme Order means the order of the Court made for the purposes of section 411(4)(b) of the Corporations Act in respect of the Scheme.

Scheme Participant means each holder of Scheme Shares.

Scheme Shares means all the Straits Shares on issue on the Record Date

Second Court Date means the first day of the Second Court Hearing or, if the Second Court Hearing is adjourned for any reason, the first day on which the adjourned application is heard.

Second Court Hearing means the hearing of the application made to the Court for the Scheme Order.

Straits Group means Straits and its Subsidiaries.

Straits Metals means Straits Metals Limited ACN 147 131 977.

1 Interpretation (continued)

1.1 Definitions (continued)

Straits Metals Register means the register of members of Straits Metals maintained by or on behalf of Straits Metals in accordance with the Corporations Act.

Straits Metals Registry means Computershare Investor Services Pty Limited.

Straits Metals Share means a fully paid ordinary share in the capital of Straits Metals.

Straits Option Plan means the Straits Resources Limited Employee Option Plan as approved by Straits shareholders at the 2002 annual general meeting.

Straits Register means the register of members of Straits maintained by or on behalf of Straits in accordance with the Corporations Act and **Straits Registry** has a corresponding meaning.

Straits Share means a fully ordinary share in the capital of Straits.

Straits Shareholder means each person who is registered in the Straits Register as the holder of Straits Shares.

Subsidiary has the meaning given in the Corporations Act.

1.2 Construction

Unless expressed to the contrary, in this document:

(a) words in the singular include the plural and vice versa;

(b) if a word or phrase is defined its other grammatical forms have corresponding meanings;

(c) "includes" means includes without limitation;

(d) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;

(e) words and phrases have the same meaning (if any) given to them in the Corporations Act;

(f) a reference to:

- (i) a holder includes a joint holder;
- (ii) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
- (iii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;
- (iv) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
- (v) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
- (vi) a right includes a benefit, remedy, discretion or power;
- (vii) time is to local time in Sydney, Australia;
- (viii) "$" or "dollars" is a reference to Australian currency;

Annexure E – Scheme of Arrangement

1 Interpretation (continued)

1.2 Construction (continued)

(f) a reference to (continued):

(ix) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;

(x) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;

(xi) this document includes all schedules and annexures to it; and

(xii) a clause, party, schedule, exhibit or annexure is a reference to a clause, party, schedule, exhibit or annexure, as the case may be, of this document;

(g) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on or by the next Business Day; and

(h) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded.

1.3 Headings

Headings do not affect the interpretation of this document.

2 Preliminary

2.1 Straits

(a) Straits is a public company incorporated in Australia and registered in Western Australia, having its registered office at Level 1, 35 Ventnor Avenue, West Perth, Western Australia 6005.

(b) Straits is a public company limited by shares under section 112(1) of the Corporations Act.

(c) Straits is admitted to the official list of ASX and fully paid Straits Shares are quoted on the official list of ASX.

(d) As at the date of the Demerger Implementation Agreement:

(i) 255,203,613 Straits Shares were on issue;

(ii) 150,000 Options which may convert into Straits Shares were on issue; and

(iii) 55,000,000 4% convertible notes issued by Straits to Standard Chartered Private Equity Limited, with an aggregate face value of $79.8 million which entitle the holder to new Straits Shares upon conversion, were on issue.

2.2 Straits Metals

(a) Straits Metals is a public company incorporated in Australia and registered in Western Australia, having its registered office at Level 1, 35 Ventnor Avenue, West Perth, Western Australia 6005.

(b) Straits Metals is a public company limited by shares under section 112(1) of the Corporations Act.

(c) As at the date of the Demerger Implementation Agreement one Straits Metals Share was on issue.

2 Preliminary (continued)

2.3 Summary of the Scheme

If the Scheme becomes Effective, but subject to **clauses 3.1**, **3.5**, **3.6** and **3.7**, then on the Demerger Date:

(a) Straits will reduce its share capital by the amount of the Capital Reduction and will either declare and pay the Demerger Dividend or announce to the ASX that there will be no Demerger Dividend;

(b) Straits will apply the Distribution Entitlement on behalf of each Scheme Participant as consideration in full and exchange for the transfer of Straits Metals Shares to each Scheme Participant (or to the Sale Facility Agent);

(c) Straits will provide the Scheme Consideration to Scheme Participants in accordance with the provisions of this Scheme; and

(d) Straits Metals will cease to be a subsidiary of Straits.

2.4 Demerger Implementation Agreement

Straits and Straits Metals have entered into the Demerger Implementation Agreement pursuant to which, among other things, Straits has agreed to propose the Scheme to Straits Shareholders and each of Straits and Straits Metals have agreed to take all steps to give effect to the Capital Reduction, the Demerger Dividend and the Scheme.

2.5 Deed Poll

Straits Metals has executed the Deed Poll in favour of Scheme Participants pursuant to which it has covenanted to perform its obligations under the Scheme and do all things necessary or expedient on its part to implement the Scheme.

3 Conditions

3.1 Conditions of Scheme

The Scheme is conditional upon the satisfaction or waiver of the following conditions:

(a) (**ASIC and ASX**) before 8.00am on the Second Court Date, ASIC and ASX issue or provide such consents, approvals or waivers or do such other acts which Straits Metals determines are necessary or desirable to implement the Demerger and such acts are not withdrawn, including in the case of ASIC, providing the statement required under section 411(17)(b).

