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Tritton Offtake Agreement and Outlook

Open Briefing with Chief Executive Officer Milan Jerkovic

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In this Open Briefing®, Straits Resources CEO Milan Jerkovic discusses

- **Benefits of re-structured off-take agreement**
- **Production and exploration update at Tritton and Mt Muro**
- **Outlook and strategic objectives for 2012**

Open Briefing interview:

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Straits Resources Limited (ASX: SRQ) recently completed the restructure of its previous Tritton Copper Mine offtake agreement with J.P. Morgan Metals & Concentrates. In exchange for an upfront cash payment to J.P. Morgan of US$98.3 million, Straits has entered a new agreement, effective from 1 January 2012 to the end of 2013, under which the treatment and refining charges for its Tritton copper concentrates are at significantly lower market-related terms. How will the new agreement benefit Straits and affect Tritton's profitability?

CEO Milan Jerkovic
The effect of the 'buy-out' is to substitute a financing arrangement that spreads the cash flow impact of buying out the treatment and refining charges over four and a half years, as opposed to the short term impact it would have had over two years. The extinguished contract took about a third of the copper price as treatment and refining charges. This compares with approximately 7% under the new contract, the general level paid in the concentrates market today.

The US$98.3 million we paid will be immediately expensed and treated as a cost to profit in the six months to the end of December 2011. Going forward, this has considerable net present value implications for the Company and significant cash flow benefits at the operating level.

Importantly, there are other significant and strategic advantages that accrue to the Company above and beyond the financing structure. Previously, having the marketing of all of Tritton's copper tied up in the old agreement significantly limited our strategic options. In a market starved of opportunities for investment in independent copper producers, this restructure makes Tritton a largely unhedged copper producer which also has exciting and visibly improving exploration opportunities. The existing offtake agreement affected the market's ability to value

Tritton as an Australian based, mid-sized independent copper producer. The restructure finally presents Tritton as a clean asset, allowing for transparent comparisons within our peer group.

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Tritton also has the option to terminate the new offtake agreement with J.P. Morgan for shipments scheduled from 1 July 2012. Straits will pay US$9 million to J.P. Morgan should it exercise this option. What was the rationale for having this option as part of the agreement and in what circumstances would it be exercised?

CEO Milan Jerkovic
We intend to exercise this option as we see considerable benefit in doing it and completing the final part of the restructure. The US$9 million is effectively a deferred settlement with J.P. Morgan, allowing us to fully extinguish the offtake agreement, including any peripheral conditions over the contract period. Tritton produces a very marketable concentrate which is highly sought after in the marketplace. To maximise shareholder returns, Tritton's concentrate needs to be sold in a free market environment. By making this payment, we will have competitive terms and conditions for our concentrate in the market.

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To finance the restructuring, Straits has entered into a financial prepaid copper swap with Standard Chartered Bank over 16,202 tonnes of copper over four and a half years. Under the swap Straits will receive US$85 million upfront, to be repaid via monthly payments to SCB based on monthly notional volumes of copper and a floating copper price. How were the terms of the swap determined? What protection does Straits have against potential copper price volatility?

CEO Milan Jerkovic
The terms of the swap were determined by the volume of financing required, based on the forward copper price at the time of settlement. The cost includes an embedded charge, based on a discount of the forward price over the 54-month delivery schedule.

The swap for the 16,202 tonnes of copper is capped by a US$15,000 per tonne collar and floor of US$5,000 per tonne. This provides downside protection on this tonnage. Maintaining competitive operating costs is the most important protection against any copper price volatility and at Tritton we are focusing on increasing our productivity and optimising cost structure.

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Along with the SCB copper swap, Straits has also entered a six-month US$10 million loan facility with J.P. Morgan. How do you expect these additional commitments to affect Straits' cash flow and profitability, and your ability to fund your planned exploration program?

CEO Milan Jerkovic
The US$10 million loan from J.P. Morgan is a deferred vendor finance to take out the old contract. The US$98 million payment to J.P. Morgan and the US$9 million option payment in March are being financed in part by the US$85 million of swap financing from SCB and the US$10 million vendor consideration from J.P. Morgan. We expect to repay this loan out of cash flow in the first two quarters in 2012, which we expect to include proceeds from our planned Hillgrove divestment.

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Tritton is now producing 25,000 tpa copper and has a minimum seven year mine life and you are focusing on creating stable future production and reducing costs. Given this, what are your plans for near mine exploration in 2012 at Tritton?

CEO Milan Jerkovic

Until recently exploration at Tritton has been focused on reserve and resource replacement, finding additional incremental feed to the existing infrastructure and looking for new game-changing discoveries. In 2011 exploration was focused predominately on resource to reserve conversion and this resulted in Tritton extending its mine life to seven years, including some recent depletion.

