Notice of Extraordinary General Meeting and Explanatory Memorandum

Straits Resources Limited ABN 30 147 131 977

Date of Meeting:	Friday, 21 February 2014
Time of Meeting:	10:00am (Brisbane time)
Place of Meeting:	HopgoodGanim Level 7, Waterfront Place 1 Eagle Street, Brisbane, Queensland

Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of Shareholders of Straits Resources Limited ABN 30 147 131 977 (**Company**) will be held at HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street Brisbane, Queensland, on Friday, 21 February 2014 at 10:00am (Brisbane time).

Agenda

Ordinary business

1. Resolution 1 – Ratification of security granted in favour of Standard Chartered Bank (Hong Kong) Limited

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

"That for the purposes of Listing Rules 10.1 and 10.9 and for all other purposes, the granting of security in December 2011 by the Straits Resources Group in favour of Standard Chartered Bank (Hong Kong) Limited in relation to a $US15 million working capital loan facility and a $US85 million copper prepay facility with Standard Chartered Bank, Singapore Branch, be ratified"

Voting exclusion statement

The Company will disregard any votes cast on this Ordinary Resolution by:

(a) Standard Chartered Bank (Hong Kong) Limited; and

(b) an associate of Standard Chartered Bank (Hong Kong) Limited.

However, the Company need not disregard a vote if:

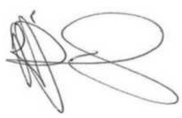
(a) it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or

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

General business

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

By order of the board



Mr Rob Brainsbury
Company Secretary
20 January 2014

Explanatory Memorandum

1. Introduction

This Explanatory Memorandum is provided to Shareholders of Straits Resources Limited ABN 30 147 131 977 (**Company**) to explain the resolution to be put to Shareholders at the Extraordinary General Meeting to be held at HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street Brisbane, Queensland, on Friday, 21 February 2014 at 10:00am (Brisbane time).

The Directors recommend Shareholders read the accompanying Notice of Meeting, this Explanatory Memorandum and the Independent Expert report **attached** to this Explanatory Memorandum as Annexure A in full before making any decision in relation to the resolutions.

Terms used in this Explanatory Memorandum are defined in Section 3 of this Explanatory Memorandum.

2. Resolution 1 – Ratification of security granted in favour of Standard Chartered Bank (Singapore Branch) in December 2011

2.1 Overview of Standard Chartered Facility

On or about 2 December 2011, the Company entered into a facility agreement with Standard Chartered Bank, Singapore Branch (**SCB Singapore**) pursuant to which SCB Singapore provided Tritton Resources Pty Ltd (a wholly owned subsidiary of the Company) (**Tritton**) with a $US15 million working capital loan facility and a $US85 million copper prepay facility relating to production at the Tritton mine (**Facility Agreement**).

The Facility Agreement is secured by a suite of first ranking security granted by Tritton and various members of the Straits Group (**Security**) which was entered into on or about 5 December 2011 in favour of Standard Chartered Bank (Hong Kong) Limited in its capacity as security trustee (**SCB HK**). Whilst the Company in its own right granted limited security in respect of the Facility Agreement (a share mortgage over the entities owning Tritton), the Company did not provide a general security interest over its assets and undertakings in respect of the Facility Agreement.

On 9 September 2013 the Company reached an agreement with Standard Chartered Bank for an interim restructure of the Company's existing copper swap facility on more attractive repayment terms for the period of August 2013 to April 2014 (**Interim Restructure Agreement**).

Under the terms of the Interim Restructure Agreement, the monthly payments to Standard Chartered Singapore will be reduced from a notional quantity of copper of 450 tonnes to 69.9 tonnes over the period of August 2013 to April 2014. The reduced notional quantity of copper of 69.9 tonnes is consistent with repayments made by the Company in the last financial year.

As a condition of the Interim Restructure, the Company is required to:

(a) obtain Shareholder approval for the Security granted to SCB Singapore under the Facility Agreement;

(b) undertake a resource to reserve upgrade program to prove-up an additional 50kt of JORC certified copper reserves by 15 May 2014;

(c) hedge 8,114 tonnes of its copper production during the period of the Interim Restructure.

Relationship with Standard Chartered

At the time the Facility Agreement was entered into, Standard Chartered Private Equity Limited (**SC Private Equity**) held approximately 18.82% of the issued capital of the Company. The Company understands that the ultimate ownership and control of its substantial shareholder, SC Private Equity, is the same entity that ultimately owns and controls its financier, SCB Singapore and the security trustee, SCB HK.

2.2 **Regulatory Requirements**

Resolution 1 seeks Shareholder approval pursuant to Listing Rules 10.1 and 10.9.2.

Listing Rule 10.1 prohibits an entity from disposing a substantial asset to a substantial holder, if the person and the person's associates have a relevant interest, or had a relevant interest at any time in the last 6 months before the transaction, in at least 10% of the total votes attached to the voting securities.

Pursuant to Listing Rule 19, a person "disposes" an asset if it uses the asset as collateral.

Pursuant to Listing Rule 10.2, an asset is a "substantial asset" if its value is 5% more or of the equity interests of the entity as set out in the latest accounts given to ASX under the Listing Rules.

Listing Rule 10.9 requires an entity to take corrective action if required by ASX.

2.3 **Shareholder Approval sought pursuant to Resolution 1**

At the time the Facility Agreement was entered into SC Private Equity held in excess of 10% of the Company's Shares and certain members of the Straits Group granted security over the Tritton mine in connection with the Facility Agreement, therefore the granting of that security interest by the Straits Group may have constituted the disposition of a substantial asset to a substantial holder for the purposes of Listing Rule 10.1.

As the Company did not seek Shareholder approval pursuant to Listing Rule 10.1 or seek a waiver from ASX from Listing Rule 10.1 to permit the Straits Group to grant security to SCB HK without Shareholder approval at the time the Facility Agreement was entered into, to the extent necessary, the Company is now seeking to rectify this situation by asking Shareholders to ratify the Security granted in favour of SCB HK in December 2011.

2.4 **Implications under the Interim Restructure Agreement if Resolution 1 is not approved**

It is a condition of the Interim Restructure Agreement that Shareholders ratify the Security granted by the Straits Group in favour of SCB Singapore. In the event Resolution 1 is not approved by Shareholders, the Company will be in default under the Facility Agreement which may result in all money owing to SCB Singapore under the Facility Agreement being immediately due and payable.

As SCB Singapore holds first ranking security over the Tritton mine, it has the right to appoint a receiver for the purposes of recovering debt owed. In the event of default, the Company may be required to dispose of the secured assets in order to satisfy their facility obligations. Under these circumstances the Company will lose control of the secured assets which includes the Tritton mine.

Alternatively, the Company may be required to enter into further negotiations with SCB Singapore in order to avoid default. It is possible that the terms of any renegotiation could be less favourable to the Company than the terms of the current facility. There is also no guarantee that SCB Singapore will be receptive to any discussions with the Company to renegotiate the debt.

If the Company is issued a notice of default by SCB Singapore it will be required to immediately find an alternative source of funding. The Board and management of the Company are of the view that it will be difficult to raise additional funding at terms which are equal to or better than the current arrangements with SCB Singapore. Further, if the Company completed an equity issue to raise funds for the purpose of settling the Facility Agreement, it is likely that any issue would be at a discount to the current share price of the Company.

The issue by SCB Singapore of a notice of default to the Company due to Resolution 1 not being approved may result in an unfavourable impact on the Company's share price.

2.5 **Independent Expert Report**

In accordance with Listing Rule 10.10, the directors of the Company have commissioned the Independent Expert to prepare a report on the question of whether the granting of security by the Straits Group in Tritton was fair and reasonable to the Shareholders not associated with the transaction. That report is **attached** to this Explanatory Memorandum as Annexure A.

The Independent Expert concludes that the granting of security by the Straits Group in favour of SC Private Equity is, on balance, both fair and reasonable to Shareholders not associated with the transaction. Shareholders are urged to read the Independent Expert's Report.

2.6 **Directors' recommendation**

The Directors (with Alistair Morrison, a nominee of SC Private Equity, abstaining) recommend that you vote in favour of Resolution 1.

3. Interpretation

ASX means ASX Limited.

Board means board of Directors of the Company.

Company means Straits Resources Limited ABN 30 147 131 977.

Constitution means the constitution of the Company from time to time.

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

Directors means the directors of the Company.

Listing Rules means the Listing Rules of the ASX Limited.

SCB HK means Standard Chartered Bank (Hong Kong) Limited

SCB Singapore means Standard Chartered Bank, Singapore Branch.

SC Private Equity means Standard Chartered Private Equity Limited.

Shareholders means a holder of ordinary Shares in the Company.

Shares means an ordinary fully paid share in the issued capital of the Company.

Straits Group means Straits Resources Limited and its Subsidiaries.

Subsidiary has the meaning in the Corporations Act.

4. Proxy, representative and voting entitlement instructions

Proxies and representatives

Shareholders are entitled to appoint a proxy to attend and vote on their behalf. Where a shareholder is entitled to cast two or more votes at the meeting, they may appoint two proxies. Where more than one proxy is appointed, each proxy may be appointed to represent a specific proportion or number of votes the shareholder may exercise. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes. The proxy may, but need not, be a shareholder of the Company.

Shareholders who are a body corporate are able to appoint representatives to attend and vote at the meeting under Section 250D of the *Corporations Act 2001* (Cth).

The proxy form must be signed by the shareholder or his/her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the *Corporations Act.*

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be **deposited at, posted to, or sent by facsimile transmission to the address listed below,** not less than 48 hours before the time for holding the meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

By Delivery:
Computershare Investor Services Pty Limited
117 Victoria Street,
West End, Queensland

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242
Melbourne Victoria 3001

By Fax:
1800 783 447 (or +61 3 9473 2555 from outside Australia)

Online:
www.investorvote.com.au

If a representative of the corporation is to attend the meeting the appropriate “Certificate of Appointment of Corporate Representative” should be produced prior to admission. A form of the certificate may be obtained from the Company’s share registry.

A proxy form is attached to this Notice.

Voting entitlement

For the purposes of determining voting entitlements at the Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 7.00pm 19 February 2014. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Signing instructions

You must sign the proxy form as follows in the spaces provided:

Individual:	Where the holding is in one name, the holder must sign.
Joint Holding:	Where the holding is in more than one name, all of the security holders should sign.
Power of Attorney:	To sign under Power of Attorney, you must have already lodged this document with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Explanatory Memorandum

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone.

Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.

Please indicate the office held by signing in the appropriate place

STRAITS RESOURCES LIMITED
Independent Expert's Report

8 January 2014

TABLE OF CONTENTS

Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act 2001 and includes important information regarding the general financial product advice contained in this report ('this Report'). The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and

b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

The following report sets out what is described as general financial product advice. This Report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this Report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 has been engaged to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Straits Resources Limited ('Straits Resources' or 'the Company') in relation to the granting of security to Standard Chartered Bank (Hong Kong) Limited in respect of the US$15 million working capital loan facility and US$85 million copper prepay facility provided by Standard Chartered Bank to Straits Resources in December 2011 ('the Security Transaction').

Further details relating to the Security Transaction are set out in Section 3.0 of this Report. The scope of this Report is set out in detail in Section 4.0. This Report provides an opinion as to whether or not the Security Transaction is 'fair' and 'reasonable' to the non-associated shareholders of Straits Resources and has been prepared to provide information to non-associated Straits Resources shareholders to assist them to make an informed decision on whether to vote for or against the Security Transaction.

This Report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote for or against the Security Transaction is likely to be influenced by the shareholder's particular circumstances, for example, the shareholder's taxation considerations and risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.

Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate that our fees for the preparation of this Report will be approximately $35,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees for this Report are not contingent on the outcome of any of the matters to which this Report relates. Our fees do not include fees payable to other experts engaged to provide specialist services and reports which may have been considered in this Report.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this Report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, a parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO CFQ has not provided any services to Straits Resources in the past two years.

Related entities of BDO CFQ located in Western Australia have provided internal audit services and fringe benefits tax advice to Straits Resources and its subsidiary companies in the past two years.

BDO CFQ is not an associate of Straits Resources. The signatory to this Report does not hold any shares in Straits Resources and no such shares have ever been held by the signatory.

To prepare our reports, including this Report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in this Report, where applicable. Research fees are not included in the fee details provided in this Report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane QLD 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfactorily resolved within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission ('ASIC') also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.