(b) (**Independent Expert**) the Independent Expert issues its report which concludes that the Scheme is in the best interests of Scheme Participants before the date on which the Scheme Booklet is registered by ASIC under the Corporations Act and the Independent Expert does not change its conclusions or withdraw its report prior to 8.00am on the Second Court Date.

(c) (**Straits Shareholder approval – Scheme**) Straits Shareholders approve the Scheme by the necessary majorities at the Scheme Meeting (or any adjournment or postponement of the Scheme Meeting).

(d) (**Straits Shareholder approval – Capital Reduction**) Straits Shareholders approve the Capital Reduction by the necessary majority under the Corporations Act and the Constitution before the Second Court Date.

(e) (**Court approval of Scheme**) the Court approves the Scheme under section 411(4)(b) of the Corporations Act and an office copy of the Scheme Order is lodged with ASIC as contemplated by section 411(10) of the Corporations Act.

Annexure E – Scheme of Arrangement

3 Conditions (continued)

3.1 Conditions of Scheme (continued)

(f) (**Convertible Notes**) all of the 55,000,000 4% convertible notes issued by Straits to Standard Chartered Private Equity Limited with an aggregate face value of $79.8 million have been converted in full and new Straits Shares issued pursuant to that conversion.

(g) (**Straits Metals' admission to ASX**) before 8.00am on the Second Court Date, ASX approves the admission of Straits Metals to the official list of ASX, and grants permission for official quotation of Straits Metals Shares on ASX, subject only to the Scheme becoming Effective, the provision of information required by ASX and other customary pre-quotation conditions.

(h) (**No restraint**) no temporary restraining order, preliminary or permanent injunction or other order is issued by a court of competent jurisdiction or other legal restraint or prohibition preventing the Demerger is in effect at 8.00am on the Second Court Date.

(i) (**Cancellation of Options**) as at 8.00am on the Second Court Date, either:

(A) each holder of Options has entered into an agreement with Straits to have the Options held by that person cancelled by no later than 6.00pm on the Second Court Date; or

(B) both:

(1) the holders of Options approve a scheme of arrangement pursuant to which all the Options will be acquired by Straits before the Second Court Date; and

(2) the scheme of arrangement is implemented before the Demerger Date.

3.2 Waiver of condition

Each of the conditions in **clauses 3.1(a)**, **3.1(b)**, **3.1(f)**, **3.1(g)**, **3.1(h)** and **3.1(i)** is for the benefit of Straits, and any breach or non-fulfilment of those conditions can only be waived with the consent Straits.

3.3 Certificate

Straits must provide, and must procure Straits Metals to provide, to the Court on the Second Court Date a certificate authorised by its respective board and signed by at least one of its respective directors (or such other evidence as the Court may request) stating (to the best of its knowledge) whether or not the conditions in **clause 3.1** (other than **clause 3.1(e)**) have been satisfied or waived (subject to the terms of the Demerger Implementation Agreement) as at 8.00am on the Second Court Date.

3.4 Conclusive evidence

The giving of a certificate by each of Straits and Straits Metals in accordance with **clause 3.3** will, in the absence of manifest error, be conclusive evidence of the matters referred to in the certificate.

3 Conditions (continued)

3.5 Termination of Demerger Implementation Agreement

Without limiting rights under the Demerger Implementation Agreement, if the Demerger Implementation Agreement is terminated in accordance with its terms before 8.00am on the Second Court Date, Straits and Straits Metals are each released from:

(a) any further obligation to take steps to implement the Scheme; and

(b) any liability with respect to the Scheme,

provided that Straits and Straits Metals retain the rights they have against each other in respect of any prior breach of the Demerger Implementation Agreement.

3.6 Effective Date

This Scheme takes effect on the Effective Date.

3.7 End date

The Scheme will lapse and be of no further force or effect if the Effective Date has not occurred on or before the End Date.

4 Scheme

4.1 Lodgement of Court order

Following the approval of the Scheme by the Court in accordance with section 411(4)(b) of the Corporations Act, Straits will as soon as practicable lodge with ASIC an office copy of the Scheme Order in accordance with section 411(10) of the Corporations Act.

4.2 Issue of Straits Metals Shares to Straits

On the Restructure Date, Straits Metals issued the number of Straits Metals Shares specified in the Intra-Group Transfer Agreement to Straits and Straits transferred the Sale Interests (as that term is defined in the Intra-Group Transfer Agreement) to Straits Metals in consideration of those Straits Metals Shares. The Straits Metals Shares:

(a) are validly issued;

(b) are fully paid; and

(c) rank pari passu in all respects with all other Straits Metals Shares then issued and outstanding.

4.3 Demerger Dividend Resolution

Prior to the Demerger Date, the board of directors of Straits will either pass the Demerger Dividend Resolution or announce to the ASX that no Demerger Dividend will be declared.

Annexure E – Scheme of Arrangement

4 Scheme (continued)

4.4 Capital Reduction and Demerger Dividend

On the Demerger Date:

(a) Straits will reduce its share capital in accordance with the Capital Reduction Resolution;

(b) Straits will pay the Demerger Dividend (if any); and

(c) Straits must apply the Distribution Entitlement (comprising the Capital Reduction Entitlement and Demerger Dividend Entitlement) of each Scheme Participant in accordance with **clause 4.5**.