Now that we have bedded down a strong forward mine life for Tritton, in the latter part of 2011 we shifted our exploration focus to game changing discoveries. Exploration shifted to a very prospective 100 kilometre belt around Tritton that we have been working on geologically over the last five years but have not had the chance to really drill test. We have identified that the belt is characterised by the presence of favourable mafic horizons, oxide as well as sulphide copper occurrences, and strong magnetic and geochemical signatures.

We believe our work shows that our Tritton regional exploration area is a significant geological province with a number of identified prospective complexes that have not had any modern exploration. Our work has identified a number of strong targets in the Tritton area. First to be tested was the Avoca Tank area, and this resulted in the discovery of a new high grade lens close to infrastructure. Avoca Tank is only two kilometres from our working area at our North East Mine at Tritton.

Exploration in 2012 will continue to test the Avoca Tank discovery as well as other key targets. We'll also continue to look at the belt in a more aggressive fashion over the next three years and beyond.

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At Tritton, 12 holes have been drilled so far at the Avoca Tank Complex with recent holes intersecting a potential "feeder zone" to the lens. What are the implications of this for potential reserves and for your other exploration tenements around Tritton?

CEO Milan Jerkovic

The discovery of the feeder system at Avoca Tank means it is highly probable other high grade lenses will be found in and around this feeder system. The exploration program in early 2012 will include a detailed aircore drilling program at Avoca Tank with the goal of finding additional mineralised lenses.

Current drilling at Avoca Tank is relatively shallow and only covers a small portion of the Avoca Tank Complex. We are extremely encouraged by the success at Avoca Tank and this gives us confidence in the application of our geological techniques to other prospects in the Tritton area. Planning has commenced to include the Avoca Tank area in a new mining lease with the aim of fast tracking the start-up of incremental feed into the mill over the next few years.

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Annualised production at the Mt Muro gold and silver project is expected to reach 100,000 gold equivalent oz in the June 2012 quarter. How confident are you of achieving this while keeping cost per ounce below US$850? In addition what are your expectations regarding exploration at Mt Muro?

CEO Milan Jerkovic
We are confident of getting our cost structure right, given that Mt Muro is largely now a high volume earth moving exercise inside a single mining pit. Presently we are in an optimisation phase and we have worked to get the right equipment, systems and processes in place. Mining rates have improved significantly over the past six months.

Successful exploration has delineated the ore zone at Serujan for the next three years of mining in the open pit and production is expected to increase significantly in 2012. By mid 2012, Mt Muro should be producing at a rate of over 100,000 oz of gold equivalent per annum. Cash costs will reduce as production increases, with total costs expected to average approximately US$850/oz over the next three years. As production rates increase, fixed costs will be spread over larger production volumes and accordingly cash costs will come down.

We are encouraged by ongoing exploration programs at Mt Muro and expect updated resources and reserves to be announced in early 2012. In terms of ounces discovered to dollars spent over the last 12 months, exploration at Mt Muro has exceeded our expectations. We expect to maintain current rates of aggressive exploration in the foreseeable future.

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Your sale of the Hillgrove project to Ancoa NL is dependent on a successful capital raising and listing of Ancoa, with an IPO prospectus expected to have been issued in October. What has been the progress in this process?

CEO Milan Jerkovic
Ancoa has been working on the potential listing of Hillgrove as an independent antimony-gold producer. We were hoping to have this process completed before the end of 2011 but the timing was too tight. There has been a delay till early 2012. Antimony and gold prices remain strong. Despite general unsettled market conditions, there is plenty of market appetite for a newly listed independent antimony-gold producer.

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What are the strategic objectives for Straits in 2012?

CEO Milan Jerkovic
We will build on our successes and achievements in 2011 and see 2012 as a year of consolidation and delivery. We expect to achieve a consistent production profile at Tritton, including a reduction in costs. We are focusing on ramping up production at Mt Muro to create the scale that will reduce unit costs to target levels, as well as extending the life of the mine. The successful conclusion of the divestment of Hillgrove is expected to happen in the first half of next year.

We will continue our exploration program and expect further exploration success at Tritton, both at Avoca Tank and in the wider exploration area. We will commence drilling at our exciting

IOCG targets in South Australia. We will also establish plans for our Temora and Blayney projects in the Lachlan Fold Belt of New South Wales.

We have an attractive development pipeline and our strategic objectives include aggressive exploration in proven geological regions, growing our resources and reserves, and increasing mine life at our two core mining operations. With our current investment in operations, corporate restructuring and exploration, we should emerge at the end of next year with two relatively stable and strategically well placed profit making operations and a stronger balance sheet.

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Thank you Milan.

For more information about Straits Resources, visit www.straits.com.au or call Milan Jerkovic or Dave Greenwood on +61 8 9480 0500.

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