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STRAITS RESOURCES LIMITED
(ASX: SRQ)

Corporate Update

Straits Resources Limited (ASX: SRQ) would like to provide shareholders with an update on the five key objectives set out by the Board in November 2012. These objectives relate to the Company's projects, commodities and markets as well as key appointments and the functioning of the Board.

Straits Managing Director, Andre Labuschagne said: "Since my appointment just over a month ago, I have had an opportunity to assess where the company stands in relation to the previously communicated objectives, and believe it is appropriate to update shareholders and the market in this regard."

Key Objective 1: On-time and on-budget ramp up of the Mt Muro gold mine to full production in March 2013 in order to achieve production of 100koz AuEq in the current financial year.

The Board no longer considers that the production target of 100koz for FY13 will be achievable.

Mining operations were suspended recently after concerns regarding the boundary line from a site of cultural significance were raised by certain local government authorities. The shutdown did not affect gold production as the mill was able to continue processing stockpiled ore during this period. Mining operations were however impacted as all mining activities became focused on the lower grade western end of the Serujan Pit where the pre-stripping is not as advanced.

Therefore at this time, sufficient ore cannot be accessed from the higher grade main ore zones in the eastern and western end of the pit to achieve targeted production during this period.

Additionally, as pre-stripping progresses at the western end of the Serujan pit, grade reconciliations indicate that expected grades in the upper areas of a number of smaller ore lodes on the edge of the pit, appear to be materially below the forecast mine plan. These lodes are included in the 100koz AuEq production target for FY13, and will therefore also impact on actual production.

A geological review was initiated in early January and will take several weeks to complete. However, from the grade control drilling already in place it appears that production for January and February will be approximately 9.8koz (60%) AuEq below current internal targets. Grade control drilling in this area of the pit has been accelerated to assist the geological review, and updated full year guidance will be provided as soon as the review has been finalised.

The issue relating to the boundary line has yet to be resolved. A meeting is planned with stakeholders this week to resolve the issue over the boundary line. In the interim, the Company is observing the more extreme of the boundaries being proposed (1,000m vs 100m) in a gesture of good faith, pending a sustainable resolution.

Relations with the local community are positive and they have been very supportive during the recent suspension of mining operations. This said, considerable work is needed to strengthen, and in some cases rebuild, relationships with various regional and national government bodies; and immediate steps have been taken to improve the Company's capability in this area.

The current Local Communities Manager will take on a broader role to include government relations and a new General Manager is being recruited. Additionally, the structure of the local Board of the Indonesian holding company is being reviewed to add capabilities that will assist in strengthening these relationships.

While it is clear that Mt Muro's costs are too high for an operation of its size - all opportunities to accelerate cost reductions are being explored. Importantly, the Board continues to believe that the Mt Muro gold mine remains an attractive asset. It has:

- An extremely attractive exploration portfolio that is highly prospective and under-explored;
- Established infrastructure including a 1.6mtpa processing plant which currently runs below capacity;
- A supportive local community that has demonstrated a willingness to work with the company to achieve sustainable outcomes for both parties;
- Secure tenure over its mining leases through its third generation Contract of Work;
- A large orebody which has been substantially pre-stripped; and
- General support from all stakeholders to assist the company to be successful.

However the prior plans and guidance provided to the Board on 21 December 2012 appears to be based on data that was too liberally extrapolated. This simply means a thorough review to support production and cash flow projections and the impending demerger is well founded. Beyond the coming months revised production the longer term plan may remain intact but further infill drilling and a geological review in the coming month will provide more certainty."

Key Objective 2: Achieve 25,000t of Copper production from Tritton in the current financial year, post a period of significant cost reduction and on-site management change.

Guidance was released on 20 December 2012 that full year production was likely to be between 24,500t and 25,500t.

This guidance has been revised down with full year production now targeted at between 23,500t and 24,500.

"There may however be some opportunities to improve on this position and they will be pursued where it makes economic sense and doesn't compromise our longer term mine plan," Mr Labuschagne said.

"A new General Manager and Mine Manager were recruited during the December Quarter and we are already seeing the positive effects of their leadership.

"We continue to challenge all costs across the operation and believe there are further opportunities for reductions. The mill is underutilised and we are reviewing the current 5-year plan with the target of finding additional ore sources that will enable the mill to be kept fully utilised whilst reducing unit costs. There are a number of areas which have been previously mined (both open pit and underground) which hold residual resources which may now be economic at current commodity prices," Mr Labuschagne said.

Key Objective 3: Continue the exploration program at Tritton in order to define an initial reserve at Avoca Tank by March 2013 and test the potential of the recently discovered Kurrajong prospect.

The Company remains very positive about the geological prospectivity of its tenement package at Tritton and the likelihood that it will be able to extend mine life beyond the current reserve base. The prospectivity of this region has been reinforced by recent discoveries at Avoca Tank and Kurrajong.

While the Company is carefully allocating its regional exploration expenditure in areas away from its operations, the resource drilling program at the Avoca Tank project will continue and the Company remains on target to define an initial reserve by March 2013. Importantly, this orebody remains open along strike and at depth.

Key Objective 4: Effect the separation of Copper and Gold assets either via demerger or asset sale.

As previously announced, the Straits Board has approved the demerger of Straits' gold assets, with the aim of creating independent, ASX-listed gold and copper entities.

"Now that the decision has been made we are looking to effect the demerger as quickly as possible. Realistically this is a three to four month process and we will update the market as we move through the key milestones," Mr Labuschagne said.

Key Objective 5: Appoint a new CEO and non-executive Director to the Board of the Company and establish a strong Board and management team for the demerged entities. The new management teams and Boards will be specifically skilled and independent to meet the challenges of running an Indonesian focused gold company and separately one of Australia's ten largest independent copper producers.

The first element of this objective was achieved on 21 December 2012 with the appointment of Mr Andre Labuschagne as Managing Director and Mr Rob Brainsbury as Chief Financial Officer, who will both move to the new gold business at the conclusion of the demerger process. Suitable candidates for the equivalent roles in the Straits copper business have been identified and appointments will be announced in due course.

Mr Labuschagne confirmed that Nic Earner, the current Executive General Manager - Australian Operations has left the Company to pursue other opportunities.

"I would like to thank Nic for his leadership whilst at Straits, particularly during the difficult months at the commencement of the current financial year. The appointment of a new incoming COO will be announced shortly."

"Now that we have a clearer timeline on the demerger, we will also be accelerating the recruitment of new non-executive directors. This recruitment process is underway."

"While there remains a significant amount of work to do before we can say that the Company has turned the corner, I can assure shareholders that we are leaving no stone unturned as we look to improve performance. We are quickly taking steps to strengthen our management team and believe we will start to see the results of these changes in the coming months."

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