Contact Details

BDO Corporate Finance (QLD) Ltd

Location Address:	Postal Address:
Level 10 12 Creek Street BRISBANE QLD 4000	GPO Box 457 BRISBANE QLD 4001
Phone: (07) 3237 5999	Email: cf.brisbane@bdo.com.au
Fax: (07) 3221 9227	

Glossary

Reference	Definition
Argonaut	Argonaut Resources NL
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO CFQ	BDO Corporate Finance (QLD) Limited
Company, the	Straits Resources Limited
Copper Prepay Facility, the	The US$85 million copper prepay facility between Straits Resources and SCB
Corporations Act, the	The Corporations Act (2001)
Facility Agreement, the	The Facility Agreement entered between Straits Resources in relation to the Working Capital Facility and the Copper Prepay Facility
FSG	Financial Services Guide
Interim Restructure, the	The proposed interim restructure of the Copper Prepay Facility over the period from August 2013 to April 2014
km	Kilometres
kt	Thousand tonnes
LR10.1	ASX Listing Rule 10.1
Notice of Meeting, the	The Notice of Extraordinary General Meeting and Explanatory Memorandum prepared by Straits Resources dated 20 January 2014
Security Transaction, the	The Security Transaction seeking approval for the granting of security in favour of SCB in December 2011
Report, this	This independent expert's report prepared by BDO CFQ dated 8 January 2014
RG111	Regulatory Guide 111: Content of Experts Reports
RGs	The regulatory guides issued by ASIC
Sandfire	Sandfire Resources
SCB	Standard Chartered Bank
SCB Hong Kong	Standard Chartered Bank (Hong Kong)
SCB Singapore	Standard Chartered Bank (Singapore Branch)
SCPEL	Standard Chartered Private Equity Limited
Straits Resources	Straits Resources Limited
tpa	Tonnes per annum
Tritton	Tritton Resources Pty Ltd
VWAP	Volume weighted average price
We, us, our	BDO Corporate Finance (QLD) Limited
Working Capital Facility, the	The US$15 million working capital loan facility between Straits Resources and SCB

Tel: +61 7 3237 5999
Fax: +61 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457, Brisbane QLD 4001
Australia

The Shareholders
C/- The Directors
Straits Resources Limited
GPO Box 3261
BRISBANE QLD 4001

8 January 2014

Dear Shareholders,

Independent Expert's Report

1.0 Introduction

BDO Corporate Finance (QLD) Limited ('BDO CFQ' or 'we', 'us' or 'our') has been engaged by the directors of Straits Resources Limited ('Straits Resources' or 'the Company') to prepare an independent expert's report ('this Report') to the shareholders of Straits Resources in relation to the granting, in December 2011, of first ranking security over the assets of the Company's wholly owned subsidiary, Tritton Resources Pty Ltd ('Tritton'), and other subsidiaries in the Straits Resources group in favour of Standard Chartered Bank (Hong Kong) Limited ('SCB Hong Kong'). At the time the security was granted, Standard Chartered Private Equity Limited ('SCPEL') held in excess of 10% of the Company's shares.

We are instructed that the granting of that security interest by the Straits Group may have constituted the disposition of a substantial asset to a substantial holder for the purposes of Listing Rule 10.1. As Straits Resources did not seek shareholder approval pursuant to Listing Rule 10.1 or seek a waiver from Australian Securities Exchange ('ASX') from Listing Rule 10.1 to permit the Straits Group to grant security to SCB Hong Kong without shareholder approval at the time the agreement was entered into, to the extent necessary, the Company is now seeking to rectify this situation by requesting shareholders to ratify the security granted in favour of SCB Hong Kong in December 2011.

Accordingly, the Company is requesting shareholders to approve the following resolution (referred to as 'the Security Transaction' in this Report):

> "That for the purposes of Listing Rule 10.1 and for all other purposes, the granting of security in December 2011 by the Straits Resources Group in favour of Standard Chartered Bank (Hong Kong) Limited in relation to a $US15 million working capital loan facility and a $US85 million copper prepay facility with Standard Chartered Bank, Singapore Branch, be ratified."

A more detailed discussion of the Security Transaction is set out in Section 3.0 of this Report. The scope of this Report and the basis for assessing the Security Transaction is set out in detail in Section 4.0 of this Report.

This Report has been prepared to provide information to non-associated Straits Resources shareholders to assist them to make an informed decision on whether to vote for or against the Security Transaction. This Report has been prepared solely to provide information to Straits Resources shareholders prior to voting on the Security Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Straits Resources shareholders in conjunction with this Report, including the Notice of Extraordinary General Meeting and Explanatory Memorandum prepared by Straits Resources and dated on or about 20 January 2014 ('the Notice of Meeting').

This Report does not address circumstances specific to individual Straits Resources shareholders. A Straits Resources shareholder's decision to vote for or against the Security Transaction is likely to be influenced by their own particular circumstances including, for example, their taxation considerations and risk profile. Straits Resources shareholders should obtain their own professional advice in relation to their own circumstances.

APES 225 '*Valuation Services*' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

2.0 Summary of Opinion

This section of this Report is a summary of our opinion and cannot substitute for a complete reading of this Report. We strongly recommend that Straits Resources shareholders consult their own professional advisers, carefully read all relevant documentation provided, including the Notice of Meeting, and consider their own specific circumstances before voting for or against the Security Transaction.

2.1 Assessment of Fairness of the Security Transaction

Our assessment of the fairness of the Security Transaction is set out in detail in Section 6.0 of this Report. In summary, to assess whether the Security Transaction is fair we have considered:

- whether the granting of security by the Straits Group in Tritton was fair to the shareholders not associated with the transaction in December 2011 when the security was initially granted. In forming a view on this matter, we considered that if the secured assets are sold in the event of a default to satisfy the Company's liabilities under the Facility Agreement, SCB will receive a maximum amount equal to the total amount owing to it under the Facility Agreement. We also considered that the secured assets are required to be dealt with in a manner which attempts to realise market value as at the time of the sale having regard to the state of the asset at that time (refer Section 6.1 for a more detailed discussion of our assessment as at December 2011); and
- whether the Security Transaction is fair as at the date of this Report. In forming a view on this matter, we considered that as the Security Transaction is seeking to ratify agreements previously put in place by the Company and will not alter the nature or effect of the security previously provided, we would not expect the value of a share in Straits Resources to change materially in circumstances where the Security Transaction is approved. However, if the Security Transaction is not approved, it is our view that there may be negative ramifications on the value of a share in Straits Resources (refer Section 6.2 for a more detailed discussion of our assessment as at the date of this Report).

After considering the information summarised above and set out in further detail in the balance of this Report, it is our view that the Security Transaction is **Fair as at the date of this Report.**

Before making a decision to vote for or against the Security Transaction, we recommend that Straits Resources shareholders consider the information set out in Sections 2.2 to 2.4 below and the balance of this Report.

2.2 Reasonableness of the Security Transaction

Our assessment of the reasonableness of the Security Transaction is set out in detail in Section 7.0 of this Report.

To assess whether or not the advantages of the Security Transaction outweigh the disadvantages, we have considered a number of quantitative and qualitative factors. Having regard to those matters, we have formed a view as to whether the advantages of the Security Transaction outweigh the disadvantages and whether the Security Transaction is 'reasonable' to Straits Resources shareholders.

It is our view that the advantages, summarised below and described in more detail in Section 7.1, include the following:

- In December 2011, the granting of security is likely to have assisted the Company in obtaining finance and had a positive impact on the terms of the Facility Agreement ultimately agreed upon;
- It is not unusual for an entity in a position similar to Straits Resources to issue security over its assets when obtaining debt finance;
- In our view, the Security Transaction is **Fair**;
- Straits Resources will avoid a default event under the terms of the Interim Restructure (refer to Section 3.0 for more detailed discussion in relation to the Interim Restructure); and
- Straits Resources will have additional time to consider longer term funding options, including the possibility to extend the Copper Prepay Facility for a period of 5 years through negotiation with SCB.

In our view, there are no material disadvantages that will arise to shareholders in Straits Resources as at the date of this Report as a result of approving the Security Transaction. In forming this view we considered many factors including the position of Straits Resources shareholders in circumstances where the Security Transaction is not approved (discussed in Section 2.3 below). Notwithstanding this, at December 2011 there were a number of potential disadvantages to Straits Resources shareholders in the event that the security was granted to SCB. The potential disadvantages, which are described in more detail in Section 7.2, include:

- Straits Resources' ability to secure further debt funding from non-related third party financiers may have been negatively impacted as any further funds raised would have ranked behind the Facility Agreement which was secured by first ranking security over the Tritton mine assets; and
- In the event of default, Straits Resources may lose control over its assets which may be sold to settle liabilities owing to SCB under the Facility Agreement.

After considering the information and methodology summarised above and set out in further detail in the balance of this Report, it is our view that in the absence of any other information, the Security Transaction is **Reasonable as at the date of this Report**.

2.3 Position of Straits Resources Shareholders if the Security Transaction is Not Approved

Table 2.1 below summarises the position of Straits Resources shareholders if the Security Transaction is not approved.

Table 2.1: Position of Straits Resources Shareholders if the Security Transaction is Not Approved

Position of Shareholders	Explanation
SCB will retain security over the Company's assets irrespective of whether or not the Security Transaction is approved	SCB will retain its security over the Company's secured assets irrespective of whether or not the Security Transaction is approved. In other words, Straits Resources is not in a position to retract the security which was granted to SCB over its assets in December 2011 and in the event of a default, SCB will retain its ability to enforce its rights.
Default event will occur	In the event that the Security Transaction is not approved, Straits Resources will be in default under the Facility Agreement which may result in the liability owing to SCB becoming immediately due and payable. As SCB holds first ranking security over the assets of Tritton and other members of the Straits Resources group, it has the right to appoint a receiver for the purpose of recovering debt owed. In the event of default, Straits Resources may be required to dispose of the secured assets in order to satisfy their facility obligations. Under these circumstances, Straits Resources shareholders will lose control of the secured assets which includes the Tritton mine.
Renegotiation with SCB may require Straits Resources to provide additional security	If the Security Transaction is not approved, Straits Resources may be required to enter further negotiations with SCB in order to avoid default. It is possible that the terms of any renegotiation could be less favourable to Straits Resources than the terms of the current facilities. For completeness, we note that there is no guarantee that SCB will be receptive to ongoing negotiations with Straits Resources and may issue a notice of default.
If a default event occurs, Straits Resources will immediately need to find an alternative source of funding	If Straits Resources is issued with a notice of default by SCB it will be required to immediately find an alternative source of funding. We understand that management and the Directors of Straits Resources are of the view that the Company is likely to find it difficult to raise additional funding at terms which are equal to or better than the current agreements. Further, if Straits Resources attempted to complete an equity issue to raise funds for the purpose of settling the Copper Prepay Facility, it is likely that any issue would be at a discount to the current share price of Straits Resources.
Straits Resources' share price may decrease	If the Security Transaction is not approved, SCB may issue a notice of default to Straits Resources which may have an unfavourable impact on the Company's share price.

Source: BDO CFQ analysis

2.4 Other Considerations

Before forming a view on the Security Transaction, we strongly recommend that Straits Resources shareholders:

- Consult their own professional advisers;
- Carefully read all relevant documentation provided to them including this Report, the Notice of Meeting; and
- Consider their own specific circumstances and assess the way in which those circumstances might impact their decision to vote for or against the Security Transaction.

The analysis set out in this Report has relied on certain economic, market and other conditions prevailing as at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

3.0 Description of the Security Transaction

This section sets out an overview of the Security Transaction and the Standard Chartered Facility that it relates to. This section is a summary only. Straits Resources shareholders should refer to the Notice of Meeting for more information in relation to the Security Transaction.

3.1 Summary of the Standard Chartered Facility

3.1.1 Original Facility Agreement

On 2 December 2011, Straits Resources entered into a facility agreement ('the Facility Agreement') with Standard Chartered Bank (Singapore Branch) ('SCB Singapore') under which SCB Singapore provided Tritton with a US$15 million working capital loan facility ('the Working Capital Facility') and a US$85 million copper prepay facility ('the Copper Prepay Facility'). On 5 December 2011, SCB Hong Kong, in its capacity as security trustee, was granted with a suite of first ranking security in respect of the Facility Agreement by Tritton and various other subsidiaries in the Straits Resources Group.

We note that at the time that the security was issued, SCPEL, which is considered by the Company to be an associate of SCB Singapore and SCB Hong Kong, held approximately 18.82% of the issued capital in Straits Resources.

The key terms of the Facility Agreement prior to the Interim Restructure are summarised in Table 3.1 below.

Table 3.1: Key Terms of the Facility Agreement Prior to the Interim Restructure

	Working Capital Facility	Copper Prepay Facility
Facility Provider	Standard Chartered Bank	Standard Chartered Bank
Counterparty	Tritton Resources Pty Ltd	Tritton Resources Pty Ltd
Facility Amount	US$15 million	US$85 million
Maturity Date	2 December 2014	30 June 2016
Notional Monthly Quantity	n/a	January 2012 – June 2012: 240.1t per month July 2012 – June 2013: 69.9t per month July 2013 – June 2014: 450.0t per month July 2014 – June 2015: 360t per month July 2015 – June 2016: 350.2t per month
Additional Hedge	n/a	Cap price: US$15,000 per Mt Floor price: US$5,000 per Mt
Specified Price	n/a	The official settlement price for COPPER-LME CASH (as determined by the LME) following the close of the 2nd Ring in the First Session.
Knock-out Event	n/a	Once the accumulated intrinsic value (i.e. sum of all payments made) is equal to or would exceed US$200 million the structure will terminate.