4.5 Entitlements of Scheme Participants

The Distribution Entitlement of each Scheme Participant, will, on the Demerger Date, be applied (without the need for any further act by a Scheme Participant) as follows:

(a) for each Scheme Participant, other than an Ineligible Foreign Shareholder, by Straits as consideration in full and exchange for the transfer by Straits to that Scheme Participant of that number of Straits Metals Shares which is equal to the number of Scheme Shares held by that Scheme Participant, in accordance with **clause 4.6**; and

(b) for each Ineligible Foreign Shareholder, by Straits procuring (on behalf of that Ineligible Foreign Shareholder) the Sale Facility Agent to sell as soon as reasonably practicable after the Demerger Date, that number of Straits Metals Shares which that Ineligible Foreign Shareholder would otherwise have been entitled, in accordance with **clause 4.9**.

4.6 Transfer of Straits Metals Shares

The obligations of Straits under **clause 4.5(a)** will be discharged by:

(a) Straits executing a transfer or transfers of all Straits Metals Shares (or if Straits does not hold the Straits Metals Shares, by procuring its relevant subsidiary does so) to the Scheme Participant in the numbers determined in accordance with **clause 4.5(a)** and delivering the transfer or transfers of such Straits Metals Shares to Straits Metals for registration; and

(b) Straits procuring Straits Metals to register the transfers delivered to Straits Metals under **clause 4.6(a)** by entering in the Straits Metals Register the name of each Scheme Participant in respect of the Straits Metals Shares transferred to the relevant Scheme Participant in accordance with this Scheme.

4.7 Dispatch of holding statements

As soon as practicable after the Demerger Date and in accordance with the ASX Listing Rules, Straits will procure that Straits Metals sends to the Scheme Participants, holding statements for the Straits Metals Shares to which they are entitled, by prepaid post to their Registered Address at the Record Date, unless that Scheme Participant has directed otherwise, does not have a Registered Address or where Straits and Straits Metals believe that such Scheme Participant is not known at their Registered Address.

4 Scheme (continued)

4.8 Enforcement of Deed Poll

Straits undertakes in favour of each Scheme Participant to enforce the Deed Poll against Straits Metals on behalf of and as agent for the Scheme Participants.

4.9 Ineligible Foreign Shareholders

(a) In respect of Scheme Shares held by Ineligible Foreign Shareholders, the obligations of Straits under **clause 4.5(b)** will be discharged by Straits:

(i) as soon as reasonably practicable after the Demerger Date, procuring the sale, pursuant to the Sale Facility, of Straits Metals Shares to which the Ineligible Foreign Shareholders would otherwise have been entitled;

(ii) accounting to each Ineligible Foreign Shareholder for the net proceeds of sale of those Straits Metals Shares after deducting any applicable brokerage, registry fees, duties and charges, at the Ineligible Foreign Shareholder's risk and in full satisfaction of the Ineligible Foreign Shareholder's rights under the Scheme; and

(iii) as soon as reasonably practicable after the receipt by Straits of the net proceeds of sale referred to in clause 4.9(a)(ii), remitting to the Ineligible Foreign Shareholder those net proceeds of sale in respect of the Ineligible Foreign Shareholder's entitlement under **clause 4.6** and this **clause 4.9**.

(b) The applicable net proceeds of sale remitted to an Ineligible Foreign Shareholder under clause 4.9(a)(iii) will:

(i) reflect the averages price which all Straits Metals Shares not able to be transferred to Ineligible Foreign Shareholders had been sold;

(ii) be rounded down to the nearest whole cent; and

(iii) be paid to the Ineligible Foreign Shareholder either by cheque or bank draft in Australian dollars drawn on an Australian bank.

(c) Any interest earned on the net proceeds of sale of any Straits Metals Shares to which the Ineligible Foreign Shareholders would otherwise have been entitled will be paid to and retained by Straits.

(d) Any amount payable to an Ineligible Foreign Shareholder under this **clause 4.9** will be reduced by the amount of any withholding or other tax which Straits or Straits Metals believes, based on professional advice, is required by any taxation or other law to be withheld in respect of such amount and payment of such amount to the relevant taxation or other authority within any required statutory period will fully and finally discharge Straits' and Straits Metals' obligations in respect of such amount (although Straits must procure Straits Metals on request, or if required by law, to provide a receipt or other evidence of such payment to each affected Scheme Participant).

(e) If the Ineligible Foreign Shareholder does not have a Registered Address or Straits believes that the Ineligible Foreign Shareholder is not known at their Registered Address, the amount payable to that Ineligible Foreign Shareholder under this **clause 4.9** will be credited to a separate bank account of Straits to be held until the Ineligible Foreign Shareholder claims the amount or the amount is dealt with in accordance with unclaimed money legislation. Straits must hold the amount on trust, but any benefit accruing from the amount will be to the benefit of Straits. An amount credited to the account is to be treated as having been paid to the Ineligible Foreign Shareholder when credited to the account. Straits must maintain records of the amounts paid, the people who are entitled to the amounts, and any transfers of the amounts.

Annexure E – Scheme of Arrangement

4 Scheme (continued)

4.9 Ineligible Foreign Shareholders (continued)

(f) Straits, in complying with the terms of this **clause 4.9** in respect of an Ineligible Foreign Shareholder will be taken to have satisfied and discharged its obligations to the Ineligible Overseas Shareholder under the terms of the Capital Reduction Resolution, the Demerger Dividend Resolution and the Scheme. An Ineligible Foreign Shareholder will have no claim against Straits for any entitlement they would have had to Straits Metals Shares but for the terms of this Scheme.