Source: Copper Prepay Facility term sheet dated 5 December 2011 and indicative term sheet for the Working Capital Facility

With reference to the terms of the Facility Agreement (prior to the Interim Restructure) summarised in Table 3.1 above, we note that under the Copper Prepay Facility, Straits Resources was required to make floating monthly repayments to SCB based on the prevailing copper price and predetermined notional quantities of copper. We understand that the payment terms of the Copper Prepay Facility were structured to match a proportion of the expected production profile at the Tritton mine based on mine planning developed as at December 2011.

3.1.2 Interim Restructure

On 9 September 2013 Straits Resources announced that it had reached an agreement with SCB for an interim restructure ('the Interim Restructure') of the Copper Prepay Facility for a period beginning in August 2013 and ending April 2014. Under the terms of the Interim Restructure, Straits Resources will be required to make monthly repayments to SCB based on a reduced notional quantity of copper of 69.9 tonnes over the Interim Restructure period. The reduced notional quantity of copper of 69.9 tonnes is consistent with the repayments made in the last financial year.

We understand that the Interim Restructure is conditional on the following:

- Straits Resources gaining shareholder approval for the Security Transaction (refer Section 3.2 below for additional discussion);
- Straits Resources making a commitment to undertake a resource to reserve upgrade at the Tritton mine to prove-up an additional 50kt of JORC certified copper reserves; and
- Straits Resources hedging 8,114 tonnes of copper (approximately 50% of production) during the period of the Interim Restructure. We understand that, as at the date of this Report, Straits Resources has entered into the forward sale of this amount of production over the Interim Restructure period at a copper price of AUD$7,800 per tonne.

3.1.3 Long Term Restructure

We understand that at the end of the 9 month Interim Restructure period, it is the intention of Straits Resources and SCB to seek to restructure the facility over a 5 year period ('the Long Term Restructure'). We note that as at the date of this Report, the terms of any long term restructure remain subject to further negotiation between the parties and that no binding agreement has been reached to date.

3.2 Overview of the Security Transaction

At the time the Facility Agreement was entered into SCPEL held in excess of 10% of the Company's shares and certain members of the Straits Group granted security over the Tritton mine in connection with the Facility Agreement. The granting of that security interest by the Straits Group may have constituted the disposition of a substantial asset to a substantial holder for the purposes of Listing Rule 10.1.

As Straits Resources did not seek shareholder approval pursuant to Listing Rule 10.1 or seek a waiver from ASX from Listing Rule 10.1 to permit the Straits Group to grant security to SCB Hong Kong without shareholder approval at the time the Facility Agreement was entered into, to the extent necessary, the Company is now seeking to rectify this situation by requesting shareholders to ratify the security granted in favour of SCB Hong Kong in December 2011.

As a result of the above, shareholders have been asked to approve the following resolution (referred to as 'the Security Transaction' in this Report):

> "That for the purposes of Listing Rule 10.1 and for all other purposes, the granting of security in December 2011 by the Straits Resources Group in favour of Standard Chartered Bank (Hong Kong) Limited in relation to a $US15 million working capital loan facility and a $US85 million copper prepay facility with Standard Chartered Bank, Singapore Branch, be ratified."

3.3 Directors' Rationale for the Security Transaction

As set out in Section 3.1.2 above, a condition of the Interim Restructure is that shareholders approve the Security Transaction. Failure to obtain this approval will constitute an event of default under the terms of the Interim Restructure. The Directors are of the view that approval of the Security Transaction by shareholders will assist to avoid an event of default and maintain their existing position in relation to negotiations with SCB over the Long Term Restructure.

4.0 Scope of Report and Methodology for Assessment

4.1 Scope of the Report

An independent expert, in certain circumstances, must be appointed to meet the requirements set out in the Corporations Act 2001 ('the Corporations Act'), the regulatory guides ('RGs') published by the Australian Securities and Investments Commission ('ASIC') and in some cases the listing requirements of the relevant exchanges. These requirements have been set out in Section 4.1.1 below.

The purpose of this Report is to express BDO CFQ's opinion as to whether the Security Transaction is fair and reasonable to Straits Resources shareholders. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting to be distributed to Straits Resources shareholders by the Company.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of Straits Resources shareholders. Before deciding whether to vote for or against the Security Transaction, individual Straits Resources shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situations and needs (including their taxation consequences). Straits Resources shareholders should read in full the Notice of Meeting issued by Straits Resources in relation to the Security Transaction.

Whether to vote for or against the Security Transaction is a matter for individual Straits Resources shareholders to consider. Straits Resources shareholders should consider their own expectations of value, their own view of future market conditions and their own particular circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position, when determining the appropriate action to take in relation to the Security Transaction. Straits Resources shareholders who are in doubt as to the action they should take in relation to the Security Transaction should consult their own professional adviser.

4.1.1 Listing Requirements

ASX Listing Rule 10.1

ASX Listing Rule 10.1 of Chapter 10: *Transactions with persons in a position of influence* states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or dispose of a substantial asset to, a substantial holder without the approval of holders of the entity's ordinary securities. Pursuant to ASX Listing Rule 19, the definition of 'dispose' includes using an asset as collateral.

ASX Listing Rule 10.2 defines an asset as 'substantial' if its value or the consideration for it is, or in ASX's opinion is, 5% or more of the equity interests of the entity as set out in the latest accounts given to ASX under the listing rules.

Pursuant to ASX Listing Rule 10.2, a company is considered to be a substantial holder if it and its associated entities have a relevant interest, or had a relevant interest at any time in the 6 months prior to the Security Transaction, in at least 10% of the total votes attaching to the company's voting securities.

Having regard to the definitions contained in ASX Listing Rules 10.1 and 10.2, we note the following:

- In December 2011, in relation to the US$15 million Working Capital Facility and the US$85 million Copper Prepay Facility, Straits Resources granted first ranking security over the assets held by Tritton and other entities within the Straits Resources group. The assets held by Tritton and other members of the Straits Resources group (including the Tritton mine which is the only producing asset held by Straits Resources as at the date of this Report) have a combined value of greater than 5% of the total equity value of the Company; and
- At the time that the security was granted, SCPEL, which the Company considers to be an associate of SCB, held a relevant interest in approximately 18.82% of the total votes attached to Straits Resources' voting securities.

Based on the above, and pursuant to the ASX Listing Rules, the granting of security to SCB may be considered to be a 'disposal' of a substantial asset to a substantial holder of the Company's securities. For completeness, we note that while Straits Resources does not intend to dispose of the assets to SCB, in certain circumstances (e.g. in the event of a default) SCB may be able to enforce its security over the Company's assets.

As the Company did not seek shareholder approval pursuant to Listing Rule 10.1 or seek a waiver from ASX from Listing Rule 10.1 to permit the Straits Group to grant security to SCB Hong Kong without shareholder approval at the time the Facility Agreement was entered into, to the extent necessary, the Company is now seeking to rectify this situation by requesting shareholders to ratify the security granted in favour of SCB Hong Kong in December 2011.

ASX Listing Rule 10.10.2

Under ASX Listing Rule 10.10.2, where shareholder approval is sought for the purpose of complying with Listing Rule 10.1, the notice of meeting distributed to shareholders in relation to the transaction must include a report prepared by an independent expert which states the expert's opinion as to whether the transaction is fair and reasonable to the non-associated shareholders.

This Report has been prepared to comply with the requirements of ASX Listing Rules 10.1 and 10.10.2.

4.2 Assessment Methodology

Neither the Corporations Act nor the ASX Listing Rules provide guidance in relation to the definition of 'fair and reasonable'. In determining whether the Security Transaction is considered fair and reasonable we have had regards to the guidance provided by ASIC Regulatory Guide 111: Content of Experts Reports ('RG111'). RG111 provides guidance as to what matters an independent expert should consider to assist security holders to make an informed decision about transactions.

RG111 suggests that where an expert is to assess whether a related party transaction is 'fair and reasonable' for the purpose of complying with ASX Listing Rule 10.1, the assessment should be applied as a composite test. That is, the expert should assess separately whether the transaction is 'fair' and 'reasonable'. The expert's report should explain how the particulars of the transaction were evaluated as well as the results of the examination and evaluation.

To meet the ASIC requirements, an expert seeking to determine whether a proposal is 'fair and reasonable' should complete the steps set out below.

4.2.1 Step 1 – Assessment of Fairness

To assess whether the Security Transaction is fair we have considered:

- whether the granting of security by the Straits Group in Tritton was fair to the shareholders not associated with the transaction at the time the security was granted (i.e. December 2011); and
- whether the Security Transaction is fair as at the date of this Report.

We have summarised our approach to the assessment of fairness at each point in time directly below. Our full assessment of the fairness of the Security Transaction is set out in Section 6.0.

Assessment of Fairness as at December 2011

RG111 states that a related party offer is fair if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made:

- Assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length; and
- If the transaction is considered to be a control transaction, assuming 100% ownership of the target irrespective of whether the consideration is scrip or cash.

In the case of the Security Transaction, the proceeds from the sale of the assets of Tritton and other members of the Straits Resources group over which security is granted in the event of default constitutes the financial benefit to be provided to SCB. The consideration being provided by SCB to Straits Resources is the outstanding amount owing under the Facility Agreement at the time of sale in the event of default.

Having regard to the above, we have assessed the fairness of the Security Transaction by completing a comparison between the proceeds from the sale of the secured assets in the event of default which would be provided to SCB and the value of the outstanding liability which would be owing to SCB in the event of a default.

Assessment of Fairness as at the Date of this Report

We have assessed the fairness of the Security Transaction as at the date of this Report by considering the impact of the Security Transaction on the value of a share in Straits Resources.

4.2.2 Step 2 – Assessment of Reasonableness

Reasonableness examines other significant factors which shareholders may consider prior to voting for or against the Security Transaction. This includes comparing the likely advantages and disadvantages of voting for or against the Security Transaction, with the position of the shareholders if the Security Transaction is not approved. This step can be classified as an assessment of whether the Security Transaction is 'reasonable'.

Our assessment of the reasonableness of the Security Transaction is set out in Section 7.0. We note that as with the assessment of fairness approach summarised above, we have considered factors that would impact on reasonableness at the time the security was granted (i.e. December 2011) and as at the date of this Report.

4.2.3 Step 3 – Expert's Opinion

Upon completion of steps 1 and 2 above, it may be possible to conclude whether the Security Transaction is 'fair' and/or 'reasonable' to Straits Resources shareholders. We note that under RG 111, the Security Transaction is considered to be 'reasonable' if it is 'fair'. It may also be possible to conclude that the Security Transaction is 'reasonable' if there are sufficient valid reasons for the approval, notwithstanding that the Security Transaction may not be 'fair' to the Straits Resources shareholders.

This Report will conclude by providing our opinion as to whether or not the Security Transaction is 'fair and reasonable'. While all relevant issues must be considered prior to forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or other advice in relation to the Security Transaction. Other advisors have provided advice on those matters to Straits Resources in relation to the Security Transaction.

In the process of assessing the Security Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

5.0 Overview of Straits Resources

This section provides a background summary of Straits Resources and is structured as follows:

- Section 5.1 provides an overview and background information on Straits Resources;
- Section 5.2 sets out an overview of Straits Resources' key assets and operations;
- Section 5.3 summarises the board of directors and executive management of Straits Resources;
- Section 5.4 summarises the corporate structure of Straits Resources;
- Section 5.5 summarises the equity structure of Straits Resources;
- Section 5.6 summarises the share market performance of Straits Resources;
- Section 5.7 summarises the liquidity of Straits Resources shares on the ASX; and
- Section 5.8 summarises the historical financial information of Straits Resources.

5.1 Background

5.1.1 Company Overview

Straits Resources is an Australian base-metals mining and exploration company which is listed on the ASX. The Company primarily focuses on the production of copper from the Tritton copper mine, located near Nyngan in New South Wales, Australia. Straits Resources also holds a number of other exploration tenements which are prospective for copper and gold, located throughout Queensland, New South Wales, South Australia and Indonesia.

Over the period since July 2012, Straits Resources has implemented a number of operational and corporate restructuring initiatives in order to streamline the Company in line with its long-term focus. These initiatives include the following:

- Straits Resources restructured its board of directors with three of the current four board members being appointed in the period since December 2012;
- The Company relocated its head office from Perth, Australia to Brisbane, Australia to be geographically closer to its key projects;
- In conjunction with the relocation, Straits Resources downsized its corporate office from 50 staff members to eight;
- Straits Resources entered negotiations with its primary lenders in relation to the restructuring of its major facilities, including with Credit Suisse for its silver prepay facility (relating to the Company's Mt Muro asset in Indonesia) and with SCB for the Copper Prepay Facility. The Security Transaction relates to the Copper Prepay Facility with renegotiation of terms being conditional on the approval of the Security Transaction;
- Due to unprofitable results, the Company placed the Mt Muro mine on care and maintenance in August 2013. We understand that it is the intention of the Company to either sell or close the Mt Muro mine; and

- The Company divested a number of non-core assets, including the Hillgrove gold operation and the Stuart Shelf exploration assets.

5.2 Key Projects

5.2.1 Production

Tritton Copper Mine

The Tritton copper mine, located near Nyngan in NSW is 100% owned and operated by Straits Resources. Mining within the Tritton lease areas first commenced in 1992 at the Murrawombie open pit as part of the Girilambone copper mine and involved the mining of several copper oxide ore deposits by open pit mining methods and SX/EW processing. Open pit mining at Girilambone terminated in 1999, although copper production continued for two more years.

The Tritton underground ore deposit is blind at surface and was first discovered by drilling a geophysical anomaly. Mining of the Tritton orebody commenced in 2004 with the development of an access decline and stope production commenced in March 2005. The Tritton mine is currently Straits Resources' flagship investment project.

The Tritton mine mining area comprises a concentrator, paste fill plant, administration offices, warehouses, and a number of sub-projects summarised in Table 5.1 below.

Table 5.1: Tritton Copper Mining Operations and Potential Projects

Sub-Project	Position
Tritton Underground Mine	Mining operations at Tritton involve primary and secondary open stoping methods that recover circa 90% of the mineable resource.
North East Underground Mine	Mining operations at the North East underground mine involve longitudinal open stoping with partial rock fill. Ore extracted from the North East underground mine is transported to the processing plant at Tritton.
Murrawombie Project	The Murrawombie Project is a proposed open pit and underground mine located approximately 22 km from Tritton. Straits Resources continues to undertake work to advance this project to a development stage.
Larsens Project	The Larsens Project is a proposed open pit and underground mine adjacent to the North East underground mine. Straits Resources continues to undertake work to advance this project to a development stage.
Budgery Open Pit	The Budgery Open Pit is an advanced copper project, located 13 km south of Tritton. Straits Resources continues to undertake work to advance this project.
Avoca Tank	Avoca Tank is located approximately two kilometres north of the Girilambone North operations. Straits are in the process of evaluating the economic feasibility of the Avoca Tank deposit and concurrently applying for a number of regulatory approvals to advance on the project.

Source: Straits Resources ASX Announcements

In relation to Table 5.1 above, the Tritton mining complex currently has two projects in production, namely the Tritton underground mine and the North East underground mine. We understand that production at the Tritton underground mine has been subject to a number of major disruptions in recent years, including difficulties in scheduling a stable stope production cycle with the paste fill system, workforce changes following the conversion to a full owner-operator model, and poor equipment reliability.

Together, these events constrained total production to approximately 24 kilo tonnes (‘kt’) and 23 kt of copper in concentrate and cement in FY2012 and FY2013 respectively, below its internal target production rate of approximately 25 kt per annum. The target for FY2014 is 25kt.

Mt Muro Gold Mine

The Mt Muro Mine was originally acquired by Straits Resources on December 2003 and is located in the province of Central Kalimantan in Indonesia, approximately 300km West of Balikpapan. Operations at the Mt Muro Mine are primarily focused on the production of gold and silver.

In recent periods, the Mt Muro Mine has been subject to a number of unanticipated challenges, including the continual decline of precious metal prices, large impairment losses, and the impact of operation suspensions due to reported illegal mining activity in the Serujan Pit. Together, these factors have put significant burden on the operations at Mt Muro, increasing its net losses from approximately $66.5 million in FY2012 to approximately $214.8 million in FY2013. We note that Mt Muro’s FY2013 results were impacted by a number of additional factors including the $142.8 million impairment of the Mt Muro assets, $40.2 million write down of inventory at Mt Muro to net realisable value, $14.5 million impairment of loans and receivables, and the $9.6 million net gain from the disposal of the Hillgrove mine.

On 5 August 2013, Straits Resources’ board of directors announced that it will no longer provide material funding support to the Mt Muro Mine and that its gold operations were being placed on care and maintenance.

As at the date of this Report, Straits Resources is actively seeking to dispose of the Mt Muro Mine. We understand that if a buyer for the mine cannot be found then it will be closed.

5.2.2 Exploration

Temora and Gidginbung

The Temora and Gidginbung Gold-Copper Project comprise of two mineral exploration licences (EL 6845 and EL 5864) with a total area of approximately 373 square kilometres, which extends from north of Temora to west of Wyalong in New South Wales. Exploration within the Temora and Gidginbung Gold-Copper Project has focused on the Gidginbung Volcanics, a package of Late Ordovician to Early Silurian mafic to intermediate volcanics and intrusives.

A JORC compliant Mineral Resource of 279Mt at 0.2 g/t Au, 0.3% Cu, and 30 g/t Mo at a cut-off of 0.3% CuEq has been estimated to a maximum depth of 450m for the Temora gold-copper project, and 23.8Mt at 1.0 g/t Au, 0.1% Cu has been estimated for the Gidginbung gold-copper Project.

Blayney Project

The Blayney Project is an earn-in joint venture, established on 15 August 2012, between Straits Resources and Gold Fields Australasia Pty Ltd (‘Gold Fields’). The Blayney project is located 35 kilometres south of Orange, New South Wales and covers the eastern margin of the Forest Reef Volcanics within the Lachlan Fold Belt. The Blayney Project is separated into two sub-projects, namely the Discovery Ridge and Bald Hills. The Blayney Project has one mineral exploration licence, EL 5922.

A JORC compliant mineral resource estimate suggests that the total mineral resources at the Blayney Project is approximately 14Mt, 1.2 g/t Au at Discovery Ridge and 37Mt, 0.5 g/t Au at Bald Hill.

As per the earn-in agreement, Gold Fields has the right to earn up to 80% of the project by sole funding $25 million in exploration expenditure over 12 years.

Cheesemans Creek Project

The Cheesemans Creek Project is an earn-in joint venture agreement between Straits Resources and Gold Fields, and comprises of two exploration licences, EL 5979 and EL 7321. The Cheesemans Creek project is underlain by Ordovician rocks of the Lachlan Fold Belt with prospects for porphyry related mineralisation.

As per the earn-in agreement, Gold Fields has the right to earn up to 80% of the project by sole funding $14 million in exploration expenditure over 8 years.

Currumburrama Project

The Currumburrama Project is an earn-in joint venture agreement between Straits Resources and Sandfire Resources ('Sandfire') with one mineral exploration licence, EL 5792.

As per the earn-in agreement, Sandfire has the right to earn up to 80% of the project by sole funding $8 million in exploration expenditure over 6 years.

Torrens Project

The Torrens Project is a joint venture agreement between Straits Resources and Argonaut Resources NL ('Agronaut'). The Torrens Project is focused on the exploration of iron-oxide copper-gold in the Stuart Shelf region of South Australia, with one mineral exploration licence, EL 4296.

Straits and Agronaut are currently in the process of gaining approval to access the grounds to commence exploration activities for the Torrens Project.

Monastery and Burke River Project

The Monastery and Burke River Project is a joint venture between Straits Resources and Inova Resources Limited with two exploration permits, EPM 9083 and EPM11013. The Monastery and Burke River Project explores for copper and gold in the southern portion of the Mt Isa inlier in North West Queensland.

5.3 Executive Management and Board of Directors

Table 5.2 lists the name and position title of the Board of Directors and executive management of Straits Resources.

Table 5.2: Straits Resources Board of Directors and Executive Management

Name	Position
Board of Directors	
Mr Andre Labuschagne	Executive Chairman
Mr Alastair Morrison	Non-Executive Director
Mr Michele Muscillo	Non-Executive Director
Mr Mike Menzies	Non-Executive Director
Executive Management	
Mr Rob Brainsbury	Chief Financial Officer
Mr Ian Sheppard	Chief Operating Officer

Source: Straits Resources Company Website (www.straits.com.au)

5.4 Corporate Structure of Straits Resources

Table 5.3 below summarises the subsidiary companies and the ownership interests which sit within the Straits Resources Group.

Table 5.3: Straits Resources Subsidiaries

Company	Country of Incorporation	Equity Interest
Straits Mining Pty Ltd and its subsidiaries	Australia	100%
Girilambone Copper Company Pty Ltd	Australia	100%
Tritton Resources Pty Ltd	Australia	100%
Straits Exploration (Australia) Pty Ltd	Australia	100%
Straits Gold Pty Ltd and its subsidiaries	Australia	100%
Straits Indo Gold Pty Ltd and its subsidiaries	Australia	100%
Muro Offshore Pty Ltd and its subsidiaries	Australia	100%
PT Indo Muro Kencana	Indonesia	99%
Kalteng Emas Pte Ltd	Singapore	100%
PT Borneo Emas Perkasa	Indonesia	100%
PT Bumi Bahari Nusantara Persada	Indonesia	99%
Kalteng Minerals Pte Ltd	Singapore	100%
Indo Muro Pty Ltd	Australia	100%
PT Indo Muro Kencana	Indonesia	1%
Straits Mine Management Pty Ltd	Australia	100%
Canada Inc	Canada	100%
Goldminco Corporation Limited and its subsidiaries	Canada	100%
Goldminco Resources Pty Ltd	Australia	100%
Templar Resources Pty Ltd	Australia	100%
Straits Mineral Investments Pty Ltd	Australia	100%

Source: Straits Resources 2013 Annual Report

5.5 Equity Structure of Straits Resources

As at 18 November 2013, Straits Resources had the following securities on issue:

- 1,164,150,159 fully paid ordinary shares;
- 3,750,000 Class A Convertible Notes, convertible at $0.03 per note expiring on 5 November 2014; and
- 3,250,000 Class B Convertible Notes, convertible at $0.03 per note expiring on 5 November 2016.

5.5.1 Top Ten Shareholders

Table 5.4 below summarises the ownership interest of the top ten shareholders of Straits Resources as at 30 October 2013.

Table 5.4: Top Ten Shareholders of Straits Resources as at 30 October 2013

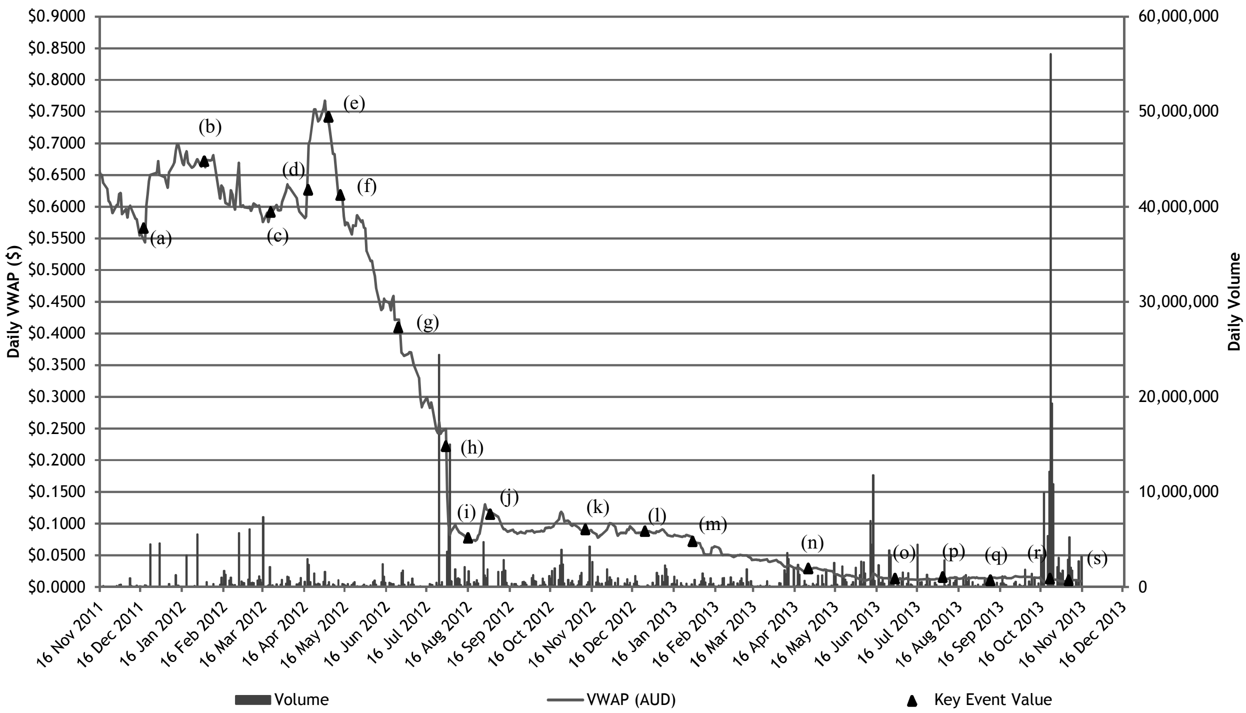
	Shareholder	Shares Held	% of Shares on Issue
1	Standard Chartered Private Equity	214,663,735	18.4%
2	Glencore International	131,513,135	11.3%
3	Baker Steel Capital Managers	109,122,495	9.4%
4	Merricks Capital	66,939,890	5.8%
5	Three Pillars Portfolio Managers	64,000,000	5.5%
6	Aurora Funds Management	54,603,581	4.7%
7	Mr Gerald AD Keet	33,831,079	2.9%
8	Mr Milan Jerkovic	18,606,929	1.6%
9	Essex Investment Management	17,691,306	1.5%
10	Mr & Mrs Milan Jerkovic	17,191,465	1.5%
Other		435,986,544	37.5%
Total		**1,164,150,159**	**100.0%**

Source: Straits Resources 2013 Annual Report

5.6 Share Market Performance of Straits Resources

Figure 5.1 below shows the daily VWAP and daily volume of Straits Resources shares traded on the ASX over the period from 16 November 2011 to 15 November 2013 inclusive.