(g) Under this Scheme, each Ineligible Foreign Shareholder agrees and acknowledges that the sale of that person's Straits Metals Shares, to which they were otherwise entitled, under the Sale Facility or this Scheme by operation of this **clause 4.9** constitutes satisfaction of all that person's entitlements in and to that person's Straits Metals Shares.

(h) Each Ineligible Foreign Shareholder appoints Straits as its agent to receive on its behalf any financial services guide or any other notice which may be given to that Ineligible Foreign Shareholder.

5 Scheme Participants

5.1 Appointment of Straits as sole attorney and agent

Each Scheme Participant, without the need for any further act, irrevocably appoints Straits and each of the directors and officers of Straits, jointly and severally, as the Scheme Participant's attorney and agent for the purpose of executing any document necessary or expedient to give effect to the Scheme or doing any other act necessary or desirable to give full effect to the Scheme and the transactions contemplated by it.

5.2 Scheme Participant's consent

Each Scheme Participant:

(a) consents to Straits doing all things and executing all deeds, instruments, transfers or other documents as may be necessary, incidental or expedient to the implementation and performance of the Scheme and Straits, as agent of each Scheme Participant, may sub-delegate its functions under this **clause 5.2** to any of its directors and officers, severally;

(b) agrees to become a holder of any Straits Metals Shares to which they become entitled under the Scheme and a member of Straits Metals for the purposes of section 231 of the Corporations Act, and to be bound by the constitution of Straits Metals (as amended from time to time), and that its holdings of the Straits Metals Shares will be registered with the same name and registered address as its holding of the Scheme Shares; and

(c) except for a Scheme Participant's tax file number (unless relief or is obtained by Straits and Straits Metals), any binding instruction or notification between a Scheme Participant and Straits relating to the Scheme Shares at the Record Date (including any instructions relating to payment of dividends or to communications from Straits) will from the Record Date be deemed to be a similarly binding instruction or notification to, and accepted by, Straits Metals in respect of the Straits Metals Shares transferred to the Scheme Participant until that instruction or notification is revoked or amended in writing addressed to Straits Metals at the Straits Metals Registry. Any such instructions or notifications accepted by Straits Metals will apply to and in respect of Straits Metals Shares transferred to Scheme Participants only to the extent that they are not inconsistent with the other provisions of the Scheme.

6 Dealings in Straits Shares

6.1 Straits Register

The establishment of the persons who are the Scheme Participants and their respective entitlements will be solely determined by the Straits Register (maintained by Straits in the manner set out in **clause 6.2**).

6.2 Determination of Scheme Participants

(a) For the purpose of establishing the persons who are the Scheme Participants and their respective entitlements, dealings in Straits Shares will only be recognised if:

(i) in the case of dealings of the type to be effected using CHESS, the transferee is registered in the Straits Register as the holder of the relevant Straits Shares at the Record Date; and

(ii) in all other cases, registrable transmission applications or transfers in registrable form in respect of those dealings are received at or before the Record Date at the place where the Straits Register is kept.

(b) Straits must register registrable transmission applications or transfers of the kind referred to in **clause 6.2(a)(ii)** by the Record Date.

(c) Straits will not accept for registration or recognise for any purpose any transmission applications or transfers in respect of Straits Shares received after the Record Date.

7 Notices

7.1 General

Any notice, transfer, transmission, application, direction, demand, consent or other communication (**Notice**) given or made under this document must be in writing in English and signed by the sender or a person duly authorised by the sender.

7.2 Communications by post

Subject to **clause 7.4**, where a Notice referred to in this document is sent by post to Straits, it will not be deemed to have been received in the ordinary course of post or on a date other than the date (if any) on which it is actually received at Straits' registered office or at the Straits Registry.

7.3 Communications by fax

Subject to **clause 7.4**, a Notice is given if sent by fax, when the sender's fax machine produces a report that the fax was sent in full to the addressee. That report is conclusive evidence that the addressee received the fax in full at the time indicated on that report.

7.4 After hours communications

If a Notice is given:

(a) after 5.00pm in the place of receipt; or

(b) on a day which is a Saturday, Sunday or bank or public holiday in the place of receipt,

it is taken as having been given at 9.00am on the next day which is not a Saturday, Sunday or bank or public holiday in that place.

Annexure E – Scheme of Arrangement

8 General

8.1 Straits and Scheme Participants bound

The Scheme binds Straits and all Scheme Participants (including Scheme Participants who do not attend the Scheme Meeting, do not vote at that meeting or vote against the Scheme) and will, for all purposes, to the extent of any inconsistencies and permitted by law, have effect notwithstanding any provision in the constitution of Straits.

8.2 Further assurances

Subject to **clause 8.3**, Straits will execute all documents and do all acts and things (on its own behalf and on behalf of each Straits Shareholder) necessary or expedient for the implementation of, and performance of its obligations under, the Scheme.

8.3 Alterations and conditions

Straits may, with the consent of Straits Metals, by its counsel, consent on behalf of all Scheme Participants to any modifications or conditions which the Court thinks fit to impose, provided that in no circumstances will Straits be obliged to do so.

8.4 Costs

Any costs, and any stamp duty and any related fines, interest or penalties, which are payable on or in respect of this document or on any document referred to in this document will be paid as provided for in the Demerger Implementation Agreement. For the avoidance of doubt, the Scheme Participants do not have to pay any stamp duty, related fines, interest or penalties which are payable on or in respect of this document or any document referred to in this document.

8.5 Governing law and jurisdiction

(a) This document is governed by and is to be construed in accordance with the laws applicable in New South Wales.

(b) Each party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts exercising jurisdiction in New South Wales and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

Annexure F – Demerger Deed Poll

Contents

Annexure F – Demerger Deed Poll

15 December 2010

BY

Straits Metals Limited ACN 147 131 977 of Level 1, 35 Ventnor Avenue, West Perth, Western Australia 6005 (**Straits Metals**)

in favour of each Scheme Participant.

BACKGROUND

A The directors of Straits Resources Limited **(Straits)** consider that it is in the interests of Straits and Straits' Shareholders that Straits Shareholders consider the Scheme. The directors of Straits have resolved that Straits propose the Scheme.

B Straits Metals and Straits have entered into the Demerger Implementation Agreement.

C Straits Metals is entering into this document for the purpose of covenanting in favour of Scheme Participants to perform its obligations under the Scheme.

DECLARATIONS

1 Interpretation

1.1 Definitions

In this document:

(a) **Scheme** means the scheme of arrangement under section 411 of the Corporations Act between Straits and the Scheme Participants, subject to any alterations or conditions made or required by the Court pursuant to section 411(6) of the Corporations Act and approved in writing by Straits and Straits Metals;

(b) **Scheme Consideration** means the transfer of one Straits Metals Share for each Straits Share held by a Scheme Participant as at the Record Date; and

(c) words and phrases defined in the Scheme have the same meaning in this document unless the context requires otherwise.

1.2 Construction

The rules specified in clause 1.2 of the Scheme apply in interpreting or construing this document, unless the context requires otherwise.

1.3 Headings

Headings do not affect the interpretation of this document.

2 Nature of this deed poll

Straits Metals acknowledges that:

(a) this document may be relied on and enforced by any Scheme Participant in accordance with its terms, even though the Scheme Participants are not party to it; and

(b) under the Scheme, each Scheme Participant irrevocably appoints Straits and any of Straits' directors as its agent and attorney, inter alia, to enforce this document against Straits Metals.

3 Conditions precedent and termination

3.1 Conditions precedent

The obligations of Straits Metals in respect of the Scheme pursuant to this document are subject to the Scheme becoming Effective.

3.2 Termination

If:

(a) the Demerger Implementation Agreement is terminated in accordance with its terms; or

(b) the Scheme does not become Effective on or before the End Date,

Straits Metals' obligations under this document will automatically terminate, unless Straits Metals and Straits otherwise agree in writing in accordance with the Demerger Implementation Agreement.

3.3 Consequences of termination

If this document is terminated under **clause 3.2** then, in addition and without prejudice to any other rights, powers or remedies available to Scheme Participants:

(a) Straits Metals is released from its obligations to further perform this document, except those obligations contained in **clause 8**; and

(b) each Scheme Participant retains any rights, power or remedies it has against Straits Metals in respect of any breach of this document by Straits Metals which occurred before termination of this document.

4 Certificate in relation to conditions

Straits Metals must provide to the Court on the Second Court Date a certificate which is authorised by the board of Straits Metals and signed by at least one director of Straits Metals (or such other evidence as the Court may request) stating, to the best of its knowledge, whether or not the conditions precedent set out in clause 3.1(a), 3.1(b) and 3.1(d) of the Scheme have been satisfied or waived, subject to the terms of the Demerger Implementation Agreement as at 8.00am on the Second Court Date.

5 Straits Metals obligations

5.1 Performance of obligations generally

Subject to **clause 3**, Straits Metals must comply with its obligations under the Scheme and must do all things necessary or desirable on its part to implement the Scheme.

5.2 Obligation to update Straits Metals Share Register

On the Demerger Date, Straits Metals must enter into the Straits Metals Share Register:

(a) each Scheme Participant (other than Ineligible Foreign Shareholders) in respect of the Straits Metals Shares to which they are entitled under the Scheme; and

(b) the Sale Facility Agent, as nominee for and on behalf of, the Ineligible Foreign Shareholders, in respect of the Straits Metals Shares to which those shareholders are entitled to under the Scheme.

Annexure F – Demerger Deed Poll

5 Straits Metals obligations (continued)

5.3 Confirmation of allotment

(a) In accordance with clause 4.7 of the Scheme, as soon as practicable after the Demerger Date and in accordance with the ASX Listing Rules, Straits Metals must send to:

(i) each Scheme Participant (other than Ineligible Foreign Shareholders) holding statements for the Straits Metals Shares to which they are entitled under the Scheme; and

(ii) the Sale Facility Agent as nominee for and on behalf of the Ineligible Foreign Shareholders, holding statements for the Straits Metals Shares to which those shareholders are entitled to under the Scheme,

by pre-paid post to their Registered Address as at the Record Date, unless that Straits Shareholder has directed otherwise.

(b) In the case of Scheme Shares held in joint names:

(i) any uncertificated holding statements for Straits Metals Shares to be issued to Scheme Participants will be issued in the names of the joint holders; and

(ii) any cheque required to be paid to Scheme Participants will be payable to the joint holders,

and will be forwarded to the holder whose name appears first in the Straits Register as at the Record Date.

(c) This **clause 5.3** does not apply to a Scheme Participant (other than Ineligible Foreign Shareholders) who does not have a Registered Address, or where Straits and Straits Metals believe that such Scheme Participant is not known at their Registered Address.