Figure 5.1: VWAP and Volume of Shares Traded from 16 November 2012 to 15 November 2013



Source: Capital IQ and ASX as at 18 November 2013

Over the period graphed in Figure 5.1 above, Straits Resources' daily VWAP shows a period low of A$0.0070 on 22 October 2013 and a period high of A$0.7673 on 1 May 2012.

In addition to the share price and volume data of Straits Resources shown above, we have also provided additional information in Table 5.5 below to assist readers to understand the possible reasons for movements in Straits Resources' share price over the period analysed. The ASX announcement references in Table 5.5 below correspond to those displayed in Figure 5.1 above.

Table 5.5: Summary of Straits Resources Announcements between 16 November 2011 and 15 November 2013

	Date	Announcement
(a)	16 December 2011	Straits Resources released an transcript document which provided comment from the then CEO of Straits Resources, Mr Milan Jerkovic on key financing and operating conditions, including the restructuring of off-take agreements, production and exploration at Tritton and Mt Muro and the Companies strategic objectives for 2012.
(b)	1 February 2012	Straits Resources announced that drilling had commenced at the Stuart Shelf project, a project which Straits Resources was operator and joint venture partner (70%) with UXA Resources Limited.
	13 February 2012	Straits Resources announced a capital raising of up to $50 million before costs comprising an institutional share placement involving the issue of 75 million shares at $0.60 per share to raise $45 million, and a share purchase plan at the same issue price of $0.60 per share to raise up to $5 million.
(c)	20 March 2012	Straits Resources released an exploration update for the Stuart Shelf project which stated that drilling of the second of three holes in the region had commenced.
(d)	18 April 2012	Straits Resources announced that drilling had resumed at the Avoca Tank Prospect and that the first drill hole had returned a 'visually stunning' sulphide intercept. The Company stated that "the latest drill hole confirms the major discovery at Avoca Tank and validates that we (Straits Resources) are sitting on a major find."
(e)	2 May 2012	Straits Resources released an update on the sale of Hillgrove to Emu Nickel NL. The announcement stated that the sale was subject to a successful capital raising by Emu Nickel NL and that the company was still investigating its position in relation to this capital raise.
(f)	11 May 2012	Straits Resources shares were placed in a trading halt on the ASX awaiting an announcement from the Company. The Company announced an institutional placement of 48.4 million ordinary shares at an issue price of $0.62 per share raising approximately $30 million.
(g)	26 June 2012	Straits Resources released an update on the Mt Muro gold mine. The update stated that waste stripping at Mt Muro had progressed to enable ramp up in production to proceed as planned. However, low rainfall in the catchment area above Mt Muro prohibited the transportation of supplies (including fuel) to Mt Muro which may have a negative impact on production.
(h)	31 July 2012	Straits Resourced released its quarterly report for the period ended 30 June 2012. The update stated that production at both Tritton and Mt Muro were lower than target.
(i)	15 August 2012	Straits Resources announced that it had finalised two farm-in agreements with Gold Fields Australasia Pty Ltd on the Blaney and Cheesemans Creek tenements in New South Wales. Under the farm-in agreement, Gold Fields Australasia Pty Ltd had the right to earn up to 80% of the project by sole funding $25 million in exploration and expenditure over 12 years.
(j)	28 August 2012	Straits Resources announced the results of exploration drilling at the Kurrajong prospect which returned favourable results.
	7 September 2012	Straits Resources announced the execution of a $20 million short term finance facility, and a fully underwritten 1.55 for 1 pro rata renounceable entitlement offer of new Straits Resources ordinary shares at an issue price of $0.085 per share to raise $60 million. The completion of this entitlement offer was announced on 9 October 2012.

	Date	Announcement
(k)	5 November 2012	Straits Resources announced that the Full Court of the Supreme Court of South Australia has overturned the decision on 14 January by the Environment, Resource and Development Court of South Australia that mining operations may not be conducted at the Torrens Project (EL4296). Straits Resources (70%) was joint venture partner with Argonaut Resources NL (30%) in the Torrens Project.
	9 November 2012	Straits Resources released an update on the sale of Hillgrove stating that the Company had agreed to enter a short term exclusive arrangement with Bracken Resources Pty Ltd. Under the terms of the agreement Bracken Resources has the option to purchase Hillgrove for $27 million cash plus replacement of $4 million in bonds in addition to three periodic option fee payments of $1 million each. The Hillgrove sale was completed in March 2013.
(l)	21 December 2012	Straits Resources announced changes to its management team including the appointment of a new chief executive officer and chief financial officer.
(m)	30 January 2013	Straits Resources announced that the Board of Directors has approved a proposal to give effect to a demerger of Straits Resources' gold assets with the aim of creating independent ASX-listed gold and copper entities.
(n)	22 April 2013	Straits Resources announced that it had agreed to the sale of the Company's pressure oxidation plant and its South Australian exploration leases. The Company also announced that it has accepted an offer to purchase the Stuart Shelf exploration project for a total consideration of $2.2 million.
(o)	1 July 2013	Straits Resources announced that its operations at Mt Muro had been suspended temporarily following a clash between police and illegal miners which occurred on 29 June 2013.
(p)	5 August 2013	Straits Resources announced that the Mt Muro mine had been placed on care and maintenance stating that a weak pricing environment and disruptions on site had impacted the Company's ability to fund the mining operations. Straits Resources also announced that it had entered into an agreement in relation to the restructure of the Mt Muro silver prepayment facility with its senior lender. The terms of the agreement included a payment of US$7.5 million to the senior lender. The Company announced that this agreement had become formally binding on 20 August 2013.
(q)	9 September 2013	Straits Resources announced the Interim Restructure. The Interim Restructure relates to the restructuring of the Copper Prepay Facility for a period of nine months beginning in August 2013 and ending April 2014. Refer to Section 3.1.2 of this Report for further detail.
(r)	21 October 2013	Straits Resources released in quarterly activities report for the period ended 30 September 2013. The report indicated that the Company had reached new production records at the Tritton mine.
(s)	5 November 2013	Straits Resources announced that it had completed the restructure of the Mt Muro silver prepayment facility between the Company's wholly owned subsidiary, PTIMK, and Credit Suisse International.

Source: Straits Resources ASX announcements

In Table 5.6 below we have set out the VWAP of Straits Resources shares traded on the ASX for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months prior to 15 November 2013.

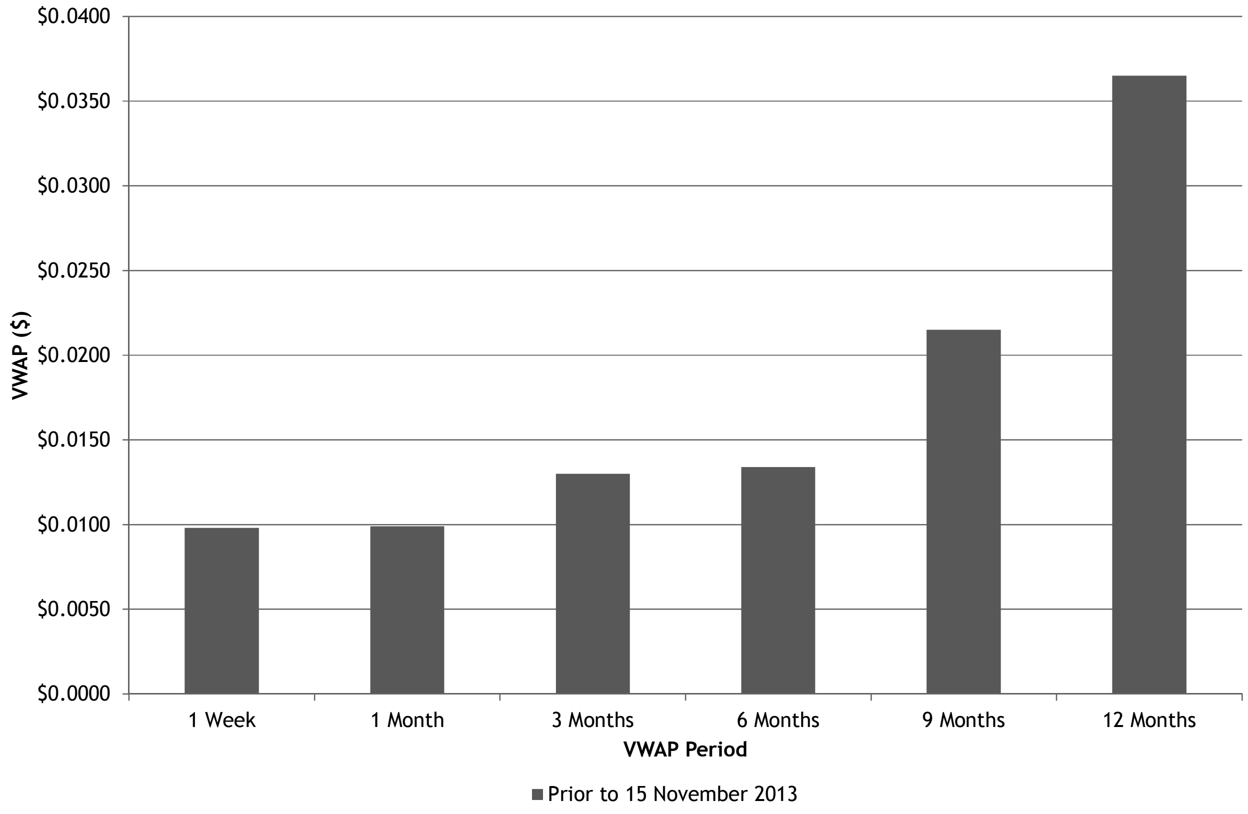
Table 5.6: Straits Resources' VWAP for Specified Periods Prior to 15 November 2013

Period	Prior to 15 November 2013
1 Week	$0.0098
1 Month	$0.0099
3 Months	$0.0130
6 Months	$0.0134
9 Months	$0.0215
12 Months	$0.0365

Source: Capital IQ as at 18 November 2013

The information presented in Table 5.6 above is shown graphically in Figure 5.2 below.

Figure 5.2: Straits Resources' VWAP



Source: Capital IQ as at 18 November 2013

5.7 Liquidity of Straits Resources Shares on the ASX

The rate at which equity instruments are traded is generally referred to as the 'liquidity' of the equity instruments. Changes in liquidity may impact the trading price of equity instruments, particularly depending on the number of equity instruments required to be bought and/or sold and the time period over which the equity instrument holder needs to buy and/or sell those equity instruments. Depending on the circumstances, a movement in market price may or may not represent a shift in value of either the equity instruments or a shift in value of the company to which the equity instruments relate as a whole.

Table 5.7 below summarises the monthly liquidity of Straits Resources shares from November 2012 to October 2013. Liquidity has been summarised by considering the following:

- Volume of Straits Resources share trades per month;
- Value of total trades in Straits Resources shares per month;
- Number of shares traded per month as a percentage of total shares outstanding at the end of the month; and
- Volume weighted average price per month.

Table 5.7: Liquidity of Straits Resources Shares on the ASX

Month	Volume	Turnover	Shares Outstanding	Volume per Shares Outstanding	Monthly VWAP
October 2013	134,417,400	1,305,660	1,164,150,160	11.55%	$0.0097
September 2013	7,720,020	112,300	1,164,150,160	0.66%	$0.0145
August 2013	11,578,260	159,720	1,164,150,160	0.99%	$0.0138
July 2013	15,075,660	177,990	1,164,150,160	1.29%	$0.0118
June 2013	45,103,850	715,900	1,164,150,160	3.87%	$0.0159
May 2013	17,230,100	347,180	1,164,150,160	1.48%	$0.0201
April 2013	18,586,570	573,840	1,164,150,160	1.60%	$0.0309
March 2013	8,028,600	367,570	1,164,150,160	0.69%	$0.0458
February 2013	10,394,290	565,750	1,164,150,160	0.89%	$0.0544
January 2013	15,303,180	1,299,200	1,164,150,160	1.31%	$0.0849
December 2012	7,284,060	632,850	1,164,150,160	0.63%	$0.0869
November 2012	19,998,720	1,795,630	1,164,150,160	1.72%	$0.0898
Total	**310,720,710**	**8,053,590**	**1,164,150,160**	**26.69%**	**$0.0259**

Source: Capital IQ as at 18 November 2013

Assuming a weighted average number of 1,164,150,160 Straits Resources shares on issue over the period, approximately 26.7% of total shares on issue were traded over the twelve month period to 31 October 2013. In our view, this indicates that Straits Resources shares display a relatively low level of liquidity.

5.8 Historical Financial Information

This section of this Report sets out the historical financial information of Straits Resources. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in Straits Resources' annual reports which include the full statements of comprehensive income, statements of financial position and statements of cash flows.

Straits Resources' accounts were audited by PricewaterhouseCoopers. BDO CFQ has not performed any audit or review of any type on the historical financial information of Straits Resources. We make no statement as to the accuracy of the information provided. However, we have no reason to believe that the information is misleading.

Straits Resources' directors note in the company's 2013 annual report that Straits Resources' ability to continue to operate as a going concern is dependent upon the Company being successful in:

- Achieving a reduction of discretionary/contingent expenditures;
- Improving performance at the mining operations in order to generate positive cashflow;
- Restructuring of the Company's debt facilities;
- Minimising funding requirements for Mt Muro, which was placed in care and maintenance on 2 August 2013;
- Negotiating the terms of the Credit Suisse facility, which was announced on 5 August 2013; and
- Negotiating the payment profile and amounts due in relation to the Copper Prepay Facility, which was announced on 9 September 2013.

We recommend that readers of this Report refer to Straits Resources' 2013 annual report for further information on Straits Resources' ability to continue operating as a going concern.

5.8.1 Comprehensive Income

Table 5.8 below summarises Straits Resources' statement of comprehensive income for the years ended 30 June 2011, 30 June 2012 and 30 June 2013.

Table 5.8: Summarised Straits Resources Statement of Comprehensive Income

	Year Ended 30 June 2011 Audited ($'000)	Year Ended 30 June 2012 Audited ($'000)	Year Ended 30 June 2013 Audited ($'000)
Sales revenue	121,911	250,455	260,128
Other revenue from ordinary activities	2,291	3,345	2,460
Revenue from continuing operations	**124,202**	**253,800**	**262,588**
Other income	1,458	5,158	7,298
Expenses			
Cost of goods sold	(128,895)	(243,017)	(325,112)
Exploration	(1,729)	(3,318)	(3,055)
Administration and support	(6,193)	(15,230)	(16,414)
Sempra off take agreement buyout	-	(105,634)	-
Other	(4,774)	(12,516)	(9,169)
Impairment loss	-	(2,839)	(159,791)
Finance costs	(1,585)	(11,751)	(15,429)
Loss before income tax	**(17,516)**	**(135,347)**	**(259,084)**
Income tax benefit/(expense)	1,012	(1,325)	8,777
Loss after income tax from continuing operations	**(16,504)**	**(136,672)**	**(250,307)**
Profit/(loss) from discontinued operations	(2,540)	(2,532)	9,632
Loss for the year	**(19,044)**	**(139,204)**	**(240,675)**

	Year Ended 30 June 2011 Audited ($'000)	Year Ended 30 June 2012 Audited ($'000)	Year Ended 30 June 2013 Audited ($'000)
Other comprehensive income			
Change in the fair value of cash flow hedges	3,362	(2,502)	25,432
Exchange differences on translation of foreign operations	(2,214)	185	2,115
Exchange differences on translation of discontinued operations	(931)	931	-
Income tax relating to other comprehensive income	(1,009)	360	(4,485)
Other comprehensive income	**(792)**	**(1,026)**	**23,062**
Total comprehensive income	**(19,836)**	**(140,230)**	**(217,613)**

Source: Straits Resources annual reports for the years ended 30 June 2012 and 2013

In relation to the financial performance of Straits Resources set out in Table 5.8 above we note the following:

- Straits Resources' sales revenue increased by 105% from $121.9 million in 2011 to $250.5 million in 2012, and by a further 4% to $260.1 million in 2013. The increase in sales revenue from 2011 to 2012 was a result of increased production at both the Tritton mine and the Mt Muro mine. The increase in sales revenue from 2012 to 2013 resulted from an increase in production at the Mt Muro mine whilst production fell slightly at Tritton due to a number of operational issues;

- Straits Resources cost of goods sold increased by 89% from $128.9 million in 2011 to $243.0 million in 2012, and by a further 34% to $325.1 million in 2013. Cost of goods sold includes the cost of mining activities, depreciation on plant and equipment, and amortisation of mine properties;

- The $105.6 million Sempra off take agreement buyout expense reported in 2012 relates to the termination of the Tritton Copper mine off take agreement with J.P. Morgan Metals & Concentrates. In order to terminate the agreement, Straits Resources paid to J.P. Morgan an upfront payment of $96.9 million and a further $8.7 million to exercise an option for the termination of a new off take agreement for shipments scheduled from 1 July 2012;

- Straits Resources recorded an impairment loss of $159.8 million in 2013 in relation to the write down of mining assets by $145.3 million and corporate assets by $14.5 million. The write down on mining assets relate to $142.8 million from Mt Muro and $2.5 million from Tritton;

- Straits Resources' total comprehensive loss was $19.8 million in 2011, $140.2 million in 2012 and $217.6 million in 2013. The increase in the losses reported by Straits Resources in 2012 and 2013 relate primarily to the Sempra Off take Buyout and impairment losses discussed above.

5.8.2 Financial Position

Table 5.9 below summarises Straits Resources' statement of financial position as at 30 June 2011, 30 June 2012 and 30 June 2013.

Table 5.9: Straits Resources Statement of Financial Position

	As at 30 June 2011 Audited ($'000)	As at 30 June 2012 Audited ($'000)	As at 30 June 2013 Audited ($'000)
Current assets			
Cash and cash equivalents	36,716	12,982	18,256
Trade and other receivables	21,410	32,202	10,032
Inventories	23,750	27,391	15,399
Other financial assets	27,904	15,159	1,397
Derivative financial instruments	3,384	178	9,034
Short term mine development	3,804	8,013	8,848
Assets classified as held for sale	65,823	15,894	1,889
Total current assets	**182,791**	**111,819**	**64,855**
Non-current assets			
Receivables	15,274	33,504	21,010
Other financial assets	-	359	-
Derivative financial instruments	-	3,431	13,123
Property, plant and equipment	38,991	45,151	35,699
Exploration and evaluation	15,579	27,172	26,154
Mine properties in use	54,785	144,766	49,948
Deferred tax asset	17,814	17,814	17,814
Total non-current assets	**142,443**	**272,197**	**163,748**
Total assets	**325,234**	**384,016**	**228,603**
Current liabilities			
Trade and other payables	42,248	68,436	68,654
Interest bearing liabilities	8,276	26,011	65,079
Deferred revenue	-	21,920	16,658
Derivative financial instruments	-	481	-
Provisions	2,616	4,262	5,919
Non-interest bearing liabilities	250	-	-
Liabilities associated with assets held for sale	38,007	4,307	-
Total current liabilities	**91,397**	**125,417**	**156,310**
Non-current liabilities			
Interest bearing liabilities	12,307	82,683	57,627
Deferred revenue	-	21,871	18,205
Derivative financial instruments	-	1,055	-
Deferred tax liabilities	-	-	-
Provisions	17,121	25,746	29,061
Total non-current liabilities	**29,428**	**131,355**	**104,893**
Total liabilities	**120,825**	**256,772**	**261,203**
Net assets	**204,409**	**127,244**	**(32,600)**
Equity			
Contributed equity	219,921	295,941	353,300
Reserves	(486)	(10,464)	13,007
Accumulated losses	(19,009)	(158,233)	(398,907)
Total equity	**200,426**	**127,244**	**(32,600)**

Source: Straits Resources annual reports for the years ended 30 June 2012 and 2013

In relation to the statement of financial position of Straits Resources set out in Table 5.9 above we note the following:

- Over the two years to 30 June 2013, Straits Resources' current assets decreased from $182.8 million to $64.9 million. The decrease in current assets resulted primarily from lower cash and cash equivalents, other financial assets (equity securities in companies listed on the ASX) and assets held for sale. The reduction in assets held for sale over the period resulted from the divesture of the Magontec business to Advanced Magnesium Limited in the 2012 financial year and the sale of the Hillgrove gold mine to Bracken Resources Ltd in the 2013 financial year;

- Straits Resources book value of mine properties in use, and consequently non-current assets, increased from 2011 to 2012 before falling in 2013. The increase in mine properties in use in 2012 resulted from the capitalisation of $84 million in expenditure incurred during the year. In 2013, the value of mine properties in use declined due to reported impairment losses and amortisation of $144.9 million;

- Straits Resources' current and non-current interest bearing liabilities increased in 2012 as a result of the Company drawing down its bank project finance loan facility;

- Deferred revenue in 2012 and 2013 relates to revenue received in advanced from Credit Suisse in relation to the silver prepayment facility. Under the facility agreement, Credit Suisse paid to Straits Resources US$50 million in advance for the delivery of 1,958,053 ounces of silver over the period from January 2012 to December 2014. As announced by Straits on 5 November 2013, the restructuring of the silver prepayment facility agreement with Credit Suisse has been completed;

- Straits Resources' net asset position decreased from $204.4 million in 2011 to a net liability position of $32.6 million in 2013. Straits Resources' working capital (i.e. current assets minus current liabilities) decreased from $91.4 million in 2011 to a working capital deficiency of $91.5 million in 2013. Notwithstanding this, the Directors' note in the 2013 annual report that they have reasonable grounds to expect that they will have sufficient funds to settle the Company's liabilities and meet its debts as and when they fall due; and

- Straits Resources' contributed equity increased in 2012 and 2013 as a result of shares issues, including in relation to the demerger of International Coal Holdings Limited in 2012.

5.8.3 Cash Flows

Table 5.10 below summarises Straits Resources' statement of cash flows for the years ended 30 June 2011, 30 June 2012 and 30 June 2013.

Table 5.10: Straits Resources Statement of Cash Flows

	Year Ended 30 June 2011 Audited ($'000)	Year Ended 30 June 2012 Audited ($'000)	Year Ended 30 June 2013 Audited ($'000)
Cash flows from operating activities			
Loss before income tax	(17,516)	(135,347)	(259,084)
Finance costs net of interest	748	9,641	13,518
Loss on held for trading financial assets	3,886	12,337	705
Unrealised exchange and hedging (gains)/losses	972	(1,309)	13,888
Depreciation and amortisation	6,372	21,880	53,473
Employee share based payments	130	546	409
Profit on sale of fixed assets	(1,344)	(2,856)	(1,848)
Unrealised gain on options	-	(1,383)	(504)
Exploration expenditure written off	448	1,462	822
Mineral rights written off	-	359	-
Impairment loss	-	2,839	159,791
Option fees received on sale of Hillgrove	-	-	(3,000)
Profit on in-specie distribution received	(54)	-	-
Assets written off/damaged	-	-	607
Movements in commodity hedging	-	-	2,066
(Increase)/decrease in trade and other receivables	(2,545)	(9,796)	(1,074)
(Increase)/decrease in inventories	7,195	(2,998)	12,859
Increase/(decrease) in trade and other payables	3,695	27,826	351
Increase/(decrease) in provisions	668	2,317	2,949
Increase/(decrease) in deferred revenue	-	43,014	(12,209)
Interest received	937	1,345	2,159
Interest paid	(843)	(9,164)	(8,285)
Net cash flow from discontinued operations	(3,299)	(3,113)	(2,397)
Cash flows from operating activities	**(550)**	**(42,400)**	**(24,804)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	4,709	1,177	4,122
Payments for property, plant and equipment and mine properties	(25,373)	(103,805)	(64,006)
Payments for exploration expenditure	(11,504)	(22,420)	(7,583)
Proceeds from held for trading assets	549	4,262	9,191
Payments for held for trading assets	-	(108)	-
Proceeds from loan receivables		640	2,469
Cash upon demerger	48,737	-	-
Net cash settlement post demerger	19,192	-	-
Net proceeds from sale of Hillgrove		-	26,757
Option fees received on sale of Hillgrove		-	3,000
Discontinued operation transferred to held-for-sale	(2,539)	-	-
Net cash flow from discontinued operations	(1,584)	(330)	(167)
Cash flows from investing activities	**32,187**	**(120,584)**	**(26,217)**
Cash flows from financing activities			
Proceeds from issue of shares and equity securities	-	75,909	57,359
Transactions with non-controlling interests	-	(13,364)	-
Proceeds from borrowings	-	85,231	8,180
Repayment of borrowings	(1,030)	(4,344)	(9,717)
Finance lease payments	(3,420)	(8,193)	(3,034)

	Year Ended 30 June 2011 Audited ($'000)	Year Ended 30 June 2012 Audited ($'000)	Year Ended 30 June 2013 Audited ($'000)
Restricted cash	11,825	888	3,719
Net cash flow from discontinued operations	(923)	(145)	(282)
Cash flows from financing activities	**6,452**	**135,982**	**56,225**
Net increase/(decrease) in cash and cash equivalents	**38,089**	**(27,002)**	**5,204**
Cash and cash equivalents at the beginning of the period	-	36,716	12,982
Effects of exchange rate changes on cash and cash equivalents	(1,373)	3,268	70
Cash and cash equivalents at the end of the period	**36,716**	**12,982**	**18,256**

Source: Straits Resources annual reports for the years ended 30 June 2012 and 2013

In relation to the statement of cash flows of Straits Resources set out in Table 5.10 above we note the following:

- Straits Resources' cash flow from operating activities was negative in each of 2011, 2012, and 2013;
- Straits Resources' operations have been funded from the issue of shares and equity securities and the proceeds of borrowing in 2012 and 2013. In 2012, the Company raised $75.9 million net from the issue of shares and $85.2 million from borrowings which included the drawdown of funds from the Copper Prepay Facility and the Working Capital Facility;
- The debt and equity raised in 2012 was partially used as payments for property, plant and equipment and mine properties including the US$98.3 million upfront cash payment to J.P. Morgan in December 2011 to terminate the offtake agreement in existence at that time;
- In 2013, the Company raised $57.3 million net from the issue of shares; and
- Straits Resources' cash and cash equivalent balance as at 30 June 2013 was $18.3 million, which is below the net cash outflow from operating activities for each of 2012 and 2013.