5.4 Quotation of Straits Metals Shares

Straits Metals must apply for admission of Straits Metals and apply for the granting by ASX of permission for official quotation of Straits Metals Shares to be transferred pursuant to the Scheme on the ASX, subject only to the Scheme taking effect and such other conditions that are acceptable to the Board of directors of Straits.

6 Representations and warranties

Straits Metals represents and warrants that:

(a) it is a company validly existing under the laws of Western Australia, Australia;

(b) it has the corporate power to enter into and perform its obligations under this document and to carry out the transactions contemplated by this document;

(c) it has taken all necessary corporate action to authorise the entry into this document and has taken or will take all necessary corporate action to authorise the performance of this document and to carry out the transactions contemplated by this document;

(d) this document is its valid and binding obligation enforceable in accordance with its terms; and

(e) the Straits Metals Shares to be issued pursuant to the Scheme will be validly issued, fully paid and free from any mortgage, charge, lien, encumbrance or other security interest and will rank equally in all respects with all other Straits Metals Shares then on issue.

7 Continuing obligations

This document is irrevocable and, subject to **clause 3**, remains in full force and effect until:

(a) Straits Metals has completely performed its obligations under this document; or

(b) this document is terminated in accordance with **clause 3**,

whichever comes first.

8 Stamp duty

Straits Metals will:

(a) pay all stamp duties and any related fines, interest and penalties in respect of or in connection with this document, the performance of this document and each transaction effected by or made or any instrument executed under this document or the Scheme, including the transfer of Scheme Shares under the Scheme; and

(b) indemnify each Scheme Participant on demand against any liability arising from its failure to comply with **clause 8(a)**.

9 Notices

9.1 General

Any notice, transfer, transmission, application, direction, demand, consent or other communication (Notice) given or made to Straits Metals under this document must be in writing in English and signed by the sender or a person duly authorised by the sender.

9.2 How to give a Notice

A Notice must be given to Straits Metals by being:

(a) personally delivered;

(b) left at Straits Metals' current delivery address for notices;

(c) sent to Straits Metals' current postal address for notices by pre-paid ordinary mail or, if the address is outside Australia, by pre-paid airmail; or

(d) sent by fax to Straits Metals' current fax number for notices.

9.3 Particulars for delivery of notices

The particulars for delivery of Notices to Straits Metals are:

Attention:	Mark Hands
Delivery address:	Level 1 35 Ventnor Avenue West Perth WA 6005
Postal address:	"Same as delivery address"
Fax:	+61 8 9480 0516

Annexure F – Demerger Deed Poll

9 Notices (continued)

9.4 Communications by post

Subject to **clause 9.6**, a Notice is given if posted:

(a) within Australia to an Australian postal address, three Business Days after posting; or

(b) outside of Australia to an Australian postal address or within Australia to an address outside of Australia, ten Business Days after posting.

9.5 Communications by fax

Subject to **clause 9.6**, a Notice is given if sent by fax, when the sender's fax machine produces a report that the fax was sent in full to the addressee. That report is conclusive evidence that the addressee received the fax in full at the time indicated on that report.

9.6 After hours communications

If a Notice is given:

(a) after 5.00pm in the place of receipt; or

(b) on a day which is a Saturday, Sunday or bank or public holiday in the place of receipt,

it is taken as having been given at 9.00am on the next day which is not a Saturday, Sunday or bank or public holiday in that place.

9.7 Process service

Any process or other document relating to litigation, administrative or arbitral proceedings relating to this document may be served by any method contemplated by this **clause 9** or in accordance with any applicable law.

10 General

10.1 Waiver

Failure to exercise or enforce or a delay in exercising or enforcing or the partial exercise or enforcement of any right, power or remedy provided by law or under this document by any party will not in any way preclude, or operate as a waiver of, any exercise or enforcement, or further exercise or enforcement of that or any other rights, power or remedy provided by law or under this document. A waiver is not valid or binding on the person granting that waiver unless made in writing.

10.2 Cumulative rights

The rights, powers and remedies of Straits Metals and of each Scheme Participant under this document are cumulative and do not exclude any other rights, powers or remedies provided by law or equity independently of this document.

10 General (continued)

10.3 Amendment

A provision of this document may not be varied unless:

(a) before the Second Court Date, the variation is agreed to in writing by Straits; or

(b) on or after the Second Court Date, the variation is agreed to in writing by Straits and is approved by the Court,

in which event Straits Metals must enter into a further deed poll in favour of the Scheme Participants giving effect to that amendment.

10.4 Assignment

The rights and obligations of Straits Metals and of each Scheme Participant under this document are personal and must not be assigned, encumbered or otherwise dealt with at law or in equity and no person may attempt, or purport, to do so without the prior written consent of Straits Metals and Straits.

10.5 Severability

If the whole or any part of a provision of this document is void, unenforceable or illegal in a jurisdiction it is severed for that jurisdiction. The remainder of this document has full force and effect and the validity or enforceability of that provision in any other jurisdiction is not affected. This clause 10.5 has no effect if the severance alters the basic nature of this document or is contrary to public policy.

10.6 Further assurances

Straits Metals will execute and deliver all documents and do all acts and things (on its own behalf and on behalf of each Scheme Participant) necessary or desirable to give full effect to this document and the transactions contemplated by it.

10.7 Governing law and jurisdiction

(a) This document is governed by and is to be construed in accordance with the laws applicable in New South Wales.

(b) Each party irrevocably and unconditionally submits to the non exclusive jurisdiction of the courts exercising jurisdiction in New South Wales, and any courts which have jurisdiction to hear appeals from any of those courts, and waives any right to object to any proceedings being brought in those courts.