6.0 Assessment of the Fairness of the Security Transaction

To assess whether the Security Transaction is fair we have considered:

- whether the granting of security by the Straits Group in Tritton was fair to the shareholders not associated with the transaction in December 2011 when the security was initially granted (refer Section 6.1); and
- whether the Security Transaction is fair as at the date of this Report (refer Section 6.2).

We have set out our conclusion on the fairness of the Security Transaction in Section 6.3 below.

6.1 Assessment of Fairness as at December 2011

This section provides our opinion on the fairness of the Security Transaction to Straits Resources shareholders as at December 2011 and is set out as follows:

- Section 6.1.1 sets out the approach we have adopted to assess the fairness of the Security Transaction;
- Section 6.1.2 sets out our consideration of the value of the liabilities to be settled;
- Section 6.1.3 sets out our consideration of the value of the secured assets; and
- Section 6.1.4 sets out our assessment on the fairness of the Security Transaction as at December 2011 having regard to the analysis in Sections 6.1.1 to 6.1.3.

6.1.1 Approach Adopted to Assess Fairness

RG 111 suggests that a proposed related party transaction is 'fair' if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length.

In the case of the Security Transaction, the proceeds from the sale of the secured assets over which security is granted in the event of default constitutes the financial benefit to be provided to SCB. The consideration being provided by SCB to Straits Resources is the value of the Facility Agreement plus any capitalised interest at the time of sale in the event of default.

Having regard to the above, we have assessed the fairness of the Security Transaction by completing a comparison between the proceeds from the sale of the secured assets in the event of default which would be provided to SCB and the value of the liability which would be owing to SCB in the event of a default (i.e. the remaining principal plus capitalised interest outstanding on the Facility Agreement).

The Security Transaction is 'fair' if the value of the security provided to SCB (i.e. the value of the proceeds from the sale of the secured assets) is equal to or less than the value of the liabilities to be settled by this security in the event of default under the Facility Agreement.

6.1.2 Value of Liabilities to be Settled

Under the terms of the Facility Agreement, SCB's entitlement in the event of a default is limited to the extent of:

a) The outstanding principal plus capitalised interest expenses owing to SCB in relation to the Working Capital Facility; and

b) The outstanding total amount owing under the Copper Prepay Facility.

In the event of a default, if the proceeds received upon the sale of the secured assets are greater than the outstanding liabilities owing to SCB, then SCB will receive only the amount owing at the time (i.e. surplus funds would be returned to Straits Resources).

6.1.3 Value of Proceeds Received from the Sale of Secured Assets in the Event of a Default

In the event of a default, SCB or Straits Resources may appoint an administrator or receiver in order to sell the secured assets. We understand that if appointed, an administrator or receiver has an obligation under the Corporations Act to take reasonable care to sell the secured assets at:

- 'Not less than market value' where a market value exists; and
- The 'best price that is reasonably obtainable' where a market value does not exist.

We understand that in certain circumstances it is possible that a liquidator may be appointed instead of an administrator or receiver. If appointed, a liquidator's obligations under the Corporations Act are similar to that of administrators and receivers, although unlike administrators and receivers, there is no statutory instruction for liquidators to seek the market value. There is however an obligation to discharge their duties with due care and diligence and deal with the secured assets in a manner that will most benefit an entity's creditors and achieve the best price that is reasonably obtainable having regard to the state of the asset at the time of sale.

Having regard to the above, in our view, it is appropriate to assume for the purposes of analysis within the context of this Report that in the event of a default any sales process pursued to divest the secured assets will deal with the assets in a manner which realises fair market value as at the time of the sale having regard to the existing state of the asset.

6.1.4 Assessment of Fairness as at December 2011

To assess whether the Security Transaction is fair, we have compared the value of the proceeds from the sale of the secured assets to the value payable to SCB to settle the Facility Agreement in the event of default under several scenarios. In considering the various possible scenarios we note:

- In the scenario where the value of the proceeds from the sale of the secured assets is greater than the amounts owed to SCB, SCB would be entitled to receive sale proceeds only to the extent of the outstanding amounts owed;
- In the scenario where the value of the proceeds from the sale of the secured assets is equal to the amounts owed to SCB, SCB would be entitled to receive all of the sale proceeds; and

- In the scenario where the value of the proceeds from the sale of the secured assets is less than the amounts owed to SCB, SCB would receive only the proceeds recovered upon sale of the secured asset and be required to recover the outstanding liability as an unsecured creditor of the Company.

Table 6.1 below summarises the potential outcomes from the settlement of the Facility Agreement under a default scenario.

Table 6.1: Potential Facility Agreement Settlement Scenarios

Scenario	Consequence	Fairness
Secured assets > Liabilities to be settled	Security provided = Liabilities settled	Fair
Secured assets = Liabilities to be settled	Security provided = Liabilities settled	Fair
Secured assets < Liabilities to be settled	Security provided < Liabilities settled	Fair

Source: BDO CFQ Analysis

Having regard to the potential settlement scenarios summarised above, in all circumstances SCB is entitled to receive a maximum amount equal to the outstanding amounts owing to it under the Facility Agreement in circumstances where the secured assets are sold. In our view, this indicates that the transaction is fair.

6.2 Assessment of Fairness as at the Date of this Report

We have assessed the fairness of the Security Transaction as at the date of this Report by considering the impact of the Security Transaction on the value of a share in Straits Resources.

6.2.1 Impact on Value of a Straits Resources Share if the Security Transaction is Approved

We note that the Security Transaction is seeking to ratify agreements previously put in place by the Company. Even in circumstances where the agreements are ratified, the current security arrangements do not change. We would not expect the value of a share in Straits Resources to change materially in circumstances where the Security Transaction is approved.

6.2.2 Impact on Value of a Straits Resources Share if the Security Transaction is Not Approved

We have also assessed the fairness of the Security Transaction as at the date of this Report by considering factors that may impact the value of a share in Straits Resources in circumstances where the Security Transaction is not approved. In completing this analysis, we note that the primary factor likely to impact value is that failure to approve the Security Transaction will constitute an event of default under the terms of the Interim Restructure.

If an event of default were to arise, we would expect a negative impact on value for reasons which include:

a) Straits Resources may be required to enter further negotiations with SCB in order to avoid default. It is possible that the terms of any renegotiation could be less favourable to Straits Resources than the terms of the current facilities;

b) If Straits Resources is issued with a notice of default by SCB it will be required to immediately find an alternative source of funding. We understand that management and the Directors of Straits Resources are of the view that the Company is likely to find it difficult to source additional funding at terms which are equal to or better than the current agreements;

c) If Straits Resources is unable to repay amounts owing under the Facility Agreement, SCB may appoint a receiver for the purpose of recovering all debts owed; and

d) Uncertainty in relation to Straits Resources sources of funding and the terms of any further funding may have an unfavourable impact on the Company's share price in the short to medium term.

6.3 Conclusion on the Fairness of the Security Transaction

In forming our opinion on the fairness of the Security Transaction, we have considered the following:

- If the secured assets are sold in the event of a default to satisfy the Company's liabilities under the Facility Agreement, SCB will receive a maximum amount equal to the outstanding amounts owing to it under the Facility Agreement and the secured assets are required to be dealt with in a manner which realises market value as at the time of the sale having regard to the state of the asset at that time; and

- As the Security Transaction is seeking to ratify agreements previously put in place by the Company and will not alter the nature or effect of the security arrangements previously provided, we would not expect the value of a share in Straits Resources to change materially in circumstances where the Security Transaction is approved. However, if the Security Transaction is not approved, it is our view that there may be negative ramifications on the value of a share in Straits Resources.

Having regard to the above assessment of the Security Transaction, we conclude that the Security Transaction is **Fair** to Straits Resources shareholders as at the date of this Report.

Straits Resources shareholders should also refer to Section 7.0 of this Report which sets out additional matters that Straits Resources shareholders should consider when deciding whether to vote in favour of or against the Security Transaction.

7.0 Assessment of the Reasonableness of the Security Transaction

This section provides our opinion on the reasonableness of the Security Transaction to Straits Resources shareholders.

This section is set out as follows:

- Section 7.1 outlines the advantages of the Security Transaction to Straits Resources shareholders;
- Section 7.2 outlines the disadvantages of the Security Transaction to Straits Resources shareholders;
- Section 7.3 considers the position of Straits Resources shareholders in the event the Security Transaction is not approved; and
- Section 7.4 provides our assessment of the reasonableness of the Security Transaction.

7.1 Advantages of the Security Transaction

Table 7.1 below outlines the potential advantages to Straits Resources shareholders in the event that the Security Transaction is approved.

Table 7.1: Advantages of the Security Transaction

Advantage	Explanation
As at December 2011	
Granting of security is likely to have assisted the Company in obtaining finance	The granting of security by an entity (i.e. the borrower) reduces the counterparty risk for the financier and generally has a positive impact on the terms of any finance provided. The absence of security being granted may have resulted in less favourable finance terms being made available to Straits Resources.
Granting of security is not unusual	It is not unusual for companies to grant security over their assets when raising debt finance. In many cases, the granting of security assists companies to obtain required funding for ongoing operations and development on more favourable terms relative to what may have been the case if no security was granted.
As at the date of this Report	
The Security Transaction is fair	As set out in Section 6.0, the Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair.
The Security Transaction is required to avoid an event of default	Pursuant to the terms of the Interim Restructure, failure to obtain approval of the Security Transaction constitutes an event of default. However, if the Security Transaction is approved, this condition will be met and not constitute an event of default. We have set out the implications of an event of default in more detail in Table 7.3 below.

Advantage	Explanation
Allows for time to consider alternative long-term funding options	As set out above, the Interim Restructure is conditional on the Security Transaction being approved. Failure to obtain approval of the Security Transaction constitutes an event of default. In the event of default, Straits Resources will be required to immediately make arrangements in relation to its ongoing funding either by sourcing alternative funding or through further negotiations with SCB. There is no guarantee that Straits Resources will be able to effectively make these arrangements. By approving the Security Transaction, Straits Resources will have additional time to consider its long-term funding options. For completeness, we note that it is our understanding that Straits Resources and SCB have commenced discussions in relation to the extension of the Copper Prepay Facility and one option that has been considered is the extension of the facility to a term of five years from April 2014. However, we note that the terms of any extension discussed are not binding on either party as at the date of this Report and negotiations in relation to this matter are ongoing. Notwithstanding the preliminary discussions with SCB, we understand that if Straits Resources decides to, it is able consider alternative refinancing options that are available.

Source: BDO CFQ analysis

7.2 Disadvantages of the Security Transaction

Table 7.2 below outlines the potential disadvantages to Straits Resources shareholders of the granting of security as at December 2011.

In our view, there are no material disadvantages that will arise to shareholders in Straits Resources as at the date of this Report as a result of approving the Security Transaction. In forming this view we considered many factors including the position of Straits Resources shareholders in circumstances where the Security Transaction is not approved (discussed in Section 7.3 below).

Table 7.2: Disadvantages of the Security Transaction as at December 2011

Disadvantage	Explanation
Limited ability to secure alternative sources of funding from non-related third parties	As SCB would have first ranking security over the assets of Tritton and other members of the Straits Resources Group, Straits Resources' ability to secure further asset based debt finance may have been limited until the repayment of the Copper Prepay Facility. If Straits Resources were to obtain debt finance, it may have been on less favourable terms as any additional debt provider would rank behind SCB.
Straits Resources may lose control over major assets	In the event of default, Straits Resources may be required to give up the secured assets in order to settle the amounts owing to SCB, including the assets relating to the Tritton mine. In these circumstances Straits Resources would be foregoing the potential future profits which would otherwise accrue to them from these assets.

Source: BDO CFQ analysis

7.3 Position of Straits Resources Shareholders if the Security Transaction is Not Approved

Table 7.3 below summarises the position of Straits Resources shareholders if the Security Transaction is not approved.