Executed as a deed poll in Western Australia.

Executed by **Straits Metals Limited**)	
Company Secretary/Director	Director
MARK HANDS	Milan Jerkovic
Name of Company Secretary/~~Director~~ (print)	Name of Director (print)

Annexure G – Notice of Demerger Scheme Meeting

Straits Resources Limited

ABN 22 056 601 417

Straits

Notice of Court ordered Scheme Meeting of Shareholders

Notice is hereby given that, by an order of the Federal Court of Australia (**Court**) made on 17 December 2010 pursuant to section 411(1) of the *Corporations Act 2001* (Cth) (**Corporations Act**), a meeting of the Shareholders of Straits Resources Limited (**Straits**) (**Demerger Scheme Meeting**) will be held at:

Location: The Celtic Club
48 Ord Street
West Perth WA 6005

Date: 21 January 2011

Time: 10.00am (Perth Time)

Business of the meeting

The purpose of the Demerger Scheme Meeting is to consider and, if thought fit, to agree to a scheme of arrangement (with or without modification) proposed to be made between Straits and the Straits Shareholders (**Demerger Scheme**) pursuant to Part 5.1 of the Corporations Act.

The Demerger Scheme is proposed to be made in the form of the scheme contained in **Annexure E** to the Demerger Scheme Booklet which contains this notice. To assist you in making an informed voting decision, further information regarding the Demerger Scheme is set out in the Demerger Scheme Booklet.

Unless otherwise defined in this notice of meeting, capitalised terms used in this notice (including in the resolution set out below) have the same meaning as set out in the Glossary of Terms in the Demerger Scheme Booklet which contains this notice.

Resolution

To consider and, if thought fit, to pass the following resolution:

> *"That, pursuant to and in accordance with section 411 of the Corporations Act, the Demerger Scheme proposed to be entered into between Straits Resources Limited and holders of its ordinary shares (which is described in the Demerger Scheme Booklet which contains this Notice of Demerger Scheme Meeting) is agreed to with or without such modifications or conditions as may be approved by the Federal Court of Australia."*

By order of the Board,

Mark Hands
Company Secretary
22 December 2010

Information for Shareholders

1 Majority required

In accordance with section 411(4)(a) of the Corporations Act, for the Demerger Scheme to be effective, the resolution must be approved by:

- a majority in number of Straits Shareholders present and voting (whether in person or by proxy); and
- at least 75% of the votes cast on the resolution.

The vote will be conducted by poll. Straits Shareholders will have one vote for each Straits Share held.

2 Court approval

In accordance with section 411(4)(b) of the Corporations Act, the Demerger Scheme is subject to the approval of the Court. If the resolution put to the meeting is approved by the requisite majority of Straits Shareholders, and the conditions precedent to the Demerger Scheme referred to in Section 1.3C of the Demerger Scheme Booklet are satisfied or, where applicable, waived, Straits intends to apply to the Court for approval of the Demerger Scheme.

3 Chairperson

The Court has appointed Alan Good or, failing him, Michael Gibson to act as Chairperson of the Demerger Scheme Meeting and has directed the Chairperson to report the result of the Demerger Scheme Meeting to the Court.

4 Voting entitlement

For the purposes of the Demerger Scheme Meeting, Straits Shares will be taken to be held by the persons who are the registered holders at 7.00pm (Sydney Time) on 19 January 2011. All holders of Straits Shares as at that time are entitled to vote at the Demerger Scheme Meeting.

Annexure G – Notice of Demerger Scheme Meeting

Information for Shareholders (continued)

5 How to vote

Straits Shareholders entitled to vote at the Demerger Scheme Meeting can vote:

- by attending the meeting and voting in person or by attorney or, in the case of corporate Straits Shareholders, by corporate representative; or
- by appointing a proxy to attend and vote on their behalf in their place, using the proxy form accompanying this notice.

5.1 Voting in person (or by attorney or corporate representative)

- To vote in person, Straits Shareholders or their attorney or corporate representative should attend the Demerger Scheme Meeting on the date and at the place set out above.
- Any corporate holder of Straits Shares who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to Straits or Computershare Investor Services Pty Limited in advance of the meeting or handed in at the meeting when registering as a corporate representative. An Appointment of Corporate Representative form may be requested from Computershare Investor Services Pty Limited if required.

5.2 Voting by proxy

- A blue proxy form accompanies this notice of Demerger Scheme meeting.
- A Straits Shareholder who is entitled to attend and vote at the Demerger Scheme Meeting has a right to appoint a proxy.
- A proxy need not be a Straits Shareholder.
- A Straits Shareholder may appoint a body corporate or an individual as its proxy.
- A proxy has the same rights as the member to speak, vote on a show of hands and vote on a poll except where a Straits Shareholder has appointed two proxies, in which case, neither proxy may vote on a show of hands.
- A Straits Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise but where the proportion is not specified, each proxy may exercise half the votes.

The proxy form sent to you with this notice should be used for the Demerger Scheme Meeting. To be effective, the proxy form must be lodged with Computershare Investor Services Pty Limited by 10.00am (Perth Time) on 19 January 2011.

Annexure H – Notice of General Meeting

Straits Resources Limited

ABN 22 056 601 417

Notice of General Meeting

Notice is hereby given that a general meeting of Straits Resources Limited (**Straits**) (General Meeting) will be held at:

Location: The Celtic Club
48 Ord Street
West Perth WA 6005

Date: 21 January 2011 at 10.30am (Perth Time)

Time: Following the court ordered Demerger Scheme Meeting on the same date,
but not before 10.30am (Perth Time)

Business of the meeting

Information on each item of business is set out below and in the Demerger Scheme Booklet of which this notice of meeting forms part.

Unless otherwise defined in this notice of meeting, capitalised terms used in this notice (including in the resolutions set out below) have the same meaning as set out in the Glossary of Terms in the Demerger Scheme Booklet of which this notice of meeting forms part.

1 Capital Reduction

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, subject to and conditional on the Demerger Scheme Effective Date being achieved and for the purposes of section 256C(1) of the Corporations Act, Straits' share capital be reduced by the Market Capitalisation of Straits Metals less the Demerger Dividend (if any), on or prior to the Demerger Scheme Implementation Date provided that, in each case, the capital reduction does not exceed the maximum capital return permitted by law with the reduction being effected and satisfied by applying such amount equally against each Straits Share on issue on the Demerger Scheme Record Date and in accordance with the Demerger Scheme."

2 Name Change

To consider and, if thought fit, to pass the following resolution as a special resolution:

"That, subject to and conditional on the Demerger Scheme becoming Effective and the Capital Reduction Resolution being passed, the name of Straits be changed from "Straits Resources Limited" to "International Coal Holdings Limited" and accordingly that the Constitution be modified by deleting the name "Straits Resources Limited" wherever it appears and inserting "International Coal Holdings Limited" in its place."

By order of the Board,

Mark Hands
Company Secretary
22 December 2010

Annexure H – Notice of General Meeting

Information for Shareholders

1 Majority required

Capital Reduction Resolution

In accordance with section 256C(1) of the Corporations Act, for the Capital Reduction Resolution to be effective, a majority of votes cast on the resolution must be voted in favour of the resolution.

The vote will be conducted by poll. Straits Shareholders will have one vote for each Straits Share held.

Name Change Resolution

In accordance with section 157(1) of the Corporations Act, for the Name Change Resolution to be effective, the resolution must be approved by at least 75% of the votes cast on the resolution.

The vote will be conducted by poll. Straits Shareholders will have one vote for each Straits Share held.

2 Voting entitlement

For the purposes of the General Meeting, Straits Shares will be taken to be held by the persons who are the registered holders at 7.00pm (Sydney Time) on 19 January 2011. All holders of Straits Shares as at that time are entitled to vote at the General Meeting.

3 How to vote

Straits Shareholders entitled to vote at the General Meeting can vote:

- by attending the meeting and voting in person or by attorney or, in the case of corporate Straits Shareholders, by corporate representative; or
- by appointing a proxy to attend and vote on their behalf in their place, using the proxy form accompanying this notice.

3.1 Voting in person (or by attorney or corporate representative)

- To vote in person, Straits Shareholders or their attorney or corporate representative should attend the Acquisition Scheme Meeting on the date and at the place set out above.
- Any corporate holder of Straits Shares who has appointed a person to act as its corporate representative at the meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to Straits or Computershare Investor Services Pty Limited in advance of the meeting or handed in at the meeting when registering as a corporate representative. An Appointment of Corporate Representative form may be requested from Computershare Investor Services Pty Limited if required.

Information for Shareholders (continued)

3 How to vote (continued)

3.2 Voting by proxy

- A white proxy form accompanies this notice of meeting.
- A Straits Shareholder who is entitled to attend and vote at the General Meeting has a right to appoint a proxy.
- A proxy need not be a Straits Shareholder.
- A Straits Shareholder may appoint a body corporate or an individual as its proxy.
- A proxy has the same rights as the member to speak, vote on a show of hands and vote on a poll except where a Straits Shareholder has appointed two proxies, in which case, neither proxy may vote on a show of hands.
- A Straits Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise but where the proportion is not specified, each proxy may exercise half the votes.

The proxy form sent to you with this notice should be used for the Acquisition Scheme Meeting. To be effective, the proxy form must be lodged with Computershare Investor Services Pty Limited by 10.30am (Perth Time) on 19 January 2011.

Corporate Directory

Directors

Mr. Alan James Good (Non-Executive Chairman)
Mr. Milan Jerkovic (Chief Executive Officer)
Mr. Michael George Gibson (Executive Director)
Dr. Garry George Lowder
Mr. Alastair Morrison

Company Secretary

Mr. Mark Hands

Registered and Head Office

Level 1
35 Ventnor Avenue
WEST PERTH WA 6005

Share Registry

Computershare Investor Services Pty Limited
Level 2
45 St George's Terrace
PERTH WA 6000

Website

www.straits.com.au

Securities Exchange Listing

ASX Limited (ASX: SRL)

Investigating Accountant

PricewaterhouseCoopers Securities Ltd
QV1 Building
Levels 19-21
250 St George's Terrace
PERTH WA 6000

Independent Expert

Ernst & Young Transaction Advisory Services Limited
Ernst & Young Building
11 Mounts Bay Road
PERTH WA 6000

Australian Legal Advisers

Corrs Chambers Westgarth
Level 35 Waterfront Place
1 Eagle Street
BRISBANE QLD 4000

Financial Advisers

Standard Chartered Bank
8 Marina Boulevard
#27-01 Marina Bay Financial Centre Tower 1
SINGAPORE 018981

Australian Taxation Advisers

PricewaterhouseCoopers
QV1 Building
Levels 19-21
250 St George's Terrace
PERTH WA 6000