Table 7.3: Position of Straits Resources Shareholders if the Security Transaction is Not Approved

Position of Shareholders	Explanation
SCB will retain security over the Company's assets irrespective of whether or not the Security Transaction is approved	SCB will retain its security over the Company's secured assets irrespective of whether or not the Security Transaction is approved. In other words, Straits Resources is not in a position to retract the security which was granted to SCB over its assets in December 2011 and in the event of a default, SCB will retain its ability to enforce its rights.
Default event will occur	In the event that the Security Transaction is not approved, Straits Resources will be in default under the Facility Agreement which may result in the liability owing to SCB becoming immediately due and payable. As SCB holds first ranking security over the assets of Tritton and other members of the Straits Resources Group, it has the right to appoint a receiver for the purpose of recovering debt owed. In the event of default, Straits Resources may be required to dispose of the secured assets in order to satisfy their facility obligations. Under these circumstances, Straits Resources shareholders will lose control of the secured assets which includes the Tritton mine (which, as at the date of this Report, is the Company's only operating asset).
Renegotiation with SCB may require Straits Resources to provide additional security	If the Security Transaction is not approved, Straits Resources may be required to enter further negotiations with SCB in order to avoid default. It is possible that the terms of any renegotiation could be less favourable to Straits Resources than the terms of the current facilities. For completeness, we note that there is no guarantee that SCB will be receptive to ongoing negotiations with Straits Resources and may issue a notice of default.
If a default event occurs, Straits Resources will immediately need to find an alternative source of funding	If Straits Resources is issued with a notice of default by SCB it will be required to immediately find an alternative source of funding. We understand that management and the Directors of Straits Resources are of the view that the Company is likely to find it difficult to raise additional funding at terms which are equal to or better than the current agreements. Further, if Straits Resources attempted to complete an equity issue to raise funds for the purpose of settling the Copper Prepay Facility, it is likely that any issue would be at a discount to the current share price of Straits Resources.
Straits Resources' share price may decrease	If the Security Transaction is not approved, SCB may issue a notice of default to Straits Resources which may have an unfavourable impact on the Company's share price.

Source: BDO CFQ analysis

7.4 Reasonableness of the Security Transaction

In our opinion, after considering all of the issues set out in this Report, it is our view that in the absence of any other information, the Security Transaction is **Reasonable** to the non-associated Straits Resources shareholders as at the date of this Report.

8.0 Sources of Information

This Report is based on information from sources including the following:

- Straits Resources annual report for the 12 months ended 30 June 2012;
- Straits Resources annual report for the 12 months ended 30 June 2013;
- Straits Resources Company Website;
- Straits Resources share register as at 30 October 2013;
- Straits Resources' ASX Announcements;
- Capital IQ;
- Various other research publications and publicly available data as sourced throughout this Report;
- Various transaction documents including the Notice of Extraordinary General Meeting and Explanatory Memorandum; and
- Various discussions and other correspondence with Straits Resources management and their advisers.

9.0 Indemnities, Representations & Warranties

Straits Resources has agreed to our usual terms of engagement in addition to the indemnities and representations set out below.

9.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, Straits Resources agrees to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Straits Resources will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Straits Resources agrees to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Straits Resources (including but not limited to the directors and advisers of Straits Resources) as part of this engagement.

Straits Resources has acknowledged that the engagement of BDO CFQ is as an independent contractor and not in any other capacity including a fiduciary capacity.

9.2 Representations & Warranties

Straits Resources recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons will be using and relying on publicly available information and on data, material and other information furnished to BDO Persons by Straits Resources, its management, and other parties, and may assume and rely upon the accuracy and completeness of, and is not assuming any responsibility for independent verification of, such publicly available information and the other information so furnished.

10.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing expert reports pursuant to the Listing Rules of the ASX and the Corporations Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Queensland and in Australia is a national association of separate partnerships and entities and is a member of the international BDO network of individual firms.

Steven Sorbello has prepared this Report with the assistance of staff members. Mr Sorbello is a director of BDO CFQ and has extensive experience in corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged to provide an independent expert's report to the shareholders of Straits Resources in relation to the issue of security to SCB in December 2011 in respect of the US$15 million working capital loan facility and US$85 million Copper Prepay Facility. This Report has been prepared to provide information to non-associated Straits Resources shareholders prior to voting on the Security Transaction. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities mentioned in this Report. However we have no reason to believe that any of the information or explanations so supplied are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

With respect to any taxation implications of the Security Transaction, it is strongly recommended that Straits Resources shareholders obtain their own taxation advice, tailored to their own particular circumstances.

APES 225 '*Valuation Services*' issued by the Accounting Professional & Ethical Standards Board sets out mandatory requirements for the provision of quality and ethical valuation services. BDO CFQ has complied with this standard in the preparation of this Report.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 8 January 2014.

BDO Corporate Finance (QLD) Ltd

Steven Sorbello
Director

Appendix A – Industry Information

This appendix sets out a summary of the international copper mining industry.

A.1 International Copper Mining[1]

We have set out a summary of the international copper exploration industry below. The information presented in this section has been compiled from a range of publicly available sources. This summary is not intended to be a comprehensive analysis of the international copper exploration industry.

We recommend that Straits Resources' shareholders refer to the original source of the information referred to in this section, and any other information they believe appropriate, for a more comprehensive analysis. This section should be referred to as a broad guide only.

A.1.1 Copper Production

In 2011, approximately 16,145kt of copper was produced globally and in 2012 this increased by 2.9% to approximately 16,615kt.

Table A.1 below sets out copper production by country for 2011 and 2012.

Table A.1: Production by Country in 2011 and 2012

Country	2011 Production (kt)	2012 Production (kt)
Chile	5,260	5,370
China	1,310	1,500
Peru	1,240	1,240
United States	1,110	1,150
Australia	958	970
Russia	713	720
Zambia	668	675
Congo (Kinshasa)	520	580
Canada	566	530
Mexico	443	500
Indonesia	543	430
Poland	427	430
Kazakhstan	417	420
Other countries	1,970	2,100
World total (rounded)	**16,145**	**16,615**

Source: U.S. Geological Survey Mineral Commodity Summaries - January 2013

[1] Information in this section is sourced from the U.S. Geological Survey Mineral Commodity Summaries - January 2013, International Trade Centre, Capital IQ and other publicly available information.

A.1.2 Global Demand

Copper is the third-ranking metal in terms of volumes used worldwide. This is because of its high ductility, malleability, thermal and electrical conductivity, and resistance to corrosion, which makes it a key input for a wide array of products. One of the main uses of copper is in the manufacturing of products associated with infrastructure development. These include electrical cabling, piping, valves and decorative architectural applications.

Copper is also commonly used in the manufacture of industrial equipment. Due to its superior heat transfer capabilities and ability to withstand extreme environments, copper is an ideal material for heat exchangers and pressure vessels and vats. In addition, its corrosion-resistant properties mean that it is used extensively in the manufacture of products used in marine and other demanding environments. These include marine vessels and tanks, propellers, piping exposed to seawater, and oil platforms and coastal power stations.

In addition to marine vessels, copper is used in the manufacture of other transportation devices. Automobiles and trucks rely on copper motors, wiring, radiators, connectors, brakes and bearings. It is also used extensively in trains, both traditional electric trains and high-speed, and planes. Furthermore, copper wiring is used in communications and electrical products such as domestic subscriber lines, wide and local area networks, mobile phones and personal computers.

Due to its primary use in manufacturing, the demand for copper faces threats from alternative materials. For instance, optic fibres, plastics and aluminium are increasingly used in the production of communications, water tubing and motor vehicle radiators respectively. However, the export trends for copper are largely tied in with international infrastructure demand which is expected to increase. For instance, urbanisation in China is expected to increase over the next five years which will lead to increased demand for copper wiring for electrical purposes. In line with this, the major export markets for copper are China, Japan, India and South Korea which collectively make up approximately three quarters of global demand.

Apart from international infrastructure demand, the copper exploration industry is driven by the world GDP and the world price for copper.

A.1.3 Reserves

In 2012, global economic copper reserves were approximately 680,000 kt. Table A.2 below sets out copper reserves by country for 2012.

Table A.2: Reserves by Country in 2012

Country	Reserves (kt)
Chile	190,000
Australia	86,000
Peru	76,000
United States	39,000
Mexico	38,000
China	30,000
Russia	30,000

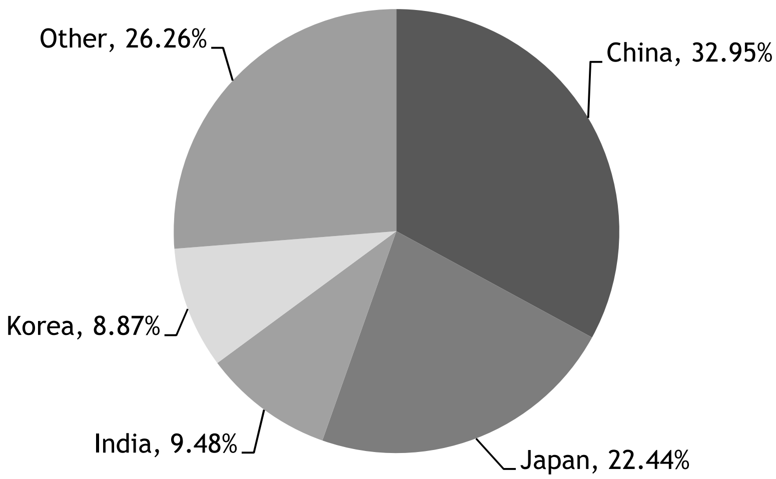
Country	Reserves (kt)
Indonesia	28,000
Poland	26,000
Congo (Kinshasa)	20,000
Zambia	20,000
Canada	10,000
Kazakhstan	7,000
Other countries	80,000
World total (rounded)	**680,000**

Source: U.S. Geological Survey Mineral Commodity Summaries - January 2013

A.1.4 International Copper Imports

Demand for copper in 2012 was largely dominated by China, Japan, India and Korea. Figure A.1 below sets out international copper ore imports by country in 2012.

Figure A.1: International Copper Ore Imports by Country – 2012

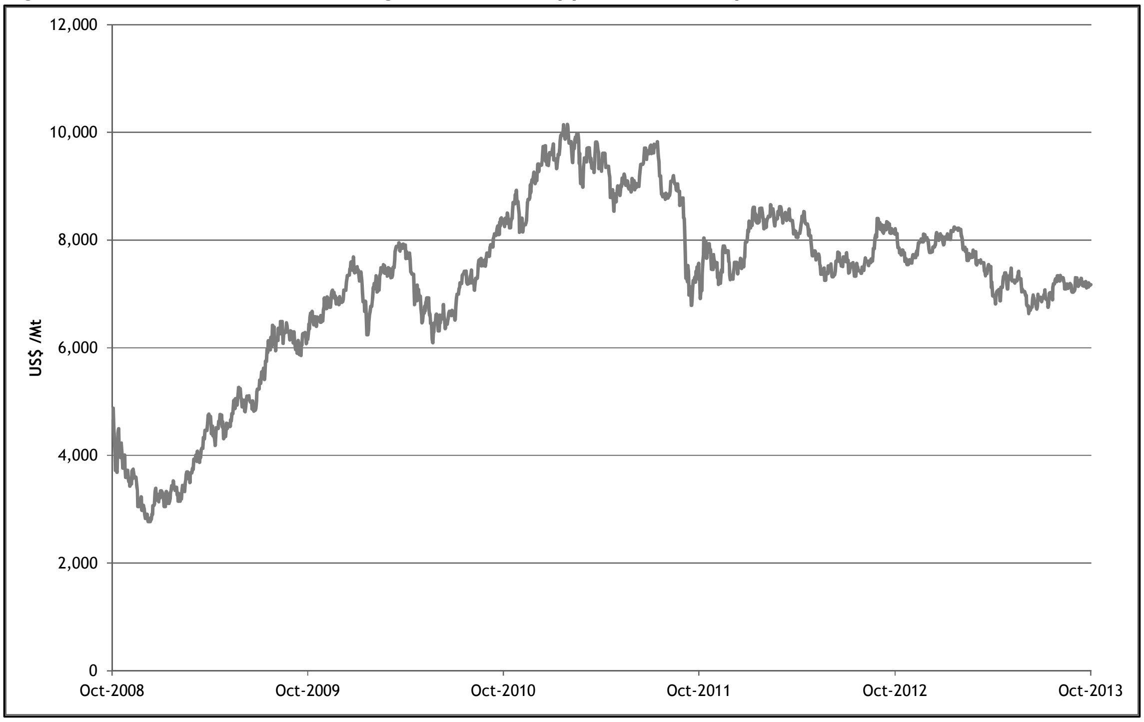


Source: International Trade Centre

A.1.5 Spot price of Copper

Figure A.2 below sets out the historical spot prices of Copper from the London Metals Exchange for the period from October 2008 to October 2013 as sourced from Capital IQ.

Figure A.2: London Metals Exchange Historical Copper Prices - September 2008 to October 2013



Source: Capital IQ

Straits

Straits Resources Limited
ABN 30 147 131 977

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 729 525
(outside Australia) +61 3 9415 4395

Proxy Form

Vote online

Go to www.investorvote.com.au **or** scan the QR Code with your mobile device.
Follow the instructions on the secure website to vote.

Your access information that you will need to vote:

Control Number: 136801

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10:00am (Brisbane time) Wednesday, 19 February 2014

How to Vote on the Item of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite the item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Straits Resources Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ____________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Straits Resources Limited to be held at HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane, Queensland on Friday, 21 February 2014 at 10:00am (Brisbane time) and at any adjournment or postponement of that meeting.

STEP 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	Ratification of security granted in favour of Standard Chartered Bank (Hong Kong) Limited	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of the item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ____________ Contact Daytime Telephone ____________ Date ___ / ___ / ___